



Dave Yost • Auditor of State

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
LUCAS COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Educational Service Center of Lake Erie West
Lucas County
2275 Collingwood Boulevard
Toledo, Ohio 43620-1148

To the Governing Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center of Lake Erie West, Lucas County, Ohio (the Center), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Center's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Center's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

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 Educational Service Center of Lake Erie West, Lucas County, Ohio (the Center), as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during the year ended June 30, 2013, the Center adopted the provisions of Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*. We did not modify our opinion regarding this matter.

As discussed in Note 3 to the financial statements, the Center restated capital assets in the amount of \$1,775,265 for capital assets not previously reported by the Center.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary and Other Information

Our audit was conducted to opine on the Center's basic financial statements taken as a whole.

The Federal Awards Receipts and Expenditures Schedule presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2014, on our consideration of the Center'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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

March 6, 2014

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**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
LUCAS COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(UNAUDITED)**

The discussion and analysis of the Educational Service Center of Lake Erie West's (the "Center") financial performance provides an overall review of the Center's financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to consider the Center's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Center's financial performance.

Financial Highlights

Key financial highlights for 2013 are as follows:

- In total, net position of governmental activities decreased \$632,664 which represents an 8.88% decrease from restated net position at July 1, 2012.
- General revenues accounted for \$2,930,841 in revenue or 12.22% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$21,060,040 or 87.78% of total revenues of \$23,990,881.
- The Center had \$24,623,545 in expenses related to governmental activities; \$21,060,040 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily unrestricted grants and entitlements) of \$2,930,841 were inadequate to provide for these programs.
- The Center's major governmental funds are the general fund, the auxiliary services fund, and the other grants fund. The general fund had \$15,938,402 in revenues and other financing sources and \$16,186,509 in expenditures and other financing uses. During fiscal year 2013, the general fund's fund balance decreased \$248,107 from a balance of \$2,190,314 to \$1,942,207.
- The auxiliary services fund had \$3,643,859 in revenues and \$3,763,336 in expenditures during fiscal year 2013.
- The other grants fund had \$626,894 in revenues and other financing sources and \$537,037 in expenditures and other financing uses during fiscal year 2013.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Center 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 position and statement of activities provide information about the activities of the whole Center, presenting both an aggregate view of the Center'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 the Center's most significant funds with all other nonmajor funds presented in total in one column. In the case of the Center, the general fund, the auxiliary services fund, and the other grants fund are by far the most significant funds, and the only governmental funds reported as major funds.

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
LUCAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(UNAUDITED)

Reporting the Center as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the Center to provide programs and activities, the view of the Center as a whole contains all financial transactions and asks the question, "How did the Center perform financially during 2013?" The statement of net position and the statement of activities answer this question. These statements include all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, and expenses 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 the Center's net position and changes in net position. The change in net position is important because it tells the reader that, for the Center as a whole, the financial condition of the Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the Center's facility conditions, required educational programs and other factors.

In the statement of net position and the statement of activities, the governmental activities include the Center's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, and food service operations.

Reporting the Center's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the Center's major funds. The Center uses many funds to account for a multitude of financial transactions; however, these fund financial statements focus on the Center's most significant funds. The Center's major governmental funds are the general fund, auxiliary services fund and other grants fund.

Governmental Funds

Most of the Center'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 the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the Center's general government operations and the basic services it provides. Governmental fund information helps to 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 position and the statement of activities) and governmental funds is reconciled in the basic financial statements.

Reporting the Center's Fiduciary Responsibilities

The Center acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the Center's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities. These activities are excluded from the Center's other financial statements because the assets cannot be utilized by the Center to finance its operations.

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
LUCAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(UNAUDITED)

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The Center as a Whole

Recall that the statement of net position provides the perspective of the Center as a whole.

The table below provides a summary of the Center's net position for 2013 and 2012. The balances of capital assets, net, and the Center's net investment in capital assets at June 30, 2012, have been restated to include various capitalized items with a net book value of \$1,775,265 that were omitted from the Center's capital assets in prior years.

	Net Position	
	Governmental Activities 2013	Restated Governmental Activities 2012
<u>Assets</u>		
Current and other assets	\$ 5,371,645	\$ 5,544,991
Capital assets, net	<u>4,887,948</u>	<u>5,181,488</u>
Total assets	<u>10,259,593</u>	<u>10,726,479</u>
<u>Liabilities</u>		
Current liabilities	1,922,386	1,841,093
Long-term liabilities	<u>1,842,037</u>	<u>1,757,552</u>
Total liabilities	<u>3,764,423</u>	<u>3,598,645</u>
<u>Net Position</u>		
Net investment in capital assets	4,884,360	5,175,684
Restricted	401,930	588,957
Unrestricted	<u>1,208,880</u>	<u>1,363,193</u>
Total net position	<u>\$ 6,495,170</u>	<u>\$ 7,127,834</u>

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2013, the Center's assets exceeded liabilities by \$6,495,170. Of this total, \$1,208,880 is unrestricted in use.

At year-end, capital assets represented 47.64% of total assets. Capital assets include land, buildings and improvements, improvements other than buildings, and furniture, fixtures and equipment and vehicles. The Center's net investment in capital assets at June 30, 2013, was \$4,884,360. These capital assets are used to provide services to the students and are not available for future spending. Although the Center's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

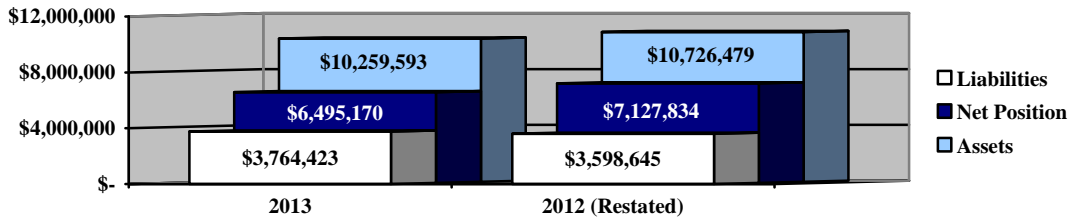
**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
LUCAS COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(UNAUDITED)**

A portion of the Center's net position, \$401,930 represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position of \$1,208,880 may be used to meet the Center's ongoing obligations to the students and creditors.

The graph below illustrates the Center's governmental activities assets, liabilities and net position at June 30, 2013 and 2012. Balances at June 30, 2012 have been restated to include buildings and improvements and furniture, fixtures, and equipment constructed or acquired during the fiscal years ended June 30, 2010 and June 30, 2011 and not previously reported by the Center.

Governmental Activities



Governmental Activities

The net position of the Center's governmental activities decreased \$632,664. Total governmental expenses of \$24,623,545 were offset by program revenues of \$21,060,040 and general revenues of \$2,930,841. Program revenues supported 85.53% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from charges for services. This revenue source represents 71.22% of total governmental revenue.

The largest expense of the Center is for support services. Support services expenses totaled \$14,936,690 or 60.66% of total governmental expenses for fiscal 2013.

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
LUCAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(UNAUDITED)

The table below shows the changes in net position for fiscal years 2013 and 2012. Beginning net position and expenses for fiscal year 2012 have been restated to include capital assets and accumulated depreciation not previously reported by the Center and an allocation of additional related depreciation expense of \$100,369 during fiscal year 2012.

