



Dave Yost • Auditor of State

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
LUCAS COUNTY
JUNE 30, 2016**

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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, 2016, 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, as of June 30, 2016, 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.

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*, and schedules of net pension liabilities and pension contributions 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 Schedule of Receipts and Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates 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 3, 2017, 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 3, 2017

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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, 2016
(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, 2016. 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 2016 are as follows:

- In total, net position of governmental activities increased \$1,885,362 which represents a 7.84 percent increase from fiscal year 2015.
- General revenues accounted for \$1,610,574 in revenue or 7.15 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$20,925,721 or 92.85 percent of total revenues of \$22,536,295.
- The Center had \$20,650,933 in expenses related to governmental activities; all of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily unrestricted grants and entitlements) of \$1,610,574 also supported the Center's programs.
- The Center's major governmental funds are the general fund, the auxiliary services fund, and the Title VI-B fund. The general fund had \$15,236,130 in revenues and other financing sources and \$13,343,071 in expenditures and other financing uses. During fiscal year 2016, the general fund's fund balance increased \$1,893,509 from a balance of \$7,678,527 to \$9,571,586 as a result of billing member districts for additional services.
- The auxiliary services fund had \$3,462,294 in revenues and \$3,489,283 in expenditures during fiscal year 2016.
- The Title VI-B fund had \$2,347,242 in revenues and \$2,267,610 in expenditures during fiscal year 2016.

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 Title VI-B fund are 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, 2016
(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 2016?" 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, the auxiliary services fund, and the Title VI-B 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, 2016
(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.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the net pension liability in this report after the notes to the basic 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 2016 and 2015.

	Governmental Activities 2016	Governmental Activities 2015
	<u>2016</u>	<u>2015</u>
<u>Assets</u>		
Current and other assets	\$ 12,031,938	\$ 10,714,776
Capital assets	<u>4,251,372</u>	<u>4,445,330</u>
Total assets	<u>16,283,310</u>	<u>15,160,106</u>
<u>Deferred outflows of resources</u>		
	<u>3,300,566</u>	<u>2,267,565</u>
<u>Liabilities</u>		
Current liabilities	1,368,120	1,718,269
Long-term liabilities:		
Due within one year	200,365	272,519
Due in more than one year:		
Net pension liability	34,949,157	32,552,126
Other amounts	<u>1,006,937</u>	<u>1,040,635</u>
Total liabilities	<u>37,524,579</u>	<u>35,583,549</u>
<u>Deferred inflows of resources</u>		
	<u>4,225,510</u>	<u>5,895,697</u>
<u>Net Position</u>		
Net investment in capital assets	4,251,372	4,445,330
Restricted	347,179	433,064
Unrestricted (deficit)	<u>(26,764,764)</u>	<u>(28,929,969)</u>
Total net position (deficit)	<u>\$ (22,166,213)</u>	<u>\$ (24,051,575)</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2016, the Center's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$22,166,213. Of this total, a deficit of \$26,764,764 is unrestricted in use, which is a result of reporting the net pension liability required by GASB Statement No. 68.

At year-end, capital assets represented 26.11 percent of total assets. Capital assets include land, buildings and improvements, improvements other than buildings, and furniture, fixtures and equipment and vehicles. The Center's investment in capital assets at June 30, 2016, was \$4,251,372. These capital assets are used to provide services to the students and are not available for future spending.

A portion of the Center's net position, \$347,179 represents resources that are subject to external restriction on how they may be used.

Governmental Activities

The net position of the Center's governmental activities increased \$1,855,362. Total governmental expenses of \$20,650,933 were offset by program revenues of \$20,925,721 and general revenues of \$1,610,574. Program revenues supported all of the total governmental expenses for fiscal years 2016 and 2015.

The primary sources of revenue for governmental activities are derived from charges for services. This revenue source represents 75.76 percent of total governmental revenue.

The largest expense of the Center is for support services. Support services expenses totaled \$12,445,284 or 60.26 percent of total governmental expenses for fiscal 2016.

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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, 2016
(UNAUDITED)

The table below shows the changes in net position for fiscal years 2016 and 2015.

