



**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2006



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 the Lucas County Educational Service Center, Lucas County, Ohio (Lucas ESC), as of and for the year ended June 30, 2006, which collectively comprise Lucas ESC's basic financial statements as listed in the table of contents. These financial statements are the responsibility of 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 the Lucas County Educational Service Center, Lucas County, Ohio, as of June 30, 2006, 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 June 29, 2007, on our consideration of 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.

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 the budgetary comparisons for the General, Auxiliary Service, Community Schools Operations, and Miscellaneous Grants Funds are 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

June 29, 2007

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
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, 2006. 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 2006 are as follows:

- Total Net Assets were \$7,691,272
- Total Revenue was \$28,588,041
- Total Expenses were \$27,218,858
- Changes in Net Assets were \$1,369,183
- Capital Assets, net of Depreciation, decreased from \$3,627,916 to \$3,605,669.

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, the Miscellaneous Federal Grants Fund, and all other non-major funds presented in total in one column. In the case of Lucas ESC, the General, Auxiliary Service, Community Schools Operations, and Miscellaneous Federal Grants 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 2006?" 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, 2006
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, Community Schools Operations Fund, and Miscellaneous Federal Grants 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 2006 compared to 2005.

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited
(Continued)**

Table 1
Net Assets
Governmental Activities

	2006	2005
Assets		
Current and Other Assets	\$ 9,415,575	\$ 8,366,301
Capital Assets	<u>3,605,669</u>	<u>3,627,916</u>
<i>Total Assets</i>	<u>13,021,244</u>	<u>11,994,217</u>
Liabilities		
Long-term Liabilities	3,327,997	3,384,561
Other Liabilities	<u>2,001,975</u>	<u>2,287,567</u>
<i>Total Liabilities</i>	<u>5,329,972</u>	<u>5,672,128</u>
Net Assets		
Invested in Capital Assets, Net of Debt	1,606,707	1,291,865
Restricted	1,122,214	935,977
Unrestricted (Deficit)	<u>4,962,351</u>	<u>4,094,247</u>
<i>Total Net Assets</i>	<u>\$ 7,691,272</u>	<u>\$ 6,322,089</u>

Total assets increased \$1,027,027. Equity in pooled cash and cash equivalents decreased \$707,209. Accounts receivable increased by \$622,282, due to timing of billing of customer services. Intergovernmental receivables increased by \$1,139,190, due to timing of grant receipts. Lucas ESC's governmental activities net assets increased by \$1,369,183.

Table 2 shows the changes in net assets for fiscal year 2006 compared to 2005.

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited
(Continued)**

Table 2
Changes in Net Assets for Governmental Activities

	2006	2005
Revenue		
Program Revenues:		
Charges for Services	\$ 14,040,295	\$ 13,257,570
Operating Grants	4,982,394	3,943,293
General Revenue:		
Grants and Entitlements	8,226,546	8,707,651
Other	1,338,806	1,455,348
<i>Total Revenues</i>	28,588,041	27,363,862
 Program Expenses		
Instruction	6,410,098	6,043,986
Support Services:		
Pupil and Instructional Staff	8,867,063	8,889,549
Board of Education, Administration, Fiscal and Business	5,382,790	5,286,792
Operations and Maintenance of Plant	1,093,075	959,025
Pupil Transportation	1,199,604	884,351
Central	57,007	114,016
Non-Instructional Services	4,105,955	3,965,813
Facilities Acquisition and Construction Services	27,304	10,138
Interest and Fiscal Charges	75,962	70,277
Total Expenses	27,218,858	26,223,947
Increase in Net Assets	\$ 1,369,183	\$ 1,139,915

Governmental Activities - Instruction comprises 23.6 percent of governmental program expenses. Interest expense was \$75,962. Interest expense was attributable to the loans and capital leases borrowed for capital projects.

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

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited
(Continued)**

Table 3
Total and Net Cost of Program Services
Governmental Activities

	2006		2005	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$ 6,410,098	\$ 7,305,552	\$ 6,043,986	\$ 6,627,156
Support Services:				
Pupil and Instructional Staff	8,867,063	(5,546,326)	8,889,549	(5,888,627)
Board of Education, Administration				
Fiscal and Business	5,382,790	(5,033,625)	5,286,792	(5,021,454)
Operation and Maintenance	1,093,075	(1,089,679)	959,025	(955,750)
Pupil Transportation	1,199,604	(244,058)	884,351	60,365
Central	57,007	(44,043)	114,016	(113,245)
Operation of Non-Instructional Services	4,105,955	(3,440,724)	3,965,813	(3,651,114)
Facilities Acquisition and Construction Services	27,304	(27,304)	10,138	(10,138)
Interest and Fiscal Charges	75,962	(75,962)	70,277	(70,277)
<i>Total Expenses</i>	<u>\$ 27,218,858</u>	<u>\$ (8,196,169)</u>	<u>\$ 26,223,947</u>	<u>\$ (9,023,084)</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 33.4 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 \$28,603,981 and expenditures of \$27,558,415. The net change in governmental fund balance for the year was an increase of \$1,055,087. This increase indicates Lucas ESC's revenue base met its obligations as a whole.