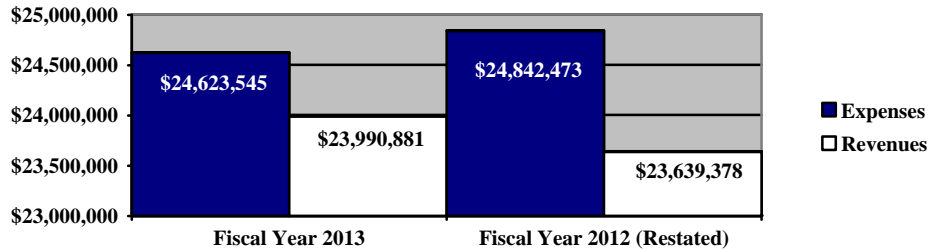
	Changes in Net Position	
	Governmental Activities 2013	Restated Governmental Activities 2012
<u>Revenues</u>		
Program Revenues:		
Charges for services and sales	\$ 17,087,384	\$ 16,336,061
Operating grants and contributions	3,972,656	4,375,591
General revenues:		
Grants and entitlements	2,679,532	2,705,405
Investment earnings	10,312	10,012
Other	240,997	212,309
Total revenues	<u>23,990,881</u>	<u>23,639,378</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	12,265	17,745
Special	5,701,368	5,576,458
Vocational	89,799	102,247
Adult/continuing	42,149	51,593
Other	25,402	79,408
Support services:		
Pupil	5,216,365	5,770,783
Instructional staff	4,789,324	5,024,020
Board of education	19,278	25,806
Administration	2,467,734	2,345,715
Fiscal	1,103,768	1,222,626
Business	66,278	60,538
Operations and maintenance	954,830	982,289
Pupil transportation	2,857	43,132
Central	316,256	395,437
Operation of non-instructional services:		
Food service operations	34,888	27,677
Other non-instructional services	3,780,691	3,116,576
Interest and fiscal charges	293	423
Total expenses	<u>24,623,545</u>	<u>24,842,473</u>
Change in net position	(632,664)	(1,203,095)
Net position at beginning of year (restated)	<u>7,127,834</u>	<u>8,330,929</u>
Net position at end of year	<u>\$ 6,495,170</u>	<u>\$ 7,127,834</u>

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
LUCAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(UNAUDITED)

The graph below presents the Center's governmental activities revenue and expenses for fiscal years 2013 and 2012. Expenses for fiscal year 2012 have been restated to include additional depreciation expense not previously recognized by the Center.

Governmental Activities - Revenues and Expenses



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table 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 tax revenue and unrestricted State grants and entitlements. The total cost and net cost of services for fiscal year 2012 have been restated to include additional depreciation expense not previously recognized by the Center.

Governmental Activities

	Total Cost of Services 2013	Net Cost of Services 2013	Restated Total Cost of Services 2012	Restated Net Cost of Services 2012
Program expenses				
Instruction:				
Regular	\$ 12,265	\$ 2,842	\$ 17,745	\$ 13,348
Special	5,701,368	767,505	5,576,458	1,026,499
Vocational	89,799	(6,069)	102,247	38,840
Adult/Continuing	42,149	(204)	51,593	33,568
Other	25,402	(1,915)	79,408	79,408
Support services:				
Pupil	5,216,365	661,225	5,770,783	1,112,853
Instructional staff	4,789,324	589,641	5,024,020	718,532
Board of education	19,278	2,784	25,806	25,806
Administration	2,467,734	330,388	2,345,715	375,675
Fiscal	1,103,768	161,019	1,222,626	248,282
Business	66,278	63,326	60,538	60,253
Operations and maintenance	954,830	718,630	982,289	192,332
Pupil transportation	2,857	(538)	43,132	41,016
Central	316,256	19,247	395,437	83,974
Operation of non-instructional services:				
Food service operations	34,888	7,201	27,677	1,587
Other non-instructional services	3,780,691	248,130	3,116,576	78,425
Interest and fiscal charges	293	293	423	423
Total expenses	<u>\$ 24,623,545</u>	<u>\$ 3,563,505</u>	<u>\$ 24,842,473</u>	<u>\$ 4,130,821</u>

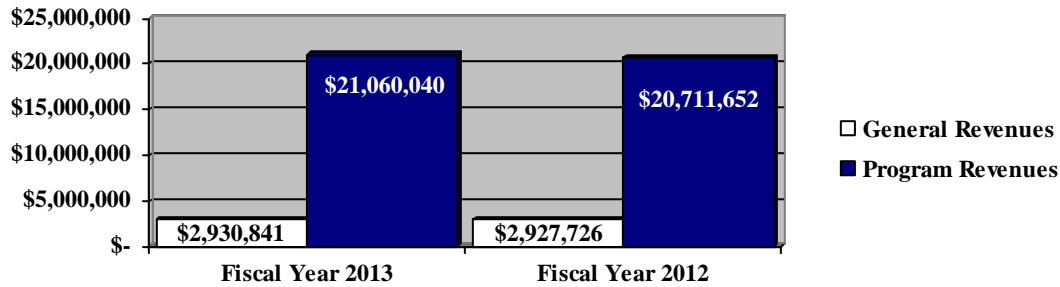
**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
LUCAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(UNAUDITED)

For all governmental activities, program revenue support is 85.53%. The primary support of the Center is contracted fees for services provided to school districts.

The graph below presents the Center's governmental activities revenue for fiscal years 2013 and 2012.

Governmental Activities - General and Program Revenues



The Center's Funds

The Center's governmental funds reported a combined fund balance of \$2,878,802, which is lower than last year's total of \$3,377,075. The schedule below indicates the fund balances and the changes in fund balances as of June 30, 2013 and 2012.

Funds	Fund Balance June 30, 2013	Fund Balance June 30, 2012	Increase (Decrease)	Percentage Change
General	\$ 1,942,207	\$ 2,190,314	\$ (248,107)	(11.33) %
Auxiliary services	252,693	372,170	(119,477)	(32.10) %
Other grants	678,760	588,903	89,857	15.26 %
Nonmajor governmental	5,142	225,688	(220,546)	(97.72) %
Total	\$ 2,878,802	\$ 3,377,075	\$ (498,273)	(14.75) %

General Fund

The Center's general fund balance decreased \$248,107. The table that follows shows the revenues of the general fund for fiscal years 2013 and 2012.

Revenues	2013 Amount	2012 Amount	Increase (Decrease)	Percentage Change
Tuition	\$ 6,629,985	\$ 6,793,002	\$ (163,017)	(2.40) %
Earnings on investments	10,312	10,012	300	3.00 %
Customer services	6,459,858	6,432,607	27,251	0.42 %
Intergovernmental	2,592,006	2,705,405	(113,399)	(4.19) %
Other revenues	238,956	228,156	10,800	4.73 %
Total	\$ 15,931,117	\$ 16,169,182	\$ (238,065)	(1.47) %

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
LUCAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(UNAUDITED)

Overall, revenues of the general fund decreased 1.47% during fiscal year 2013. Tuition revenue decreased \$163,017, or 2.40%; this decrease is the result of lower revenue from school districts during fiscal year 2013. Earnings on the ESC's investments and charges to customers for contracted services were consistent with revenues in fiscal year 2012. Meanwhile, intergovernmental revenues decreased \$113,399 due to lower foundation revenue from the state of Ohio, and other revenues increased 4.73% due in part to higher rental income during the year.