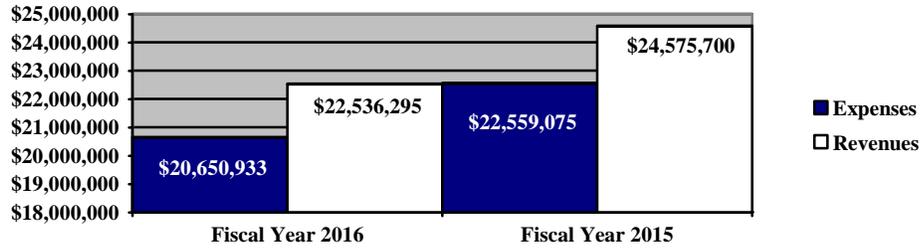
	Changes in Net Position	
	Governmental Activities 2016	Governmental Activities 2015
<u>Revenues</u>		
Program Revenues:		
Charges for services and sales	\$ 17,057,826	\$ 19,055,700
Operating grants and contributions	3,867,895	3,985,980
General revenues:		
Grants and entitlements	1,265,486	1,249,110
Investment earnings	23,459	16,599
Other	321,629	268,311
Total revenues	<u>22,536,295</u>	<u>24,575,700</u>
Program expenses:		
Instruction:		
Regular	3,864	25,047
Special	4,524,184	5,135,833
Vocational	-	9
Adult/continuing	63,809	35,254
Support services:		
Pupil	3,138,344	3,802,581
Instructional staff	4,425,167	4,530,295
Board of education	26,250	21,739
Administration	2,418,761	2,528,746
Fiscal	980,356	1,032,862
Business	91,496	85,069
Operations and maintenance	876,908	987,444
Pupil transportation	432	12,926
Central	487,570	427,806
Operation of non-instructional services:		
Food service operations	18,261	28,689
Other non-instructional services	3,595,531	3,904,753
Interest and fiscal charges	-	22
Total expenses	<u>20,650,933</u>	<u>22,559,075</u>
Change in net position	1,885,362	2,016,625
Net position (deficit) at beginning of year	<u>(24,051,575)</u>	<u>(26,068,200)</u>
Net position (deficit) at end of year	<u>\$ (22,166,213)</u>	<u>\$ (24,051,575)</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

The graph below presents the Center's governmental activities revenue and expenses for fiscal years 2016 and 2015.

Governmental Activities - Revenues and Expenses



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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, 2016
(UNAUDITED)

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.

	Total Cost of Services <u>2016</u>	Net Cost of Services <u>2016</u>	Total Cost of Services <u>2015</u>	Net Cost of Services <u>2015</u>
Program expenses				
Instruction:				
Regular	\$ 3,864	\$ (1,075)	\$ 25,047	\$ (395)
Special	4,524,184	152,087	5,135,833	(109,209)
Vocational	-	-	9	(11,089)
Adult/continuing	63,809	(42,270)	35,254	9,074
Support services:				
Pupil	3,138,344	268,828	3,802,581	(230,306)
Instructional staff	4,425,167	37,229	4,530,295	(173,136)
Board of education	26,250	9,258	21,739	(292)
Administration	2,418,761	(29,986)	2,528,746	34,296
Fiscal	980,356	13,881	1,032,862	1,359
Business	91,496	5,004	85,069	3,001
Operations and maintenance	876,908	(21,546)	987,444	15,629
Pupil transportation	432	1,483	12,926	1,074
Central	487,570	(12,334)	427,806	17,030
Operation of non-instructional services:				
Food service operations	18,261	(3,232)	28,689	8,181
Other non-instructional services	3,595,531	(102,539)	3,904,753	(47,844)
Interest and fiscal charges	<u>-</u>	<u>-</u>	<u>22</u>	<u>22</u>
Total expenses	<u>\$ 20,650,933</u>	<u>\$ 274,788</u>	<u>\$ 22,559,075</u>	<u>\$ (482,605)</u>

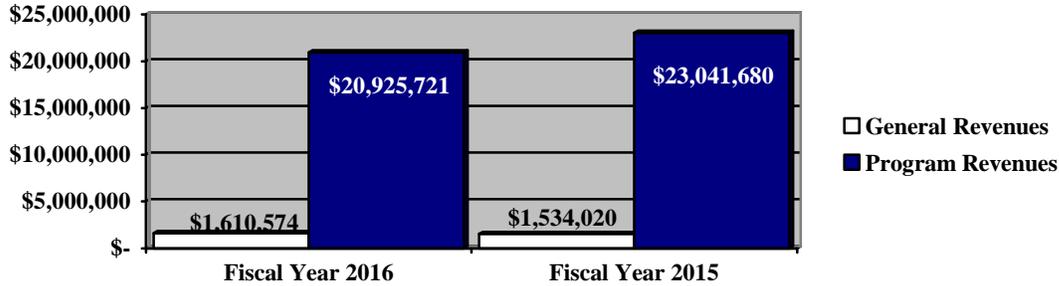
Governmental activities were entirely supported by program revenues for fiscal years 2016 and 2015. The primary support of the Center is tuition and contracted fees for services provided to school districts. These revenues decreased during 2015 due to a change in legislation effecting ESC funding. See Note 12 to the notes to the basic financial statements for detail.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)