General Fund Budgeting Highlights

Lucas ESC's budget is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During the course of fiscal year 2006, Lucas ESC amended its general fund budget numerous times, none significant. Lucas ESC uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, budget basis revenue (actual) was \$15,238,602, which was over the final budget estimates of \$14,886,541.

Much of this estimate was offset as the original appropriations of \$15,955,950 were increased to \$18,399,299, with final expenditures and encumbrances on the budget basis totaling \$16,518,592.

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited
(Continued)**

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2006, Lucas ESC had \$3,605,669 invested in buildings, improvements, equipment, and vehicles. Table 4 shows fiscal 2006 balances compared to 2005:

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

	2006	2005
Buildings and Improvements	\$ 2,964,209	\$ 3,045,393
Improvements Other than Buildings	72,720	78,950
Furniture, Fixtures, and Equipment	564,247	496,942
Vehicles	4,493	6,631
<i>Totals</i>	<u>\$ 3,605,669</u>	<u>\$ 3,627,916</u>

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

Debt

At June 30, 2006, Lucas ESC had \$1,998,960 in capital leases and Sky Bank loans outstanding, \$348,190 due within one year. Table 5 summarizes capital leases and loans outstanding.

Table 5
Outstanding Debt, at Year End
Governmental Activities

	2006	2005
Sky Bank Loan	\$ 461,246	\$ 563,858
Sky Bank Loan	532,547	554,112
Sky Bank Loan	823,167	859,081
Capital Leases	182,000	359,000
<i>Total Outstanding Debt, at Year End</i>	<u>\$ 1,998,960</u>	<u>\$ 2,336,051</u>

Contacting LCESC's Financial Management

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of 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, 2006**

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 5,797,982
Receivables:	
Accounts	1,878,294
Intergovernmental	1,728,213
Accrued Interest	1,870
Prepaid Items	9,216
Capital assets, net of depreciation	3,605,669
<i>Total Assets</i>	13,021,244
 Liabilities	
Accounts Payable	244,048
Accrued Wages	1,469,255
Intergovernmental Payable	277,591
Accrued Interest Payable	11,081
Long-Term Liabilities:	
Due within one year	710,952
Due in more than one year	2,617,045
<i>Total Liabilities</i>	5,329,972
 Net Assets	
Invested in capital assets, net of related debt	1,606,707
Restricted for:	
Other Purposes	1,122,214
Unrestricted	4,962,351
<i>Total Net Assets</i>	\$ 7,691,272

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, 2006**

		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	\$ 600,231		\$ 121,518	\$ (478,713)
Special	5,684,587	\$ 13,088,463	443,174	7,847,050
Vocational	47,783			(47,783)
Adult/Continuing	77,497		62,495	(15,002)
Support Services:				
Pupils	5,335,804		1,028,678	(4,307,126)
Instructional Staff	3,531,259	10,556	2,281,503	(1,239,200)
Board of Education	32,110			(32,110)
Administration	4,095,948		245,226	(3,850,722)
Fiscal	1,082,877		29,864	(1,053,013)
Business	171,855		74,075	(97,780)
Operation and Maintenance	1,093,075		3,396	(1,089,679)
Pupil Transportation	1,199,604	911,925	43,621	(244,058)
Central	57,007		12,964	(44,043)
Operation of Non-Instructional Services	4,105,955	29,351	635,880	(3,440,724)
Facilities Acquisitions and Construction Services	27,304			(27,304)
Interest and Fiscal Charges	75,962			(75,962)
<i>Total Governmental Activities</i>	<u>\$ 27,218,858</u>	<u>\$ 14,040,295</u>	<u>\$ 4,982,394</u>	<u>\$ (8,196,169)</u>
 General Revenues:				
Grants and Entitlements not Restricted to Specific Purposes				8,226,546
Unrestricted investment earnings				284,469
Contributions and Donations				339,763
Gain on Sale of Assets				9,521
Miscellaneous				705,053
<i>Total general revenues</i>				<u>9,565,352</u>
Change in net assets				1,369,183
<i>Net assets - July 1, 2005</i>				<u>6,322,089</u>
<i>Net assets - June 30, 2006</i>				<u>\$ 7,691,272</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2006**

	General	Auxiliary Services	Community School Operations	Miscellaneous Federal Grant Funds	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and Cash Equivalents	\$ 1,516,356	\$ 674,805	\$ 2,142,796	\$ 257,903	\$ 1,206,122	\$ 5,797,982
Receivables:						
Accounts	1,236,312	6,019	635,963			1,878,294
Intergovernmental				730,678	997,535	1,728,213
Accrued Interest	1,827	43				1,870
Due From Other Funds	339,470					339,470
Prepaid Items	909		2,822		5,485	9,216
<i>Total Assets</i>	<u>3,094,874</u>	<u>680,867</u>	<u>2,781,581</u>	<u>988,581</u>	<u>2,209,142</u>	<u>9,755,045</u>
Liabilities						
Accounts Payable	170,132	36	54,081	5,801	13,998	244,048
Accrued Wages	989,834	338,056	47,886	23,729	69,750	1,469,255
Intergovernmental	183,349	61,186	12,235	5,053	15,768	277,591
Due to Other Funds					339,470	339,470
Deferred Revenue	31,395	6,019	12,092	596,222	300,260	945,988
<i>Total Liabilities</i>	<u>1,374,710</u>	<u>405,297</u>	<u>126,294</u>	<u>630,805</u>	<u>739,246</u>	<u>3,276,352</u>
Fund Balances						
Reserved for Encumbrances	34,241	87,427	524,219	31,186	445,141	1,122,214
Unreserved , Reported in:						
General Fund	1,685,923					1,685,923
Special Revenue Funds		188,143	2,131,068	326,590	1,024,755	3,670,556
<i>Total Fund Balances</i>	<u>1,720,164</u>	<u>275,570</u>	<u>2,655,287</u>	<u>357,776</u>	<u>1,469,896</u>	<u>6,478,693</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 3,094,874</u>	<u>\$ 680,867</u>	<u>2,781,581</u>	<u>988,581</u>	<u>\$ 2,209,142</u>	<u>\$ 9,755,045</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, 2006**