<u>Expenditures</u>	<u>2013 Amount</u>	<u>2012 Amount</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Instruction	\$ 5,161,658	\$ 5,142,049	\$ 19,609	0.38 %
Support services	10,806,288	11,214,333	(408,045)	(3.64) %
Non-instructional services	109,758	118,786	(9,028)	(7.60) %
Facilities acquisition and construction	4,304	6,406	(2,102)	(32.81) %
Debt service	<u>2,509</u>	<u>2,509</u>	-	-
Total	<u>\$ 16,084,517</u>	<u>\$ 16,484,083</u>	<u>\$ (399,566)</u>	(2.42) %

Instruction expenditures increased 0.38% from fiscal year 2012, while expenditures for support services decreased \$408,045. Pupil support services decreased due to decreased employee salaries during the year and lower purchases for milieu therapy services from the Lutheran Home Society. Fiscal and central support services decreased due to lower spending for employee salaries and benefits and decreased costs for purchased technical services from the Northwest Ohio Computer Association, respectively. Lower expenditures related to employee salaries and benefits also contributed to a 7.60% decrease in spending for non-instructional services. Facilities acquisition and construction expenditures for various repairs throughout the Center's buildings decreased 32.81%, while debt service expenditures did not vary from the prior year.

Auxiliary Services Fund

The auxiliary services fund had \$3,643,859 in revenues and \$3,763,336 in expenditures. During fiscal year 2013, the auxiliary services fund's fund balance decreased \$119,477 to a balance \$252,693.

Other Grants Fund

The other grants fund had \$626,894 in revenues and other financing sources and \$537,037 in expenditures and other financing uses. During fiscal year 2013, the other grants fund's fund balance increased \$89,857 to a balance of \$678,760.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2013, the Center had \$4,887,948 invested in land, buildings and improvements, improvements other than buildings, furniture, fixtures and equipment, and vehicles. This entire amount is reported in governmental activities.

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
LUCAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(UNAUDITED)

The table that follows shows the balances of the Center's capital assets at June 30, 2013 compared to restated balances at June 30, 2012. Balances for fiscal year 2012 are restated to include various capitalized items with a net book value of \$1,775,265 at June 30, 2012 that were omitted from the Center's capital asset activity in prior years.

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2013	Restated 2012
Land	\$ 314,321	\$ 314,321
Building and improvements	4,207,490	4,410,196
Improvements other than buildings	3,964	4,385
Furniture, fixtures, and equipment	339,701	426,656
Vehicles	22,472	25,930
Total	\$ 4,887,948	\$ 5,181,488

The overall decrease in capital assets during fiscal year 2013 resulted from depreciation expense of \$351,190 exceeding capital outlay of \$57,650 during the current period.

See Note 7 to the basic financial statements for additional information on the Center's capital assets.

Debt Administration

At June 30, 2013, the Center had an outstanding lease obligation of \$3,588, \$2,355 of which is due within one year and \$1,233 of which is due in more than one year. See Note 9 to the basic financial statements for additional information on the Center's debt obligations.

Current Financial Related Activities

The Center is financially solvent. As the preceding information demonstrates, the Center relies heavily on contracts with local, city, and exempted village school districts, as well as state foundation revenue and grants. With new contracts with our local, city, and exempted school districts, and providing the fiscal and administrative role to several entities, the Center will be able to provide the necessary funds to meet operating expenses in the future.

Contacting the Center's Financial Management

This financial report is designed to provide our member districts and other interested parties with a general overview of the Center's finances and to show the Center's accountability for the money it receives. If you have questions about this report or need additional financial information contact: Mr. Richard Cox, Treasurer of the Educational Service Center of Lake Erie West, at 2275 Collingwood Avenue, Toledo, Ohio 43620-1148 or via e-mail at RCox@eslakeeriewest.org.

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**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
LUCAS COUNTY, OHIO**

STATEMENT OF NET POSITION
JUNE 30, 2013

	Governmental Activities
Assets:	
Equity in pooled cash and investments.	\$ 4,392,973
Receivables:	
Accounts.	8,332
Accrued interest	786
Intergovernmental	969,554
Capital assets:	
Nondepreciable capital assets	314,321
Depreciable capital assets, net.	4,573,627
Capital assets, net	4,887,948
Total assets.	10,259,593
Liabilities:	
Accounts payable.	131,118
Accrued wages and benefits payable	1,466,196
Pension obligation payable.	230,509
Intergovernmental payable	94,563
Long-term liabilities:	
Due within one year.	486,859
Due in more than one year.	1,355,178
Total liabilities.	3,764,423
Net position:	
Net investment in capital assets	4,884,360
Restricted for:	
Locally funded programs	311,853
State funded programs.	49,057
Federally funded programs	28,937
Other purposes	12,083
Unrestricted	1,208,880
Total net position.	\$ 6,495,170

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
LUCAS COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position Governmental Activities
		Charges for Services and Sales	Operating Grants and Contributions	
Governmental activities:				
Instruction:				
Regular	\$ 12,265	\$ 473	\$ 8,950	\$ (2,842)
Special	5,701,368	4,678,656	255,207	(767,505)
Vocational	89,799	95,868	-	6,069
Adult/continuing	42,149	8,742	33,611	204
Other	25,402	27,317	-	1,915
Support services:				
Pupil	5,216,365	4,028,478	526,662	(661,225)
Instructional staff	4,789,324	1,988,494	2,211,189	(589,641)
Board of education.	19,278	16,494	-	(2,784)
Administration.	2,467,734	1,862,604	274,742	(330,388)
Fiscal	1,103,768	823,947	118,802	(161,019)
Business	66,278	1,854	1,098	(63,326)
Operations and maintenance.	954,830	64,625	171,575	(718,630)
Pupil transportation	2,857	2,132	1,263	538
Central.	316,256	291,609	5,400	(19,247)
Operation of non-instructional services:				
Food service operations.	34,888	11	27,676	(7,201)
Other non-instructional services.	3,780,691	3,196,080	336,481	(248,130)
Interest and fiscal charges	293	-	-	(293)
Total governmental activities	<u>\$ 24,623,545</u>	<u>\$ 17,087,384</u>	<u>\$ 3,972,656</u>	<u>(3,563,505)</u>
General revenues:				
Grants and entitlements not restricted to specific programs				2,679,532
Investment earnings				10,312
Miscellaneous				240,997
Total general revenues.				<u>2,930,841</u>
Change in net position				(632,664)
Net position at beginning of year (restated).				<u>7,127,834</u>
Net position at end of year				<u>\$ 6,495,170</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
LUCAS COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