The graph below presents the Center's governmental activities revenue for fiscal years 2016 and 2015.

Governmental Activities - General and Program Revenues



The Center's Funds

The Center's governmental funds reported a combined fund balance of \$10,550,075, which is higher than last year's total of \$8,667,224. The schedule below indicates the fund balances and the changes in fund balances as of June 30, 2016 and 2015.

Funds	Fund Balance June 30, 2016	Fund Balance June 30, 2015	Increase (Decrease)	Percentage Change
General	\$ 9,571,586	\$ 7,678,527	\$ 1,893,059	24.65 %
Auxiliary services	232,757	259,746	(26,989)	(10.39) %
Title VI-B	105,119	25,487	79,632	312.44 %
Nonmajor governmental	640,613	703,464	(62,851)	(8.93) %
Total	\$ 10,550,075	\$ 8,667,224	\$ 1,882,851	21.72 %

General Fund

The Center's general fund balance increased \$1,893,059. The table that follows shows the revenues of the general fund for fiscal years 2016 and 2015.

Revenues	2016 Amount	2015 Amount	Increase (Decrease)	Percentage Change
Tuition	\$ 5,782,498	\$ 7,731,428	\$ (1,948,930)	(25.21) %
Earnings on investments	23,459	16,599	6,860	41.33 %
Customer services	7,732,083	7,309,350	422,733	5.78 %
Intergovernmental	1,265,487	1,249,110	16,377	1.31 %
Other revenues	432,276	392,566	39,710	10.12 %
Total	\$ 15,235,803	\$ 16,699,053	\$ (1,463,250)	(8.76) %

Overall, revenues of the general fund decreased 8.76 percent during fiscal year 2016. Tuition revenue decreased \$1,948,930 from fiscal year 2015 as a result of less contract revenue paid by local school schools. The Center billed member districts for more services, resulting in increased customer services revenue. Earnings on the Center's investments increased from fiscal year 2015 as a result of higher interest rates. Meanwhile, intergovernmental revenues increased based on the amount of per-pupil foundation revenue received from the state of Ohio for fiscal year 2016.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)

Expenditures	2016 Amount	2015 Amount	Increase (Decrease)	Percentage Change
Instruction	\$ 4,096,459	\$ 4,792,285	\$ (695,826)	(14.52) %
Support services	8,829,562	9,923,817	(1,094,255)	(11.03) %
Non-instructional services	59,538	127,266	(67,728)	(53.22) %
Facilities acquisition and construction	82,225	35,786	46,439	129.77 %
Debt service	-	1,255	(1,255)	(100.00) %
Total	<u>\$ 13,067,784</u>	<u>\$ 14,880,409</u>	<u>\$ (1,812,625)</u>	(12.18) %

Instruction expenditures and support services decreased 14.52 and 11.03 percent, respectively, from fiscal year 2015. Less expenditures related to ALC programs contributed to an increase in spending for non-instructional services. Facilities acquisition and construction expenditures for various repairs throughout the Center's buildings increased, while debt service expenditures decreased as the capital lease obligation was fully paid during fiscal year 2015.

Auxiliary Services Fund

The auxiliary services fund had \$3,462,294 in revenues and \$3,489,283 in expenditures. During fiscal year 2016, the auxiliary services fund's fund balance decreased \$26,989 to a balance of \$232,757.

Title VI-B Fund

The Title VI-B fund had \$2,347,242 in revenues and \$2,267,610 in expenditures. During fiscal year 2016, the Title VI-B fund's fund balance increased \$79,632 to a balance of \$105,119.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2016 the Center had \$4,251,372 invested in land, buildings and improvements, improvements other than buildings, furniture, fixtures and equipment, and vehicles. This entire amount is reported in governmental activities. The table that follows shows the balances of the Center's capital assets at June 30, 2016 compared to balances at June 30, 2015.