Total Governmental Fund Balances	\$ 6,478,693
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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.	3,605,669
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Other long-term assets are not available to pay current period expenditures, and therefore are deferred in the funds.	
Accounts	49,505
Intergovernmental	896,483

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

Intergovernmental Payable		
Accrued Interest Payable	\$ (11,081)	
Due within 1 Year - Loans Payable	(166,190)	
Due within 1 Year - Capital Leases Payable	(182,000)	
Due within 1 Year - Compensated Absences	(362,762)	
Due in More than One Year - Loans	(1,650,770)	
Due in More than One Year - Compensated Absences	<u>(966,275)</u>	
		<u>(3,339,078)</u>

<i>Net Assets of Governmental Activities</i>	<u><u>\$ 7,691,272</u></u>
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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, 2006**

	General	Auxiliary Services	Community School Operations	Miscellaneous Federal Grant Funds	Other Governmental Funds	Total Governmental Funds
Revenues						
Intergovernmental	\$ 8,356,084			\$ 1,259,500	\$ 3,649,018	\$ 13,264,602
Investment Income	274,174	\$ 10,295				284,469
Tuition	3,590,285				298,788	3,889,073
Food Services	4,920					4,920
Rentals	339,763					339,763
Extracurricular Activities					5,119	5,119
Classroom Materials and Fees	90,154		\$ 17,461		3,561	111,176
Customer Services	2,466,850	3,385,783	3,333,109		24,204	9,209,946
Transportation Fees	12,657		899,268			911,925
Miscellaneous	358,741		6,459	1,009	216,779	582,988
<i>Total Revenue</i>	<u>15,493,628</u>	<u>3,396,078</u>	<u>4,256,297</u>	<u>1,260,509</u>	<u>4,197,469</u>	<u>28,603,981</u>
Expenditures						
Current:						
Instruction:						
Regular	481,792			67,473	50,966	600,231
Special	5,332,451	153,086			199,050	5,684,587
Vocational	47,783					47,783
Adult/Continuing					77,497	77,497
Support Services:						
Pupils	4,192,755	105,242	180,411	636,597	220,799	5,335,804
Instructional Staff	1,171,109		79,417	52,849	2,227,884	3,531,259
Board of Education	32,110					32,110
Administration	2,819,672		831,915	17,300	427,061	4,095,948
Fiscal	462,526		590,436		29,915	1,082,877
Business	139,383				32,472	171,855
Operation and Maintenance	1,046,112		32,289	1,500	13,174	1,093,075
Pupil Transportation	48,686		1,125,795	10,080	15,043	1,199,604
Central	47,472				9,535	57,007
Operation of Non-Instructional	179,243	3,246,387	40,000	302,908	337,417	4,105,955
Facility Acquisition and Construction Services	27,304					27,304
Debt Service:						
Principal Retirement	234,479				102,612	337,091
Interest and Fiscal Charges	59,024				19,404	78,428
<i>Total Expenditures</i>	<u>16,321,901</u>	<u>3,504,715</u>	<u>2,880,263</u>	<u>1,088,707</u>	<u>3,762,829</u>	<u>27,558,415</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(828,273)</u>	<u>(108,637)</u>	<u>1,376,034</u>	<u>171,802</u>	<u>434,640</u>	<u>1,045,566</u>
Other Financing Sources (Uses)						
Proceeds from Sale of Fixed Assets	9,521					9,521
Operating Transfers In	40,446		447	12,489	218,003	271,385
Operating Transfers Out	(231,429)				(39,956)	(271,385)
<i>Total Other Sources (Uses)</i>	<u>(181,462)</u>		<u>447</u>	<u>12,489</u>	<u>178,047</u>	<u>9,521</u>
<i>Net Change in Fund Balance</i>	<u>(1,009,735)</u>	<u>(108,637)</u>	<u>1,376,481</u>	<u>184,291</u>	<u>612,687</u>	<u>1,055,087</u>
Fund Balances at Beginning of Year	2,729,899	384,207	1,278,806	173,485	857,209	5,423,606
<i>Fund Balances End of Year</i>	<u>\$ 1,720,164</u>	<u>\$ 275,570</u>	<u>\$ 2,655,287</u>	<u>\$ 357,776</u>	<u>\$ 1,469,896</u>	<u>\$ 6,478,693</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, 2006**