	General	Auxiliary Services	Other Grants	Nonmajor Governmental Funds	Total Governmental Funds
Assets:					
Equity in pooled cash and investments.	\$ 3,037,439	\$ 517,072	\$ 740,246	\$ 98,216	\$ 4,392,973
Receivables:					
Accounts	6,807	-	1,525	-	8,332
Accrued interest.	786	-	-	-	786
Intergovernmental	539,142	126,665	21,006	282,741	969,554
Due from other funds.	123,640	-	-	-	123,640
Total assets.	<u>\$ 3,707,814</u>	<u>\$ 643,737</u>	<u>\$ 762,777</u>	<u>\$ 380,957</u>	<u>\$ 5,495,285</u>
Liabilities:					
Accounts payable.	\$ 24,067	\$ 27,550	\$ 6,087	\$ 73,414	\$ 131,118
Accrued wages and benefits payable	1,095,381	301,366	7,527	61,922	1,466,196
Compensated absences payable	227,424	-	43,909	-	271,333
Intergovernmental payable	65,746	12,786	827	15,204	94,563
Pension obligation payable	174,132	40,167	8,532	7,678	230,509
Due to other funds.	-	-	-	123,640	123,640
Total liabilities.	<u>1,586,750</u>	<u>381,869</u>	<u>66,882</u>	<u>281,858</u>	<u>2,317,359</u>
Deferred inflows of resources:					
Tuition revenue not available.	58,459	-	-	-	58,459
Customer services revenue not available.	30,117	9,175	11,150	-	50,442
Rental income not available.	2,195	-	-	-	2,195
Miscellaneous revenue not available.	560	-	5,985	-	6,545
Intergovernmental revenue not available.	87,526	-	-	93,957	181,483
Total deferred inflows of resources	<u>178,857</u>	<u>9,175</u>	<u>17,135</u>	<u>93,957</u>	<u>299,124</u>
Fund balances:					
Restricted:					
Food service operations.	-	-	-	2,264	2,264
Public school preschool	-	-	-	15,399	15,399
Special education	-	-	-	34,385	34,385
Vocational purposes.	-	-	-	6,634	6,634
Other purposes	-	-	298,882	35,169	334,051
Committed:					
Auxiliary services.	-	252,693	-	-	252,693
Other preschool and base programs.	-	-	207,735	-	207,735
Technology	51,956	-	-	-	51,956
Community school operations	751,858	-	-	-	751,858
Other purposes	49,755	-	-	3,956	53,711
Assigned:					
Student and staff support	10,479	-	-	-	10,479
Staff development	-	-	172,143	-	172,143
Non-instructional services.	35,800	-	-	-	35,800
Unassigned (deficit)	1,042,359	-	-	(92,665)	949,694
Total fund balances	<u>1,942,207</u>	<u>252,693</u>	<u>678,760</u>	<u>5,142</u>	<u>2,878,802</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 3,707,814</u>	<u>\$ 643,737</u>	<u>\$ 762,777</u>	<u>\$ 380,957</u>	<u>\$ 5,495,285</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
LUCAS COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2013

Total governmental fund balances		\$	2,878,802
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			4,887,948
Other long-term assets are not available to pay for current-periods expenditures and therefore are deferred inflows of resources in the funds.			
Accounts receivable	\$	2,517	
Intergovernmental receivable		296,607	
Total			299,124
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		(1,567,116)	
Capital lease obligation		(3,588)	
Total			(1,570,704)
Net position of governmental activities		\$	6,495,170

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
LUCAS COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	General	Auxiliary Services	Other Grants	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
From local sources:					
Tuition	\$ 6,629,985	\$ -	\$ -	\$ -	\$ 6,629,985
Earnings on investments	10,312	689	-	5	11,006
Classroom materials and fees	-	-	115,223	13,905	129,128
Charges for services	1,014	-	-	11	1,025
Extracurricular	-	-	210	-	210
Customer services	6,459,858	3,643,170	213,308	9,915	10,326,251
Rental income.	154,171	-	680	-	154,851
Contributions and donations	1,864	-	68,020	-	69,884
Other local revenues	81,907	-	65,137	-	147,044
Intergovernmental - state	2,529,680	-	62,348	1,067,056	3,659,084
Intergovernmental - federal.	62,326	-	-	2,712,483	2,774,809
Total revenues	<u>15,931,117</u>	<u>3,643,859</u>	<u>524,926</u>	<u>3,803,375</u>	<u>23,903,277</u>
Expenditures:					
Current:					
Instruction:					
Regular	-	-	655	8,868	9,523
Special	5,047,566	352,929	72,403	249,429	5,722,327
Vocational	88,854	-	-	-	88,854
Adult/continuing	139	-	12,114	29,093	41,346
Other.	25,099	-	-	-	25,099
Support services:					
Pupil	4,563,421	63,602	69,719	512,713	5,209,455
Instructional staff	2,068,850	168,666	71,685	2,333,965	4,643,166
Board of education	19,171	-	-	-	19,171
Administration.	2,091,624	135	149,546	232,536	2,473,841
Fiscal.	955,839	-	890	125,207	1,081,936
Business	66,383	-	2,596	-	68,979
Operations and maintenance	737,639	-	4,174	183,156	924,969
Pupil transportation	-	-	2,857	-	2,857
Central	303,361	-	-	5,400	308,761
Operation of non-instructional services:					
Food service operations.	-	-	-	34,888	34,888
Other non-instructional services	109,758	3,178,004	143,418	308,685	3,739,865
Facilities acquisition and construction.	4,304	-	-	-	4,304
Debt service:					
Principal retirement.	2,216	-	-	-	2,216
Interest and fiscal charges	293	-	-	-	293
Total expenditures	<u>16,084,517</u>	<u>3,763,336</u>	<u>530,057</u>	<u>4,023,940</u>	<u>24,401,850</u>
Excess of expenditures over revenues.	(153,400)	(119,477)	(5,131)	(220,565)	(498,573)
Other financing sources (uses):					
Sale of assets	300	-	-	-	300
Transfers in	6,985	-	101,968	24	108,977
Transfers (out)	(101,992)	-	(6,980)	(5)	(108,977)
Total other financing sources (uses).	<u>(94,707)</u>	<u>-</u>	<u>94,988</u>	<u>19</u>	<u>300</u>
Net change in fund balances	(248,107)	(119,477)	89,857	(220,546)	(498,273)
Fund balances at beginning of year	<u>2,190,314</u>	<u>372,170</u>	<u>588,903</u>	<u>225,688</u>	<u>3,377,075</u>
Fund balances at end of year.	<u>\$ 1,942,207</u>	<u>\$ 252,693</u>	<u>\$ 678,760</u>	<u>\$ 5,142</u>	<u>\$ 2,878,802</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
LUCAS COUNTY, OHIO**

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, 2013

Net change in fund balances - total governmental funds	\$	(498,273)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital asset additions	\$ 57,650	
Current year depreciation	(351,190)	
Total		(293,540)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Tuition revenue	54,861	
Customer services revenue	(20,316)	
Rental income	2,195	
Miscellaneous revenue	6,395	
Intergovernmental revenue	44,169	
Total		87,304
Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position.		
		2,216
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		
		69,629
Change in net position of governmental activities	\$	(632,664)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
LUCAS COUNTY, OHIO**

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2013

		Agency
Assets:		
Equity in pooled cash and investments.	\$	329,338
Receivables:		
Accounts		170
Intergovernmental.		4,786
		4,956
Total assets.	\$	334,294
 Liabilities:		
Accounts payable.	\$	58
Accrued wages and benefits		26,621
Compensated absences		62,820
Pension obligation payable		3,903
Intergovernmental payable		240,892
		334,294
Total liabilities.	\$	334,294

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
LUCAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER

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

The Center operates under a locally elected Board of Education consisting of five members elected at-large for staggered four year terms. The Center is staffed by 18 administrators, 239 full-time and part-time certified employees, and 109 full-time and part-time classified employees who provide services to the local, exempted village and city school districts.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Center have been prepared in conformity with accounting principles generally accepted in the United States of America (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. The Center's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Center. For the Center, this includes general operations, food service, and student related activities of the Center.

Component units are legally separate organizations for which the Center is financially accountable. The Center is financially accountable for an organization if the Center appoints a voting majority of the organization's Governing Board and (1) the Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Center is legally entitled to or can otherwise access the organization's resources; or (3) the Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Center in that the Center approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. Based upon the application of these criteria, the Center has no component units. The basic financial statements of the reporting entity include only those of the Center (the primary government).