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

	Governmental Activities	
	2016	2015
Land	\$ 314,321	\$ 314,321
Building and improvements	3,642,583	3,807,463
Improvements other than buildings	2,701	6,772
Furniture, fixtures, and equipment	279,667	301,216
Vehicles	<u>12,100</u>	<u>15,558</u>
Total	<u>\$ 4,251,372</u>	<u>\$ 4,445,330</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)

The overall decrease in capital assets during fiscal year 2016 resulted from depreciation expense of \$235,437 exceeding capital outlay of \$83,542 and disposals (net of accumulated depreciation) of \$42,063 during the current period.

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

Debt Administration

The Center had no debt obligations outstanding as of June 30, 2016.

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.

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

STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities
Assets:	
Equity in pooled cash and investments	\$ 11,188,636
Receivables:	
Accounts	22,877
Accrued interest	473
Intergovernmental	757,563
Prepayments	62,389
Capital assets:	
Nondepreciable capital assets	314,321
Depreciable capital assets, net	3,937,051
Capital assets, net	4,251,372
Total assets	16,283,310
Deferred outflows of resources:	
Pension - STRS	2,708,655
Pension - SERS	591,911
Total deferred outflows of resources	3,300,566
Liabilities:	
Accounts payable	62,804
Accrued wages and benefits payable	1,095,035
Intergovernmental payable	24,385
Pension and postemployment benefits payable	180,576
Unearned revenue	5,320
Long-term liabilities:	
Due within one year	200,365
Due in more than one year:	
Net pension liability (See Note 10)	34,949,157
Other amounts due in more than one year	1,006,937
Total long-term liabilities	206,951,059
Total liabilities	37,524,579
Deferred inflows of resources:	
Pension - STRS	4,023,994
Pension - SERS	201,516
Total deferred inflows of resources	4,225,510
Net position:	
Investment in capital assets	4,251,372
Restricted for:	
Locally funded programs	207,566
State funded programs	42,991
Federally funded programs	86,864
Other purposes	9,758
Unrestricted (deficit)	(26,764,764)
Total net position (deficit)	\$ (22,166,213)

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, 2016

	<u>Program Revenues</u>			<u>Net (Expense)</u>
	<u>Expenses</u>	<u>Charges for</u>	<u>Operating Grants</u>	<u>Revenue and</u>
		<u>Services and Sales</u>	<u>and Contributions</u>	<u>Changes in</u>
				<u>Net Position</u>
				<u>Governmental</u>
				<u>Activities</u>
Governmental activities:				
Instruction:				
Regular	\$ 3,864	\$ 1,540	\$ 1,249	\$ (1,075)
Special	4,524,184	4,410,373	265,898	152,087
Adult/continuing	63,809	12,480	9,059	(42,270)
Support services:				
Pupil	3,138,344	3,253,332	153,840	268,828
Instructional staff	4,425,167	1,824,226	2,638,170	37,229
Board of education	26,250	35,508	-	9,258
Administration	2,418,761	2,089,370	299,405	(29,986)
Fiscal	980,356	863,579	130,658	13,881
Business	91,496	96,348	152	5,004
Operations and maintenance	876,908	691,040	164,322	(21,546)
Pupil transportation	432	1,915	-	1,483
Central	487,570	445,975	29,261	(12,334)
Operation of non-instructional services:				
Food service operations	18,261	-	15,029	(3,232)
Other non-instructional services	3,595,531	3,332,140	160,852	(102,539)
Total governmental activities	<u>\$ 20,650,933</u>	<u>\$ 17,057,826</u>	<u>\$ 3,867,895</u>	<u>274,788</u>
General revenues:				
Grants and entitlements not restricted to specific programs				1,265,486
Investment earnings				23,459
Miscellaneous				321,629
Total general revenues				<u>1,610,574</u>
Change in net position				1,885,362
Net position (deficit) at beginning of year				<u>(24,051,575)</u>
Net position (deficit) at end of year				<u>\$ (22,166,213)</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, 2016