Net Change in Fund Balances -Total Governmental Funds \$ 1,055,087

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

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

Capital Outlays	\$ 117,249	
Depreciation Expense	(139,496)	
Total		(22,247)

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

Customer Services	48,415	
Transportation Fees	1,090	
Intergovernmental	142,959	
Total		192,464

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

Loan Principal Payments	160,091	
Capital Lease Principal Payments	177,000	
Total		337,091

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

2,466

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

Intergovernmental	84,849	
Compensated Absences	(280,527)	
		(195,678)

Change in Net Assets of Governmental Activities \$ 1,369,183

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006**

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 2,239,890
Account Receivable	137,338
Notes Receivable	<u>24,406</u>
<i>Total Assets</i>	<u><u>\$ 2,401,634</u></u>
Liabilities	
Accounts Payable	\$ 19,327
Accrued Wages and Benefits Payable	6,846
Held and Due to Others	2,351,055
Undistributed Monies	<u>24,406</u>
<i>Total Liabilities</i>	<u><u>\$ 2,401,634</u></u>

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, 2006**

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, 2006, 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, 2006
(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 11 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, 2006
(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.

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, Community Schools Operations Fund, and Miscellaneous Federal Grants 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
LUCAS COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(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.

Miscellaneous Federal Grants Fund

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

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. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Monies are 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.

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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.

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

During fiscal year 2006, investments were limited to nonnegotiable certificates of deposit, savings accounts, and STAR Ohio. Investments are reported at fair value which is based on quoted market prices. Investment contracts and money market investments that had a maturity of one year or less at the time of purchase is reported at cost or amortized cost.

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Lucas ESC has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2006. STAR Ohio is an investment pool managed by the State Treasurer's office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2006.

Following Ohio statutes, Lucas ESC has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$274,174 which includes \$171,857 assigned from other Lucas ESC 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 Lucas ESC 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, 2006, 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.

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

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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.

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 COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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.

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 2006.

3. DEPOSITS AND INVESTMENTS

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

Active Deposits: those monies required to be kept in a "cash" or "near-cash" status for immediate use by Lucas ESC. Such monies must by law be maintained either as cash in the Lucas ESC 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.

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)**

3. DEPOSITS AND INVESTMENTS – (Continued)

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

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

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)**

3. DEPOSITS AND INVESTMENTS – (Continued)

A. Deposits

At fiscal year end June 30, 2006, the carrying amount of Lucas ESC's deposits was \$7,053,268 and the bank balance was \$8,225,257. Based on the criteria described in GASB Statement No. 40, *Deposit and Investment Risk Disclosure*, as of June 30, 2006, \$1,380,943 was covered by the Federal Depository Insurance Corporation, and \$6,771,719 was protected by a collateral pool of eligible securities deposited with a qualified trustee and is exposed to custodial credit risk.

Custodial credit risk is the risk that in the event of bank failure, Lucas ESC will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at the Federal Reserve Banks or at member banks of the federal reserve system, in the name of the respective depository and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of Lucas ESC.

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

B. Investments

As of June 30, 2006, Lucas ESC had the following investment:

	Carrying Value	Fair Value
Sweep Investment Account	\$ 203,604	\$ 203,604
Repurchase Agreement	781,000	781,000
<i>Total Portfolio</i>	\$ 984,604	\$ 984,604

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

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)**

3. DEPOSITS AND INVESTMENTS – (Continued)

The securities underlying the sweep investment account and repurchase agreement (Federal Home Loan Mortgage Corp.) carry a rating of AAA by Moody's. Lucas ESC has no investment policy dealing with investment credit risk beyond the requirements of State statutes which require the market value of the securities underlying the repurchase agreement to exceed the principal value of the agreement by at least 2 percent, be marked to market daily, and the term must not exceed thirty days.

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

4. RECEIVABLES

Receivables at June 30, 2006, 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:

<u>Receivables</u>	<u>Amount</u>
Governmental-Type Activities	
Accounts Receivable:	
General Fund	\$ 1,236,312
Community Schools Operations Fund	635,963
Auxiliary Services Funds	6,019
<i>Total Accounts Receivable</i>	<u>1,878,294</u>
Intergovernmental Receivable:	
Miscellaneous Grants Funds	730,678
Other Governmental Funds	997,535
<i>Total Intergovernmental Receivable</i>	<u>1,728,213</u>
Accrued Interest Receivable:	
General Fund	1,827
Auxiliary Services Fund	43
<i>Total Accrued Interest Receivable</i>	<u>1,870</u>
<i>Total Governmental Activities</i>	<u>3,608,377</u>
Fiduciary-Type Activities	
Accounts Receivable	137,338
Notes Receivable	24,406
<i>Total Fiduciary-Type Activities</i>	<u>161,744</u>