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
LUCAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

As of June 30, 2013, the Center 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 the Center.

The following organizations are described due to their relationship to the Center:

JOINTLY GOVERNED ORGANIZATIONS

Penta Career Center (PCC)

The PCC is a jointly governed organization established by the Ohio Revised Code (ORC) to provide vocational education and special needs to students. The PCC accepts non-tuition students from the Center as a member school. 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 even numbered years, one each from the ESC of Lake Erie West, Ottawa, and Wood County Centers, one from the Bowling Green and Maumee City School Districts, and one from the Rossford Exempted Village School District. Five members are appointed during odd numbered 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. The Center does not retain an ongoing financial interest or responsibility in the PCC. Financial information can be obtained from the PCC, Carrie Herringshaw, who serves as Treasurer, at 9301 Buck Road, Perrysburg, Ohio, 43551-4594.

Northwest Ohio Computer Association (NWOCA)

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 Robin Pfund, who serves as Treasurer, at 209 Nolan Parkway, P.O. Box 407, Archbold, Ohio 43502.

PUBLIC ENTITY RISK POOL

Southwestern Ohio Educational Purchasing Council (SOEPC)

The SOEPC is a purchasing council made up of over 139 schools in 18 counties. The purpose of the council is to obtain prices for quality merchandise and services commonly used by schools. All members are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member has one voting representative. Title to any and all equipment, furniture, and supplies purchased by the SOEPC is held in trust for the members; any member withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. During fiscal year 2013, the Center paid \$35,815 to the SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, Director, 303 Corporate Center Drive Suite 208, Vandalia, Ohio 45377.

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
LUCAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Fund Accounting

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

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses 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 or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets plus deferred outflows of resources and liabilities plus deferred inflows of resources is reported as fund balance. The following are the Center's major governmental funds:

General fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Auxiliary services fund - This fund accounts for funds that provide service and materials to pupils attending parochial schools.

Other grants fund - This fund accounts for various grants and programs offered by the Center.

Other governmental funds of the Center are used to account for specific revenue sources that are restricted or committed to expenditures for specified purposes.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. The Center's only fiduciary fund type is agency funds.

Agency funds are custodial in nature (assets and liabilities) and do not involve measurement of results of operations. The Center's agency funds account for various resources held for other organizations.

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net position and the statement of activities display information about the Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements include only governmental-type activities.

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
LUCAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The statement of net position presents the financial condition of the governmental activities of the Center at fiscal year end. The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the Center. 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 amounts paid by the recipient of 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 not classified as program revenues are presented as general revenues of the Center, 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 the Center.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operation of the Center are included on the statement of net position.

Fund Financial Statements - During the year, the Center segregates transactions related to certain Center functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements report detailed information about the Center. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows of resources, liabilities, and deferred inflows of resources generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Agency funds do not report a measurement focus as they do not report operations.

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 also use the accrual basis of accounting.

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

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
LUCAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

Under the modified accrual basis, interest, tuition, customer services, grants, student fees, and rental income are considered to be both measurable and available at fiscal year-end.

Deferred Inflows of Resources and Deferred Outflows of Resources - A deferred inflow of resources is an acquisition of net position by the Center that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the Center that is applicable to a future reporting period.

Revenues resulting from nonexchange transactions received in advance of the fiscal year for which they were intended to finance are recorded as deferred inflows of resources. Grants, entitlements, and donations received before the eligibility requirements are met are recorded as deferred inflows of resources on the governmental fund financial statements.

On governmental fund financial statements, receivables that will not be collected within the available period have been reported as deferred inflows of resources.

The ESC had no deferred outflows of resources at June 30, 2013.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized in the period during which 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. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgetary Process

In fiscal year 2004, the Center's requirement to file budgetary information with the Ohio Department of Education was eliminated. Even though the budgetary process for the Center is discretionary, the Center's Board does approve appropriations and estimated resources for all funds for control purposes. The Center's Board adopts an annual appropriation resolution, which is the Board's authorization to spend resources and sets annual limits on expenditures at the level of control selected by the Board. The level of control has been established by the Board at the object level for the general fund and the fund level for all other 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 Center has elected to not present budgetary schedules as supplementary information for the general fund and major special revenue funds.

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
LUCAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

F. Cash and Investments

To improve cash management, cash received by the Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the Center's records. Each fund's interest in the pool is presented as "equity in pooled cash and investments" on the basic financial statements.

As of June 30, 2013, the Center had invested funds in repurchase agreements, a negotiable certificate of deposit, and non-negotiable certificates of deposit. Except for non-participating investment contracts, investments are reported at fair value which is based on quoted market prices. Non-participating investment contracts, such as nonnegotiable certificates of deposit and repurchase agreements, are reported at cost.

Under existing Ohio statutes, all investment earnings are assigned to the general fund unless required to be credited to a specific fund by statute or by policy of the Board. Interest revenue credited to the general fund during fiscal year 2013 amounted to \$10,312, which includes \$2,550 assigned from other funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the Center's investment account at year end is provided in Note 4.

G. Capital Assets

General capital assets are those assets related to activities reported in the governmental funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position, 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 year. Donated capital assets are recorded at their fair market values as of the date received. The Center maintains a capitalization threshold of \$2,000. 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. The Center does not possess infrastructure.

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
LUCAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	40 years
Improvements Other than Buildings	20 years
Furniture, fixtures, and Equipment	5 - 15 years
Vehicles	5 years

H. Interfund Balances

On fund financial statements, receivables and payables resulting from cash deficits among the governmental activities are classified as “due to/from other funds”. These amounts are eliminated in the governmental type activities columns of the statement of net position.

I. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, “*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. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) benefits. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2013, 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 sick leave on employees expected to become eligible to retire in the future, all employees age fifty or greater with at least 10 years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2013 and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. Compensated absences will be paid from the fund from which the employee’s salaries are paid.

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
LUCAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

J. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund 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 and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Capital leases are recognized as a liability on the fund financial statements when due.

K. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Center is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable in the general fund.

Restricted - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Governing Board (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the Governing Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the Center for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the Governing Board, which includes giving the Treasurer the authority to constrain monies for intended purposes.

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
LUCAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The Center applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first, followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

L. Budget Stabilization Arrangement

The Center has established a budget stabilization reserve in accordance with authority established by State law. Additions to the budget stabilization reserve can only be made by formal resolution of the Board of Education. Expenditures out of the budget stabilization reserve can be made to offset future budget deficits or expenditures as approved by the Board of Education. At June 30, 2013, the balance in the budget stabilization reserve was \$412,340. This amount is included in unassigned fund balance of the general fund and in unrestricted net position on the statement of net position.

M. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. The net position component "net investment in capital assets," consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Center or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Amounts restricted for other purposes include amounts restricted for food service operations and professional growth programs.

The Center applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

N. Estimates

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

O. Interfund Activity

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/expenses to the funds that initially paid for them are not presented on the basic financial statements.

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
LUCAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

P. 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 the Center and that are either unusual in nature or infrequent in occurrence. The Center did not have any transactions that were considered a special or extraordinary item during year 2013.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2013, the Center has implemented GASB Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements", GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34", GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements", GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities", and GASB Statement No. 66, "Technical Corrections - 2012".

GASB Statement No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. An SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The implementation of GASB Statement No. 60 did not have an effect on the financial statements of the Center.