	<u>General</u>	<u>Auxiliary Services</u>	<u>Title VI-B</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and investments	\$ 10,081,744	\$ 362,238	\$ 94,140	\$ 650,514	\$ 11,188,636
Receivables:					
Accounts	21,187	-	-	1,690	22,877
Accrued interest	473	-	-	-	473
Intergovernmental	394,920	222,309	35,479	104,855	757,563
Prepayments	62,389	-	-	-	62,389
Due from other funds	64,725	-	-	-	64,725
Total assets	<u>\$ 10,625,438</u>	<u>\$ 584,547</u>	<u>\$ 129,619</u>	<u>\$ 757,059</u>	<u>\$ 12,096,663</u>
Liabilities:					
Accounts payable	47,842	178	6,049	8,735	62,804
Accrued wages and benefits payable	767,208	306,498	13,342	7,987	1,095,035
Compensated absences payable	18,819	-	-	-	18,819
Intergovernmental payable	17,047	4,011	3,211	116	24,385
Pension and postemployment benefits payable	126,066	41,103	1,898	11,509	180,576
Due to other funds	-	-	-	64,725	64,725
Unearned revenue	-	-	-	5,320	5,320
Total liabilities	<u>976,982</u>	<u>351,790</u>	<u>24,500</u>	<u>98,392</u>	<u>1,451,664</u>
Deferred inflows of resources:					
Tuition revenue not available	6,000	-	-	-	6,000
Customer services revenue not available	65,778	-	-	1,490	67,268
Miscellaneous revenue not available	5,092	-	-	-	5,092
Intergovernmental revenue not available	-	-	-	16,564	16,564
Total deferred inflows of resources	<u>76,870</u>	<u>-</u>	<u>-</u>	<u>18,054</u>	<u>94,924</u>
Fund balances:					
Nonspendable:					
Prepays	62,389	-	-	-	62,389
Restricted:					
Public school preschool	-	-	-	14,636	14,636
Special education	-	-	105,119	6,067	111,186
Food service operations	-	-	-	327	327
Vocational education	-	-	-	18,178	18,178
Other purposes	-	-	-	235,892	235,892
Committed:					
Auxiliary services	-	232,757	-	-	232,757
Other preschool base programs	-	-	-	181,028	181,028
Technology	25,713	-	-	-	25,713
Community school operations	1,453,203	-	-	-	1,453,203
Other purposes	308,462	-	-	50	308,512
Assigned:					
Student instruction	326	-	-	-	326
Student and staff support	85,438	-	-	-	85,438
Facilities acquisition and construction	274,136	-	-	-	274,136
Staff development	-	-	-	189,145	189,145
Operation of non-instructional services	868	-	-	-	868
Unassigned (deficit)	7,361,051	-	-	(4,710)	7,356,341
Total fund balances	<u>9,571,586</u>	<u>232,757</u>	<u>105,119</u>	<u>640,613</u>	<u>10,550,075</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 10,625,438</u>	<u>\$ 584,547</u>	<u>\$ 129,619</u>	<u>\$ 757,059</u>	<u>\$ 12,096,663</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, 2016

Total governmental fund balances		\$	10,550,075
<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.			4,251,372
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds:			
Accounts receivable	78,360		
Intergovernmental receivable	16,564		
Total			94,924
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows of resources are not reported in governmental funds:			
Deferred outflows of resources - pension	3,300,566		
Deferred inflows of resources - pension	(4,225,510)		
Net pension liability	(34,949,157)		
Total			(35,874,101)
Long-term liabilities (compensated absences payable) are not due and payable in the current period and therefore are not reported in the funds.			(1,188,483)
Net position of governmental activities		\$	(22,166,213)