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)**

5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Balance 07/01/05	Additions	Deletions	Balance 06/30/06
Governmental Activities				
Buildings and Improvements	\$ 3,247,353			\$ 3,247,353
Improvements Other than Buildings	93,453			93,453
Furniture, Fixtures, and Equipment	813,952	\$ 117,249		931,201
Vehicles	19,385			19,385
<i>Totals at Historical Cost</i>	<u>4,174,143</u>	<u>117,249</u>		<u>4,291,392</u>
Less Accumulated Depreciation:				
Buildings and Improvements	201,960	81,184		283,144
Improvements Other than Buildings	14,503	6,230		20,733
Furniture, Fixtures, and Equipment	317,010	49,944		366,954
Vehicles	12,754	2,138		14,892
<i>Total Accumulated Depreciation</i>	<u>546,227</u>	<u>139,496</u>		<u>685,723</u>
<i>Governmental Activities</i>				
<i>Capital Assets, Net</i>	<u>\$ 3,627,916</u>	<u>\$ (22,247)</u>		<u>\$ 3,605,669</u>

*Depreciation expense was charged to governmental functions as follows:

Instruction:		
Regular	\$	1,395
Special		1,395
Support Service:		
Pupil		2,790
Instructional Staff		11,160
Administration		2,791
Business		1,394
Operation and Maintenance of Plant		1,394
Transportation		1,395
Facilities Acquisition and Construction		<u>115,782</u>
Total Depreciation Expense	\$	<u>139,496</u>

The following estimated useful lives are used to compute depreciation:

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

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(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 2006, 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, 2006 was 14 percent of annual covered payroll; 10.58 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, 2006, 2005 and 2004 was \$367,180, \$314,522 and \$218,858; 97.71 percent has been contributed for fiscal year 2006 and 100 percent has been contributed for fiscal years 2005 and 2004. \$7,757 represents the unpaid contribution for fiscal year 2006. The balance outstanding is reflected as an intergovernmental payable.

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(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, 2006
(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, 2006, 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 2006, 2005, and 2004 was \$1,445,875, 1,443,827 and \$1,444,915; 90.67 percent has been contributed for fiscal year June 30, 2006, and 100 percent for the 2005 and 2004. \$154,350 represents the unpaid contribution for fiscal year 2006. 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, 2006
(Continued)**

7. DEFINED BENEFIT PENSION PLANS – (Continued)

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio 2006 Comprehensive Annual Financial Report will be available after January 1, 2006. Additional information or copies of STRS Ohio's 2006 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.

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, 2005, 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 \$111,221 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, the balance in the Fund was \$3.3 billion. For the year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more 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 premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

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, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, the Lucas ESC paid \$132,700 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, 2006
(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 annual health care expenses. Expenses for health care at June 30, 2005, were \$178,221,113. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168 percent of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be sufficient, in the long-term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has approximately 58,123 participants currently receiving health care benefits.

9. LONG-TERM LIABILITIES

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

	Principal Outstanding at 6/30/05	Additions	Reductions	Principal Outstanding at 6/30/06	Amounts Due In One Year
Government Activities					
Sky Bank Loan/Shuer Center 3.17%, Issued 5/5/03 Matures June 5, 2023	\$ 859,081		\$ 35,914	\$ 823,167	\$ 37,272
Sky Bank Loan/Challenger Center 3.70%, Issued 1/22/03 Matures July 22, 2010	563,858		102,612	461,246	106,529
Sky Bank Loan Shuer/Challenger Centers 3.70%, Issued 5/5/03 Matures June 1, 2024	554,112		21,565	532,547	22,389
Compensated Absences	1,048,510	\$ 280,527		1,329,037	362,762
Capital Lease Payable	359,000		177,000	182,000	182,000
<i>Total Governmental Activities Long-Term Liabilities</i>	<u>\$ 3,384,561</u>	<u>\$ 280,527</u>	<u>\$ 337,091</u>	<u>\$ 3,327,997</u>	<u>\$ 710,952</u>

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

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

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

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)**

9. LONG-TERM LIABILITIES – (Continued)

Principal and Interest requirement to retire Lucas ESC's General Obligation loans outstanding at June 30, 2006, were as follows:

<u>Year Ending June 30</u>	<u>Sky Bank Loan Liability</u>
2007	\$ 223,961
2008	223,960
2009	223,960
2010	223,659
2011-2015	519,893
2016-2020	509,722
2021-2024	<u>344,840</u>
Total Minimum Loan Payments	2,269,995
Less: Amount Representing Interest	<u>(453,035)</u>
Present Value of Future Minimum Loan Payment	<u><u>\$ 1,816,960</u></u>

10. CAPITALIZED LEASES - LESSEE DISCLOSURE

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

The following is a schedule of future minimum lease payments at June 30, 2006:

<u>Year Ending June 30</u>	<u>Capital Lease Liability</u>
2007	\$ 187,951
Less: Amount Representing Interest	<u>(5,951)</u>
Present Value of Future Minimum Lease Payments	<u><u>\$ 182,000</u></u>

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)**

11. JOINTLY GOVERNED ORGANIZATIONS

A. Penta Career Center

The Penta Career Center (PCC) is a distinct political subdivision of the State of Ohio which provides vocational education to students. The PCC is operated under the direction of a Board consisting of eleven members, each appointed for a term of two years, to serve the sixteen participating school districts. Six members are appointed during the even number years, one each from the Lucas, Ottawa, and Wood County Centers, one each from the Bowling Green and Maumee City School Districts, and one from the Rossford Exempted Village School District. Five members are appointed during the odd number years, one each from the Fulton, Lucas, Sandusky, and Wood County Centers and one from the Perrysburg Exempted Village School District. 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).