GASB Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. The Statement amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. Finally, the Statement also clarifies the reporting of equity interests in legally separate organizations. The implementation of GASB Statement No. 61 did not have an effect on the financial statements of the Center.

GASB Statement No. 62 codifies accounting and financial reporting guidance contained in pre-November 30, 1989 Financial Accounting Standards Board and American Institute of Certified Public Accountants pronouncements in an effort to codify all sources of GAAP for State and local governments so that they derive from a single source. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the Center.

GASB Statement No. 63 provides financial and reporting guidance for *deferred outflows of resources* and *deferred inflows of resources*, which are financial statement elements that are distinct from assets and liabilities. GASB Statement No. 63 standardizes the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's *net position*. The implementation of GASB Statement No. 63 has changed the presentation of the Center's financial statements to incorporate the concepts of net position, deferred outflows of resources, and deferred inflows of resources.

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LUCAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as *deferred outflows of resources* or *deferred inflows of resources*, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements *deferred outflows of resources* and *deferred inflows of resources*, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The implementation of GASB Statement No. 65 affected the ESC's financial statements to present certain items that were previously reported as liabilities as deferred inflows of resources.

GASB Statement No. 66 enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of GASB Statement No. 66 did not have an effect on the financial statements of the Center.

B. Prior Period Adjustment

The net position of the governmental activities has been restated to include the effects of capital assets, including buildings and improvements and furniture, fixtures, and equipment, constructed or acquired during the fiscal years ended June 30, 2010 and June 30, 2011 and not previously reported by the Center. These capital assets and their related accumulated depreciation balances had the following effect on the Center's net position at July 1, 2012:

	Governmental Activities
Net assets at June 30, 2013, as previously reported	\$ 5,352,569
Capital assets not previously reported	1,951,623
Less: Accumulated depreciation	(176,358)
Net position at July 1, 2012, restated	\$ 7,127,834

C. Deficit Fund Balances

Fund balances at June 30, 2013 included the following individual fund deficits:

Nonmajor governmental funds	Deficits
State and community highway safety	\$ 12,752
Improving teacher quality	6,675
Miscellaneous federal grants	73,238

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from negative cash balances outstanding at June 30, 2013 and adjustments for accrued liabilities. Negative fund cash balances resulted from a lag between disbursements and grant funding that was requested but not received by fiscal year-end.

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
LUCAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the Center into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Center treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are 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.

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or 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 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 repurchase agreement must exceed the principal value of the agreement 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 items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Protection of the Center’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 monies deposited with the institution.

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 the Center, 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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Deposits with Financial Institutions

At June 30, 2013, the carrying amount of all the Center deposits was \$3,907,409. Based on the criteria described in GASB Statement No. 40, “*Deposits and Investment Risk Disclosures*”, as of June 30, 2013, \$883,691 of the Center’s bank balance of \$4,013,732 was exposed to custodial risk as discussed below, while \$3,130,041 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the Center’s deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank 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 the Center.

The Center has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions’ trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Center to a successful claim by the FDIC.

B. Investments

As of June 30, 2013, the Center had the following investments:

Investment type	Fair Value	Investment Maturity				
		6 months or less	7 to 12 months	13 to 18 months	19 to 24 months	Greater than 24 months
Repurchase agreement	\$ 715,757	\$ 715,757	\$ -	\$ -	\$ -	\$ -
Negotiable certificate of deposit	99,145	-	-	-	-	99,145
Total	\$ 814,902	\$ 715,757	\$ -	\$ -	\$ -	\$ 99,145

The weighted average yield to maturity of the Center’s investments is 0.56 years.

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
LUCAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the Center's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: The federal agency securities underlying the Center's repurchase agreement were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. The Center's negotiable certificate of deposit was not rated. The Center's investment policy does not specifically address credit risk beyond requiring the Center to only invest in securities authorized by State statute.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent, but not in the Center's name. Of the Center's \$715,757 investment in repurchase agreements, the entire balance is collateralized by underlying securities that are held by the investment's counterparty, not in the name of the Center. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of securities subject to a repurchase agreement by 2%. The Center has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk: The Center places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the Center at June 30, 2013:

<u>Investment type</u>	<u>Fair Value</u>	<u>Percent of Total</u>
Repurchase agreement	\$ 715,757	87.83
Negotiable certificate of deposit	99,145	12.17
Total	<u>\$ 814,902</u>	<u>100.00</u>

C. Reconciliation of Cash and Investments to the Statement of Net Position

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2013:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 3,907,409
Investments	<u>814,902</u>
Total	<u>\$ 4,722,311</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 4,392,973
Agency fund	<u>329,338</u>
Total	<u>\$ 4,722,311</u>

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
LUCAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund transfers for the fiscal year ended June 30, 2013, consisted of the following, as reported on the fund financial statements:

<u>Transfers from general fund to:</u>	<u>Amount</u>
Other grants fund	101,968
Nonmajor governmental funds	24
<u>Transfers to general fund from:</u>	
Other grants fund	6,980
Nonmajor governmental funds	<u>5</u>
Total transfers	<u>\$ 108,977</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations and (3) move debt proceeds to the fund which is required to expend them.

The transfers to the general fund from the other grants fund and nonmajor governmental funds were made during fiscal year 2013 to close out grant funds.

- B. Interfund balances at June 30, 2013, as reported on the fund financial statements, consist of the following amounts due to/from other funds:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General fund	Nonmajor governmental funds	<u>\$ 123,640</u>

The primary purpose of the due to/from other funds is to cover the negative cash balances at fiscal year-end in the nonmajor governmental funds. The interfund balances will be repaid once the anticipated revenues are received.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2013 consisted of accounts (billings for user charged services and student fees), accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the stable condition of State programs and the current year guarantee of federal funds. A summary of the items of receivables reported on the statement of net position follows:

Governmental activities:

Accounts	\$ 8,332
Accrued interest	786
Intergovernmental	<u>969,554</u>
Total	<u>\$ 978,672</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected in the subsequent year.

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Balance 6/30/12	Restatement	Restated Balance 7/1/2012	Additions	Deductions	Balance 6/30/13
Governmental activities:						
<i>Capital assets, not being depreciated:</i>						
Land	\$ 314,321	\$ -	\$ 314,321	\$ -	\$ -	\$ 314,321
Total capital assets, not being depreciated	<u>314,321</u>	<u>-</u>	<u>314,321</u>	<u>-</u>	<u>-</u>	<u>314,321</u>
<i>Capital assets, being depreciated:</i>						
Buildings and improvements	3,177,894	1,919,453	5,097,347	-	-	5,097,347
Improvements other than buildings	8,421	-	8,421	-	-	8,421
Furniture, fixtures, and equipment	2,015,147	32,170	2,047,317	57,650	(7,140)	2,097,827
Vehicles	34,573	-	34,573	-	-	34,573
Total capital assets, being depreciated	<u>5,236,035</u>	<u>1,951,623</u>	<u>7,187,658</u>	<u>57,650</u>	<u>(7,140)</u>	<u>7,238,168</u>
<i>Less: accumulated depreciation</i>						
Buildings and improvements	(519,984)	(167,167)	(687,151)	(202,706)	-	(889,857)
Improvements other than buildings	(4,036)	-	(4,036)	(421)	-	(4,457)
Furniture, fixtures, and equipment	(1,611,470)	(9,191)	(1,620,661)	(144,605)	7,140	(1,758,126)
Vehicles	(8,643)	-	(8,643)	(3,458)	-	(12,101)
Total accumulated depreciation	<u>(2,144,133)</u>	<u>(176,358)</u>	<u>(2,320,491)</u>	<u>(351,190)</u>	<u>7,140</u>	<u>(2,664,541)</u>
Governmental activities capital assets, net	<u>\$ 3,406,223</u>	<u>\$ 1,775,265</u>	<u>\$ 5,181,488</u>	<u>\$ (293,540)</u>	<u>\$ -</u>	<u>\$ 4,887,948</u>

Balances at July 1, 2012 have been restated to include the effects of buildings and improvements and furniture, fixtures, and equipment constructed or acquired in fiscal years 2010 and 2011 and not previously reported by the Center.