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, 2016

	<u>General</u>	<u>Auxiliary Services</u>	<u>Title VI-B</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
From local sources:					
Tuition	\$ 5,782,498	\$ -	\$ -	\$ -	\$ 5,782,498
Earnings on investments	23,459	505	-	-	23,964
Classroom materials and fees	109,082	-	-	16,305	125,387
Customer services	7,732,083	3,461,789	-	117,646	11,311,518
Rental income	165,166	-	-	180	165,346
Contributions and donations	500	-	-	8,606	9,106
Other local revenues	157,528	-	-	97,376	254,904
Intergovernmental - state	1,265,487	-	-	1,076,388	2,341,875
Intergovernmental - federal	-	-	2,347,242	333,379	2,680,621
Total revenues	15,235,803	3,462,294	2,347,242	1,649,880	22,695,219
Expenditures:					
Current:					
Instruction:					
Regular	-	-	-	5,346	5,346
Special	4,094,700	148,437	-	282,924	4,526,061
Adult/continuing	1,759	-	-	62,254	64,013
Support services:					
Pupil	3,004,658	8,486	24,705	132,144	3,169,993
Instructional staff	1,744,770	-	1,720,209	998,697	4,463,676
Board of education	26,117	-	-	-	26,117
Administration	1,994,058	115	226,288	194,723	2,415,184
Fiscal	860,921	-	86,879	44,482	992,282
Business	89,811	-	-	682	90,493
Operations and maintenance	674,652	-	140,380	29,341	844,373
Pupil transportation	438	-	-	-	438
Central	434,137	-	20,105	31,480	485,722
Operation of non-instructional services:					
Food service operations	-	-	-	18,261	18,261
Other non-instructional services	59,538	3,332,245	49,044	187,684	3,628,511
Facilities acquisition and construction	82,225	-	-	-	82,225
Total expenditures	13,067,784	3,489,283	2,267,610	1,988,018	20,812,695
Excess (deficiency) of revenues over (under) expenditures	2,168,019	(26,989)	79,632	(338,138)	1,882,524
Other financing sources (uses):					
Sale of assets	327	-	-	-	327
Transfers in	-	-	-	275,287	275,287
Transfers (out)	(275,287)	-	-	-	(275,287)
Total other financing sources (uses)	(274,960)	-	-	275,287	327
Net change in fund balances	1,893,059	(26,989)	79,632	(62,851)	1,882,851
Fund balances at beginning of year	7,678,527	259,746	25,487	703,464	8,667,224
Fund balances at end of year	\$ 9,571,586	\$ 232,757	\$ 105,119	\$ 640,613	\$ 10,550,075

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, 2016

Net change in fund balances - total governmental funds	\$	1,882,851
<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	\$ 83,542	
Current year depreciation	<u>(235,437)</u>	
Total		(151,895)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net position.		
		(42,063)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Tuition revenue	(97,330)	
Miscellaneous revenues	3,124	
Customer services revenue	(64,426)	
Rental income	(4,689)	
Intergovernmental	<u>4,397</u>	
Total		(158,924)
Contractually required pension contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows.		
		1,821,720
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
		(1,515,563)
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 governmental funds.		
		<u>49,236</u>
Change in net position of governmental activities	\$	<u><u>1,885,362</u></u>

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, 2016

	Agency
Assets:	
Equity in pooled cash and investments.	\$ 152,123
Receivables:	
Intergovernmental	27,431
Total assets.	\$ 179,554
Liabilities:	
Accounts payable	\$ 1,275
Accrued wages and benefits	8,700
Compensated absences.	67,901
Pension and postemployment benefits payable . .	1,218
Intergovernmental payable	100,460
Total liabilities	\$ 179,554

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, 2016

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 11 administrators, 180 full-time and part-time certified employees, and 77 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, 2016

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

As of June 30, 2016, 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.

Ohio Schools' Council Association

The Ohio Schools' Council Association (Council) is a jointly governed organization among 200 school districts, educational service centers, joint vocational districts and Developmental Disabilities boards in 34 northern Ohio counties. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any district is limited to its representation on the Board. Financial information can be obtained by contacting William Zelei, Executive Director of the Ohio Schools Council at 6393 Oak Tree Blvd., Suite 377, Independence, Ohio, 44131.

The Center participates in the Council's prepaid natural gas purchase program. This program allows school districts to purchase natural gas at reduced rates. Each September, these estimated payments are compared to their actual usage for the year (July to June). Districts that paid more in estimated billings than their actual billings are issued credits on future billings beginning in September until the credits are exhausted and districts that did not pay enough on estimated billings are invoiced for the difference on the September monthly estimated billing.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

The Council has partnered with the Ohio Association of Business Officials, the Ohio School Boards Association and the Buckeye Association of School Administrators to form the Power4Schools program to bring savings on electric generation costs and budget certainty to Ohio public schools by pooling purchasing power statewide. Power4Schools has selected FirstEnergy Solutions as its exclusive provider for school districts in the Ohio Edison, The Illuminating Company, Toledo Edison, Duke Energy, and AEP Ohio Power service areas.

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 2016, the Center paid \$118,363 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.

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.

Title VI-B fund - This fund accounts for providing appropriate public education to all children with disabilities.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

Deferred Outflows of Resources and Deferred Inflows of Resources - In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Center, See Note 10 for deferred outflows of resources related the Center's net pension liability.