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)**

11. JOINTLY GOVERNED ORGANIZATIONS – (Continued)

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 2006. To obtain financial information write to Frank McKain, MARCH USA, One Seagate Center, Suite 1860, Toledo, Ohio 43604.

12. 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, 2006.

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual Comparison (Non-GAAP)
General Fund
For the Fiscal Year Ended June 30, 2006**

	Budgeted Amounts			Variance Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Intergovernmental	\$ 8,355,755	\$ 8,355,756	\$ 8,356,084	\$ 328
Earnings on Investments	154,262	154,261	276,270	122,009
Food Services		4,251	4,920	669
Tuition	3,293,455	3,293,455	3,530,967	237,512
Classroom Material and Fees	147,758	50,630	90,154	39,524
Customer Services	2,427,671	2,660,894	2,660,894	
Transportation Fees	585	585	13,258	12,673
Miscellaneous Revenue	507,054	366,709	306,055	(60,654)
<i>Total Revenue</i>	<u>14,886,540</u>	<u>14,886,541</u>	<u>15,238,602</u>	<u>352,061</u>
Expenditures				
Current:				
Instruction:				
Regular	244,078	622,900	476,043	146,857
Special	5,865,474	6,152,936	5,510,226	642,710
Vocational	30,324	36,262	39,675	(3,413)
Support Services:				
Pupils	3,842,764	4,246,736	4,165,445	81,291
Instructional Staff	1,343,701	1,311,735	1,174,401	137,334
Board of Education	26,450	55,302	34,488	20,814
Administration	2,075,380	3,185,215	2,815,684	369,531
Fiscal	492,488	610,092	468,328	141,764
Business	301,052	224,576	159,824	64,752
Operation and Maintenance	853,722	1,199,625	1,024,052	175,573
Pupil Transportation	235,786	76,254	53,455	22,799
Central	122,065	92,403	57,150	35,253
Operation of Non-Instructional	179,817	238,913	201,677	37,236
Facilities Acquisition and Construction	52,322	55,822	44,641	11,181
Debt Service:				
Principal Retirement	245,563	271,124	274,099	(2,975)
Interest and Fiscal Charges	44,964	19,404	19,404	
<i>Total Expenditures</i>	<u>15,955,950</u>	<u>18,399,299</u>	<u>16,518,592</u>	<u>1,880,707</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(1,069,410)</u>	<u>(3,512,758)</u>	<u>(1,279,990)</u>	<u>2,232,768</u>

(Continued)

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
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**Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual Comparison (Non-GAAP)
General Fund
For the Fiscal Year Ended June 30, 2006
(Continued)**

	Budgeted Amounts			Variance Final Budget Positive (Negative)
	Original	Final	Actual	
Other Financing Sources (Uses)				
Other Miscellaneous Uses		(82,000)		82,000
Refund of Prior Year Expenditures	32,961	32,962	24,802	(8,160)
Proceeds from Sale of Bonds				
Proceeds from Sale of Assets			9,521	9,521
Advances Out				
Advances In				
Operating Transfers Out	(50,000)	(1,254,938)	(231,429)	1,023,509
Operating Transfers In	15,000	15,000	40,446	25,446
<i>Total Other Sources (Uses)</i>	<u>(2,039)</u>	<u>(1,288,976)</u>	<u>(156,660)</u>	<u>1,132,316</u>
<i>Excess of Revenues and Other Financing Sources Under Expenditures and Other Uses</i>	(1,071,449)	(4,801,734)	(1,436,650)	3,365,084
<i>Fund Balances at Beginning of Year</i>	2,695,511	2,695,511	2,695,511	
Prior Year Encumbrances Appropriated	383,065	383,065	383,065	
<i>Fund Balances (Deficit) at End of Year</i>	<u>\$ 2,007,127</u>	<u>\$ (1,723,158)</u>	<u>\$ 1,641,926</u>	<u>\$ 3,365,084</u>

SEE ACCOMPANYING NOTES TO THE SUPPLEMENTAL INFORMATION

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual Comparison (Non-GAAP)
Auxiliary Service Fund
For the Fiscal Year Ended June 30, 2006**

	Budgeted Amounts			Variance Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Earnings on Investments			\$ 10,566	\$ 10,566
Customer Services	\$ 101,148	\$ 164,148	3,385,783	3,221,635
<i>Total Revenue</i>	<u>101,148</u>	<u>164,148</u>	<u>3,396,349</u>	<u>3,232,201</u>
Expenditures				
Current:				
Special Instruction			135,625	135,625
Pupils			90,234	90,234
Operation of Non-Instructional	3,253,170	3,361,679	3,338,978	(22,701)
<i>Total Expenditures</i>	<u>3,253,170</u>	<u>3,361,679</u>	<u>3,564,837</u>	<u>(203,158)</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(3,152,022)</u>	<u>(3,197,531)</u>	<u>(168,488)</u>	<u>3,029,043</u>
Fund Balances at Beginning of Year	680,783	680,783	680,783	
Prior Year Encumbrances Appropriated	<u>75,046</u>	<u>75,046</u>	<u>75,046</u>	
<i>Fund Balances (Deficit) at End of Year</i>	<u>\$ (2,396,193)</u>	<u>\$ (2,441,702)</u>	<u>\$ 587,341</u>	<u>\$ 3,029,043</u>