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 7 - CAPITAL ASSETS - (Continued)

Depreciation expense during fiscal year 2013 was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 2,742
Special	58,333
Vocational	945
Adult/continuing	803
Other instruction	303
<u>Support services:</u>	
Pupil	50,156
Instructional staff	129,468
Board of Education	107
Administration	28,903
Fiscal	9,898
Business	2,219
Operations and maintenance	25,974
Central	6,229
Operation of non-instructional services	<u>35,110</u>
Total depreciation expense	<u>\$ 351,190</u>

NOTE 8 - CAPITAL LEASES - LESSEE DISCLOSURE

During a prior fiscal year, the Center entered into a lease agreement for office equipment. The Center's lease obligation met the criteria of a capital lease. Capital lease payments are reflected as debt service expenditures in the basic financial statements. The general fund made payments of principal and interest in the amounts of \$2,216 and \$293, respectively on the capital lease during fiscal year 2013.

Capital assets consisting of furniture and equipment have been capitalized in the amount of \$10,800. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2013 was \$7,560, leaving a current book value of \$3,240. A corresponding liability was recorded in the government-wide financial statements.

The following is a schedule of the future long-term minimum lease payments required under capital lease and the present value of the minimum lease payments as of June 30, 2013:

<u>Fiscal Year Ending June 30,</u>	<u>Governmental Activities</u>
2014	\$ 2,509
2015	<u>1,255</u>
Total minimum lease payments remaining	3,764
Less: amount representing interest	<u>(176)</u>
Present value of minimum lease payments	<u>\$ 3,588</u>

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 9 - LONG-TERM OBLIGATIONS

During fiscal year 2013, the following activity occurred in governmental activities long-term obligations:

	Balance Outstanding 6/30/12	Additions	Reductions	Balance Outstanding 6/30/13	Amounts Due in One Year
Governmental activities:					
Compensated absences	\$ 1,751,748	\$ 460,399	\$ (373,698)	\$ 1,838,449	\$ 484,504
Capital lease obligation	<u>5,804</u>	-	<u>(2,216)</u>	<u>3,588</u>	<u>2,355</u>
Total long-term obligations, governmental activities	<u>\$ 1,757,552</u>	<u>\$ 460,399</u>	<u>\$ (375,914)</u>	<u>\$ 1,842,037</u>	<u>\$ 486,859</u>

Compensated absences will be paid from the fund from which the employee is paid, which for the Center, is primarily the general fund. See Note 8 for detail on the capital lease obligation.

NOTE 10 - RISK MANAGEMENT

Comprehensive

The Center does not have a “self-insurance” fund with formalized risk management programs.

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Center is a member of the SOEPC program (see Note 2.A. for detail). The SOEPC Program is a public entity risk pool established pursuant to ORC 9.833 in order to provide the following coverage:

Property (\$1,000 deductible)	\$1,000,000
Excess property	350,000,000
Flood & earthquake	1,000,000
Auto liability (\$5,000 per person medical payments)	1,000,000
Crime	500,000
Public employee dishonesty	500,000
Boiler and machinery (\$3,500 deductible)	250,000,000
General liability:	
Per occurrence	1,000,000
Aggregate per member	3,000,000
Educator’s legal liability (\$5,000 deductible)	1,000,000
Employee benefit liability:	
Per occurrence	1,000,000
Aggregate per member	3,000,000
Excess liability	
Per occurrence	5,000,000
Aggregate per member	5,000,000

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

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
LUCAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 11 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The Center contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "*Employers/Audit Resources*".

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current Center rate is 14 percent of annual covered payroll. A portion of the Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2013, 13.05 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2013, 2012, and 2011 were \$399,301, \$383,890, and \$403,130, respectively; 100 percent has been contributed for fiscal year 2013, 2012, and 2011.

B. State Teachers Retirement System of Ohio

Plan Description - The Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org, under "*Publications*".

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
LUCAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 11 - PENSION PLANS - (Continued)

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

Funding Policy - For fiscal year 2013, plan members were required to contribute 10 percent of their annual covered salaries. The Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2013, 2012, and 2011 were \$1,572,919, \$1,589,872, and \$1,674,185, respectively; 100 percent has been contributed for fiscal years 2013, 2012, and 2011. Contributions to the DC and Combined Plans for fiscal year 2013 amounted to \$92,578 made by the Center and \$66,127 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2013, certain members of the Board of Education have elected Social Security. The Center's liability is 6.2 percent of wages paid.

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The Center participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2013 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income, and the SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
LUCAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2013, 0.16 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2013, the actuarially determined amount was \$20,525.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The Center's contributions for health care (including surcharge) for the fiscal years ended June 30, 2013, 2012, and 2011 were \$54,706, \$66,453, and \$129,539, respectively; 100 percent has been contributed for fiscal years 2013, 2012, and 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2013, this actuarially required allocation was 0.74 percent of covered payroll. The Center's contributions for Medicare Part B for the fiscal years ended June 30, 2013, 2012, and 2011 were \$22,556, \$22,671, and \$25,942, respectively; 100 percent has been contributed for fiscal years 2013, 2012, and 2011.

B. State Teachers Retirement System of Ohio

Plan Description - The Center contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org, under "Publications" or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2013, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Center's contributions for health care for the fiscal years ended June 30, 2013, 2012, and 2011 were \$120,994, \$122,298, and \$128,783, respectively; 100 percent has been contributed for fiscal years 2013, 2012, and 2011.

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
LUCAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 13 - STATE AND LOCAL FUNDING

A. State Funding

State funding in Education Service Centers (ESCs) is provided to support basic operations and statutorily mandated services. It consists of two major categories - unit funding for gifted and preschool handicapped units and a per pupil allocation.

Unit Funding - Funding for an approved unit g is based on a (1) a salary allowance for the teacher, psychologist, etc. in charge of the unit, (2) a non-salary unit allowance for preschool classroom units, related services, and a gifted allowance, and (3) a supplemental unit allowance for classroom units, other preschool special education units, and for gifted units.

Per Pupil Base Funding - Ohio Revised Code 3317.11(F) provides for the State to pay ESCs \$37 per pupil or \$40.52 per pupil for multi-county ESCs to help support their basic operations and provision of services to school districts, community schools, chartered non-public schools and county and State run juvenile detention facilities. The Average Daily Membership (ADM) is calculated as the K-12 ADM of member districts minus the E-school ADM minus the ADM of community schools that are sponsored by another ESC plus the ADM of community schools that are sponsored by the ESC in question plus the handicapped ADM.

B. Local Funding

Approximately two-thirds of the funding for ESCs comes from the member districts they serve through deductions or transfers that the Ohio Department of Education (ODE) makes out of State foundation to the ESCs. A number of calculations comprise this deduction.