In addition to liabilities, both the government-wide statement of net position and the governmental fund financial statements report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Center, deferred inflows of resources include unavailable revenue. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the Center unavailable revenue includes, but is not limited to delinquent tuition, customer services, rental income, miscellaneous revenue and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

For the Center, See Note 10 for deferred inflows of resources related to the Center's net pension liability. This deferred inflow of resources is only reported on the government-wide statement of net position.

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 fund.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

As of June 30, 2016, the Center had invested funds in 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 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 2016 amounted to \$23,459, which includes \$2,283 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.

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:

Description	Governmental Activities <u>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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

I. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. At fiscal year-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is nonspendable in the fund financial statements by an amount equal to the carrying value of the assets.

J. 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, 2016, 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, 2016 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.

K. Accrued Liabilities and Long-Term Obligations

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

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

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, net pension liability 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.

L. 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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

M. 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, 2016, the balance in the budget stabilization reserve was \$4,045,451. This amount is included in unassigned fund balance of the general fund and in unrestricted net position on the statement of net position.

N. 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 "investment in capital assets," consists of capital assets, net of accumulated depreciation. 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 miscellaneous federal grants 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.

O. 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.

P. 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.

Q. 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 2016.

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

R. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

T. Fair Market Value

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2016, the Center has implemented GASB Statement No. 72, "Fair Value Measurement and Application", GASB Statement No. 73 "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68", GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", and GASB Statement No. 79, "Certain External Investment Pools and Pool Participants".

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurement. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the Center.

GASB Statement No. 73 improves the usefulness of information about pensions included in the general purposes external financial reports of state and local governments for making decisions and assessing accountability. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the Center.

GASB Statement No. 76 identifies - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the Center.

GASB Statement No. 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the Center.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances

Fund balances at June 30, 2016 included the following individual fund deficits:

<u>Nonmajor governmental funds</u>	<u>Deficit</u>
State/community highway safety	\$ 760
Improving teacher quality	3,950

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

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;

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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.

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, 2016, the carrying amount of all the Center deposits, including \$9,700,972 in non-negotiable certificates of deposits, was \$11,240,725. Based on the criteria described in GASB Statement No. 40, "*Deposits and Investment Risk Disclosures*", as of June 30, 2016, \$1,088,599 of the Center's bank balance of \$11,688,810 was exposed to custodial risk as discussed below, while \$10,600,211 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, 2016, the Center had the following investment:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity</u> 19 to 24 months
Negotiable certificate of deposit	\$ 100,034	\$ 100,034

The weighted average yield to maturity of the Center's investment is 1.57 years.

The Center's investments in negotiable certificates of deposit are valued using quoted market prices (Level 1 inputs).

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 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 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, 2016:

<u>Investment type</u>	<u>Fair Value</u>	<u>Percent of Total</u>
Negotiable certificate of deposit	\$ 100,034	100.00

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, 2016:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 11,240,725
Investments	100,034
Total	<u>\$ 11,340,759</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 11,188,636
Agency fund	152,123
Total	<u>\$ 11,340,759</u>

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund transfers for the fiscal year ended June 30, 2016, consisted of the following, as reported on the fund financial statements:

<u>Transfers from general fund to:</u>	<u>Amount</u>
Nonmajor special revenue funds:	
Food service	\$ 4,516
Other grants	270,422
Special enterprise	<u>349</u>
Total transfers	<u>\$ 275,287</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.

B. Interfund balances at June 30, 2016, as reported on the fund financial statements, consist of the following amounts due to/from other funds:

<u>Receivable fund</u>	<u>Payable funds</u>	<u>Amount</u>
General fund	Nonmajor special revenue funds:	
	Motorcycle safety and education	\$ 4,441
	State and community highway safety	11,238
	Improving teacher quality	3,950
	Miscellaneous federal grants	<u>45,096</u>
Total due to/due from other funds		<u>\$ 64,725</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

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, 2016 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	\$ 22,877
Accrued interest	473
Intergovernmental	<u>757,563</u>
Total	<u>\$ 780,913</u>

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

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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, 2016