SEE ACCOMPANYING NOTES TO THE SUPPLEMENTAL INFORMATION

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
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**Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual Comparison (Non-GAAP)
Community School Operations Fund
For the Fiscal Year Ended June 30, 2006**

	Budgeted Amounts			Variance Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Transportation Fees	\$ 677,249	\$ 677,247	\$ 908,704	\$ 231,457
Customer Services	2,591,177	2,604,311	3,125,736	521,425
Classroom Materials and Fees	9,800	9,800	17,461	7,661
Miscellaneous Revenue	13,163	27	12,545	12,518
<i>Total Revenue</i>	3,291,389	3,291,385	4,064,446	773,061
Expenditures				
Current:				
Special Instruction		426		426
Support Services:				
Pupil	107	250,136	179,520	70,616
Instructional Staff	1,258	93,954	79,506	14,448
Administrative	13,198	1,246,052	20,866	1,225,186
Fiscal	9,773	796,237	903,523	(107,286)
Business		21,126	591,191	(570,065)
Operation and Maintenance of Plant	7,464	68,861	32,266	36,595
Transportation	343,943	2,038,891	1,813,597	225,294
Operation of Non-Instructional		80,156	46,750	33,406
<i>Total Expenditures</i>	375,743	4,595,839	3,667,219	928,620
<i>Excess of Revenues Over (Under) Expenditures</i>	2,915,646	(1,304,454)	397,227	1,701,681
Other Financing Sources				
Refund of Prior Year Expenditures			59	59
Operating Transfers In			447	447
<i>Total Other Sources</i>			506	506
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures</i>	2,915,646	(1,304,454)	397,733	1,702,187
Fund Balances at				
Beginning of Year	796,446	796,446	796,446	
Prior Year Encumbrances Appropriated	370,319	370,319	370,319	
<i>Fund Balances (Deficit) at End of Year</i>	\$ 4,082,411	\$ (137,689)	\$ 1,564,498	\$ 1,702,187

SEE ACCOMPANYING NOTES TO THE SUPPLEMENTAL INFORMATION

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual Comparison (Non-GAAP)
Miscellaneous Federal Grants Fund
For the Fiscal Year Ended June 30, 2006**

	Budgeted Amounts			Variance Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Intergovernmental Revenue	\$ 15,000	\$ 619,435	\$ 1,127,642	\$ 508,207
Miscellaneous Revenue			510	510
<i>Total Revenue</i>	<u>15,000</u>	<u>619,435</u>	<u>1,128,152</u>	<u>508,717</u>
Expenditures				
Current:				
Regular Instruction	75,434	101,058	96,227	
Support Services:				
Pupils	600,911	938,158	625,746	
Instructional Staff	96,145	123,829	119,509	(4,320)
Administrative	79,736	37,691	34,634	(3,057)
Operation and Maintenance	1,500	1,500	1,500	
Pupil Transportation	24,474	34,108	13,538	
Operation of Non-Instructional	42,563	499,233	303,486	(195,747)
<i>Total Expenditures</i>	<u>920,763</u>	<u>1,735,577</u>	<u>1,194,640</u>	<u>540,937</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(905,763)</u>	<u>(1,116,142)</u>	<u>(66,488)</u>	<u>1,049,654</u>
Other Financing Sources				
Other Miscellaneous Sources			499	499
Operating Transfers In			12,489	12,489
<i>Total Other Sources</i>			<u>12,988</u>	<u>12,988</u>
<i>Excess of Revenues and Other Financing Sources Under Expenditures</i>	(905,763)	(1,116,142)	(53,500)	1,062,642
Fund Balances at Beginning of Year	100,848	100,848	100,848	
Prior Year Encumbrances Appropriated	173,568	173,568	173,568	
<i>Fund Balances (Deficit) at End of Year</i>	<u>\$ (631,347)</u>	<u>\$ (841,726)</u>	<u>\$ 220,916</u>	<u>\$ 1,062,642</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, 2006**

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
LUCAS COUNTY**

**NOTES TO SUPPLEMENTAL INFORMATION
FOR THE FICAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. BUDGETARY BASIS OF ACCOUNTING – (Continued)

	Net Change in Fund Balance			
	General	Auxiliary Services	Community Schools Operations	Miscellaneous Federal Grants Fund
	<u>General</u>	<u>Auxiliary Services</u>	<u>Community Schools Operations</u>	<u>Miscellaneous Federal Grants Fund</u>
Budget Basis	\$ (1,436,650)	\$ (168,488)	\$ 397,733	\$ (53,500)
Adjustments:				
Revenue Accruals:				
Accrued FY2005, Received in Cash FY2006	(986,052)	(317)	(267,153)	(35,418)
Accrued FY2006, Not Yet Received in Cash	1,231,547	2,837	459,005	165,975
Expenditure Accruals:				
Accrued FY2005, Paid in Cash FY2006	1,334,731	371,936	155,111	104,830
Accrued FY2006, Not Yet Paid in Cash	(1,332,881)	(402,068)	53,544	(34,583)
Encumbrances	204,372	87,463	578,300	36,987
Other Financial Sources/Uses:				
Refunds	(24,802)		(59)	
GAAP Basis	<u>(1,009,735)</u>	<u>(108,637)</u>	<u>1,376,481</u>	<u>184,291</u>