Special Education Extended Service - Since the State stopped paying for extended service, special education extended service has become a local responsibility. It is paid at the daily rate on the minimum salary schedule, plus a fringe allowance up to a maximum number of days.

Supervisory Allowance - One of the major services provided by ESCs since their inception has been supervisory services for local districts. Each city or exempted village school district that enters into an agreement for services from an ESC under Section 3313.843 of the Ohio Revised Code also is considered to be provided supervisory services by the ESC. Supervisory services are financed annually through supervisory units, the cost of which is determined by a formula in statute.

\$6.50 Per Pupil Deduction - The ODE annually deducts from each local and client school district of each ESC, pursuant to Division (E) of Section 3317.023 of the Ohio Revised Code, and pays to the ESC an amount equal to \$6.50 times the school district's total student county. The Board of Education of any local or client school may agree to pay an amount in excess of \$6.50 per student in total student count. If a majority of Boards of Education of local school districts within an ESCs territory approve an amount in excess of \$6.50 per student in total student county, the department shall deduct the approved excess per student amount from all of the local school districts with the ESCs territory and pay the excess amount to the ESC. ESCs must notify ODE with a signed resolution of agreement of any per pupil amounts in excess of \$6.50 so proper deductions can be made.

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
LUCAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 13 - STATE AND LOCAL FUNDING - (Continued)

Service Contracts - Districts may set up service contracts with ESCs to pay for services above and beyond those covered by the above described funding sources. To receive payment pursuant to such contracts, or agreements, an ESC must furnish to the State a copy of the contract or written statement that clearly indicates the payments owed and is signed by the superintendent or treasurer of the responsible school district. These deductions are included in the ESC deduction of the foundation payment form. Instead of having contract amounts deducted by the State, ESCs may bill the districts directly. ESCs can also enter into agreements under Section 3313.844 of the Ohio Revised Code to provide services to community schools.

NOTE 14 - CONTINGENCIES

A. Grants

The Center receives significant financial assistance from numerous federal, state and local 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Center; however, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the Center.

B. Litigation

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

NOTE 15 - OTHER COMMITMENTS

The Center utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the Center's commitments for encumbrances in the governmental funds were as follows:

Fund	Year-End Encumbrances
General	\$ 53,899
Auxiliary services	11,229
Other grants	13,468
Nonmajor governmental	177,668
Total	\$ 256,264

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**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
LUCAS COUNTY**

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

FEDERAL GRANTOR/ <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Education:</i>			
<i>Nutrition Cluster:</i>			
National School Lunch Program	10.555	\$ 19,564	\$ 19,564
School Breakfast Program	10.553	7,295	7,295
TOTAL U.S. DEPARTMENT OF AGRICULTURE		26,859	26,859
U.S. DEPARTMENT OF TRANSPORTATION			
<i>Passed Through Ohio Department of Public Safety:</i>			
<i>Highway Safety Cluster:</i>			
State and Community Highway Safety	20.600	53,734	60,532
Incentive Grant Program to Increase Motorcyclist Safety	20.612	1,370	
TOTAL U.S. DEPARTMENT OF TRANSPORTATION		55,104	60,532
U.S. DEPARTMENT OF DEFENSE			
<i>Direct Assistance</i>			
Jr R.O.T.C.	12.556	55,208	55,208
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)	84.027	1,955,210	1,922,509
Special Education_Grants to States (IDEA, Part B): Early Learning	84.027	11,541	11,446
Special Education_Grants to States (IDEA, Part B): Parent Mentoring	84.027	24,445	23,852
<i>Total CFDA # 84.027</i>		<u>1,991,196</u>	<u>1,957,807</u>
Special Education_Preschool Grants (IDEA, Part B)			
Early Childhood Special Education	84.173	116,556	86,658
<i>Total Special Education Cluster</i>		<u>2,107,752</u>	<u>2,044,465</u>
Special Education_State Personnel Development (IDEA, Part D)	84.323	21,901	18,640
Improving Teacher Quality State Grants: Toledo Diocese	84.367	192,935	191,903
Improving Teacher Quality State Grants: Ohio Principal Evaluation System	84.367A	47,815	53,368
<i>Total Improving Teacher Quality State Grants</i>		<u>240,750</u>	<u>245,271</u>
Education Secondary Transition Specialist	84.235U	24,892	5,672
ARRA - Race to the Top	84.395	72,331	47,321
TOTAL U.S. DEPARTMENT OF EDUCATION		2,467,626	2,361,369
TOTAL FEDERAL AWARDS RECEIPTS AND EXPENDITURES		\$ 2,604,797	\$ 2,503,968

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE.

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
LUCAS COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports the Educational Service Center of Lake Erie West (the Center's) federal award programs' receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The Center commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the Center assumes it expends federal monies first



Dave Yost • Auditor of State

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

Educational Service Center of Lake Erie West
Lucas County
2275 Collingwood Boulevard
Toledo, Ohio 43620-1148

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center of Lake Erie West, Lucas County, Ohio (the Center) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements and have issued our report thereon dated March 6, 2014, wherein we noted the Center implemented Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities* and where we noted the Center restated their capital assets for items not previously reported.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Center's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Center's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Center's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2013-001 described in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the Center'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, opining 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*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Center's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

March 6, 2014



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Educational Service Center of Lake Erie West
Lucas County
2275 Collingwood Boulevard
Toledo, Ohio 43620-1148

To the Governing Board:

Report on Compliance for Each Major Federal Program

We have audited the Educational Service Center of Lake Erie West's, Lucas County, Ohio (the Center), compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the Educational Service Center of Lake Erie West's major federal program for the year ended June 30, 2013. The *Summary of Audit Results* in the accompanying schedule of findings identifies the Center's major federal program.

Management's Responsibility

The Center's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the Center's compliance for each of the Center's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the Center's major program. However, our audit does not provide a legal determination of the Center's compliance.

Opinion on the Major Federal Program

In our opinion, the Educational Service Center of Lake Erie West, Lucas County, Ohio complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2013.

Report on Internal Control Over Compliance

The Center's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the Center's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Center's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

This report only describes the scope of our internal control compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

March 6, 2014

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
FULTON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2013**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unmodified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	No
(d)(1)(vii)	Major Programs (list):	Special Education Cluster: • Special Education Grants to States - CFDA # 84.027 • Special Education Pre-school Grants - CFDA # 84.173
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

FINDING NUMBER 2013-001

Material Weakness

Capital Asset Records

Generally Accepted Accounting Principles (GAAP) requires the Educational Service Center of Lake Erie West (the Center) to maintain an accurate record of its capital assets. The Center's capital asset records were not consistent with those from the prior year's audited balances, which resulted in a restatement of capital assets in the amount of \$1,775,265 in buildings and improvements. The Center restated the beginning balance of capital assets from \$5,352,569 to \$7,127,834. This was the result of the Center not recording construction improvement projects from fiscal years 2009 and 2010 on the financial statements.

We recommend the Center maintain adequate documentation and reports for the recording of capital assets including, but not limited to, changes in capitalization threshold, acquisitions, deletions, and depreciation. The documentation should be reviewed for accuracy and completeness and incorporated into the GAAP financial statement preparation process for proper reporting of capital assets on the Center's financial statements.

Officials' Response:

The asset valuation was significantly increased due to additional building projects that was overlooked during the proper accounting period because of staff transitions having taken place. The ESC will be conducting an inventory in the Spring of 2014.

3. FINDINGS FOR FEDERAL AWARDS

None



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EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST

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
MARCH 25, 2014**