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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>				
<i>Nutrition Cluster:</i>				
School Breakfast Program	05PU-2005	10.553	\$ 2,587	\$ 2,587
	05PU-2006	10.553	2,718	2,718
Total School Breakfast Program			<u>5,305</u>	<u>5,305</u>
National School Lunch Program	LLP4-2005	10.555	8,497	8,497
	LLP4-2006	10.555	8,034	8,034
Total National School Lunch Program			<u>16,531</u>	<u>16,531</u>
<i>Total Nutrition Cluster</i>			<u>21,836</u>	<u>21,836</u>
Child and Adult Care Food Program	CCMO-2005	10.558	4,998	4,998
	LUCP-2005	10.558	193	193
Total Child and Adult Care Food Program			<u>5,191</u>	<u>5,191</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>27,027</u>	<u>27,027</u>
U.S. DEPARTMENT OF LABOR				
<i>Passed Through Ohio Department of Job and Family Services and the Lucas County Department of Job and Family Services:</i>				
WIA Youth Activities		17.259	605,343	604,424
WIA Uniform Reimbursement		17.259	262	94
Total WIA Program			<u>605,605</u>	<u>604,518</u>
TOTAL U.S. DEPARTMENT OF LABOR			<u>605,605</u>	<u>604,518</u>
U.S. DEPARTMENT OF TRANSPORTATION				
State and Community Highway Safety	2005SAN/1	20.600	27,027	16,766
	2006SAN/1		30,959	44,667
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			<u>57,986</u>	<u>61,433</u>
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education:</i>				
<i>Special Education Cluster:</i>				
Special Education_Grants to States (IDEA, Part B)	6BSD-2005	84.027		8,937
	6BSD-2006	84.027	933	450
	6BPB-2005	84.027	30,717	30,934
	84.027		3,179	1,222
	84.027		<u>58,598</u>	<u>49,903</u>
Total Special Education_Grants to States			<u>93,427</u>	<u>91,446</u>
Special Education_Preschool Grants (IDEA, Part B)	PGS1-2005	84.173	5,832	3,727
	PGS1-2006	84.173	93,014	87,901
	84.173			4
Total Special Education_Preschool Grants			<u>98,846</u>	<u>91,632</u>
<i>Total Special Education Cluster</i>			<u>192,273</u>	<u>183,078</u>
Safe & Drug Free Schools and Communities_National Programs		84.184	302,680	302,680
Safe & Drug Free Schools and Communities_State Grants	DRS2-2005	84.186	10,741	4,754
Total Safe & Drug Free Schools and Communities_State Grants	DRS2-2006	84.186	<u>106,075</u>	<u>85,354</u>
			116,816	90,108
Twenty - First Century Community Learning Centers (Title IV, Part B)	T1S1-2005	84.287	31,290	28,342
	T1S1-2006	84.287	178,982	212,484
Total Twenty-First Century Community Grants			<u>210,272</u>	<u>240,826</u>
Improving Teacher Quality State Grants (Title II, Part A)	TRSA-2005	84.367	22,331	330
	TRSA-2006	84.367	93,906	183,585
Total Improving Teacher Quality State Grants			<u>116,237</u>	<u>183,915</u>
Learn and Serve America_School and Community Based Programs	SVS1-2005	94.004	(570)	300
	SVS1-2006	94.004	1,500	1,000
	94.004			9,621
Total Learn and Serve America Programs			<u>930</u>	<u>10,921</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>939,208</u>	<u>1,011,528</u>
TOTAL FEDERAL AWARDS RECEIPTS AND EXPENDITURES			<u>\$ 1,629,826</u>	<u>\$ 1,704,506</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE.

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2006**

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



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 the Lucas County Educational Service Center, Lucas County, Ohio (Lucas ESC), as of and for the year ended June 30, 2006, which collectively comprise the Lucas ESC's basic financial statements and have issued our report thereon dated June 29, 2007. 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 Lucas ESC's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to Lucas ESC's management dated June 29, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether 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*. In a separate letter to Lucas ESC's management, dated June 29, 2007, we reported another matter related to noncompliance we deemed immaterial.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

June 29, 2007



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 the Lucas County Educational Service Center, Lucas County, Ohio (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, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies Lucas ESC's major federal programs. 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 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 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 Lucas ESC's compliance with those requirements.

In our opinion, Lucas ESC 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, 2006.

Internal Control Over Compliance

Lucas ESC's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Lucas ESC's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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



Mary Taylor, CPA
Auditor of State

June 29, 2007

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	⇒ Safe & Drug Free Schools and Communities_National Programs: CFDA #84.184 ⇒ Improving Teacher Quality State Grants: CFDA #84.367
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2006

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	Ohio Revised Code §5705.41(D) (1), Failure to Certify Prior to Commitment	Yes	



Mary Taylor, CPA
Auditor of State

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
SEPTEMBER 4, 2007**