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	Balance 7/1/2015	Additions	Deductions	Balance 6/30/16
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 314,321	\$ -	\$ -	\$ 314,321
Total capital assets, not being depreciated	<u>314,321</u>	<u>-</u>	<u>-</u>	<u>314,321</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	5,097,347	72,912	(45,730)	5,124,529
Improvements other than buildings	12,071	-	(3,650)	8,421
Furniture, fixtures, and equipment	2,035,832	10,630	(17,379)	2,029,083
Vehicles	34,573	-	-	34,573
Total capital assets, being depreciated	<u>7,179,823</u>	<u>83,542</u>	<u>(66,759)</u>	<u>7,196,606</u>
<i>Less: accumulated depreciation</i>				
Buildings and improvements	(1,289,884)	(199,379)	7,317	(1,481,946)
Improvements other than buildings	(5,299)	(421)	-	(5,720)
Furniture, fixtures, and equipment	(1,734,616)	(32,179)	17,379	(1,749,416)
Vehicles	(19,015)	(3,458)	-	(22,473)
Total accumulated depreciation	<u>(3,048,814)</u>	<u>(235,437)</u>	<u>24,696</u>	<u>(3,259,555)</u>
Governmental activities capital assets, net	<u>\$ 4,445,330</u>	<u>\$ (151,895)</u>	<u>\$ (42,063)</u>	<u>\$ 4,251,372</u>

Depreciation expense during fiscal year 2016 was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 2,211
Special	52,298
Adult/continuing	223
<u>Support services:</u>	
Pupil	36,264
Instructional staff	36,550
Board of Education	133
Administration	28,909
Fiscal	9,701
Business	1,003
Operations and maintenance	26,984
Central	3,913
Operation of non-instructional services	<u>37,248</u>
Total depreciation expense	<u>\$ 235,437</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 8 - LONG-TERM OBLIGATIONS

During fiscal year 2016, the following activity occurred in governmental activities long-term obligations:

	<u>Balance</u> <u>06/30/15</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>06/30/16</u>	<u>Amounts</u> <u>due in</u> <u>one year</u>
Governmental activities:					
Compensated absences payable	\$ 1,313,154	\$ 202,233	\$ (308,085)	\$ 1,207,302	\$ 200,365
Net pension liability:					
STRS	26,976,586	1,595,819	-	28,572,405	-
SERS	<u>5,575,540</u>	<u>801,212</u>	<u>-</u>	<u>6,376,752</u>	<u>-</u>
Total net pension liability	<u>32,552,126</u>	<u>2,397,031</u>	<u>-</u>	<u>34,949,157</u>	<u>-</u>
Total long-term obligations	<u>\$ 33,865,280</u>	<u>\$ 2,599,264</u>	<u>\$ (308,085)</u>	<u>\$ 36,156,459</u>	<u>\$ 200,365</u>

Compensated Absences - Compensated absences will be paid from the fund from which the employee is paid, which for the Center, is primarily the general fund.

Net Pension Liability - The Center pays obligations related to employee compensation from the fund benefitting from their service. See Note 10 for details.

NOTE 9 - 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:

Real and personal property (\$5,000 maintenance deductible)	\$1,000,000
Excess property - per occurrence	350,000,000
Flood - annual aggregate	10,000,000
Earthquake - annual aggregate	25,000,000
Business auto:	
Limit of liability - per occurrence	1,000,000
Self-insured retention - auto liability	150,000
Auto medical payments - per person (non-students excluded)	5,000
Self-insured retention - auto physical damage	150,000
Comprehensive & collision deductible	1,000
Garage liability - any auto (each accident)	1,000,000

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 - RISK MANAGEMENT - (Continued)

Crime (\$5,000 deductible per occurrence):	
Money & securities (within premises)	\$500,000
Money & securities (outside premises)	500,000
Commercial blanket bond - public employee dishonesty	500,000
Depositors forgery	500,000
Boiler and machinery:	
Property damage	250,000,000
Hazardous substance	10,000,000
Spoilage damage	100,000,000
General liability:	
Per occurrence	1,000,000
Self-insurance retention	150,000
Aggregate per member	3,000,000
Sexual abuse/molestation - per occurrence	1,000,000
Sexual abuse/molestation - aggregate per member	1,000,000
Employers liability-stop gap coverage - per occurrence	1,000,000
School Board legal liability and employment practices liability:	
Each loss and aggregate for each policy year - per member	1,000,000
Employment practices violation and Title IX	1,000,000
Breach of contract - aggregate per member	25,000
Personal injury and wrongful acts - aggregate per member	100,000
IEP claims - aggregate per member	250,000
Integration and/or desegregation - aggregate per member	100,000
Wage and hour claims - aggregate per member	100,000
Wrongful acts - aggregate per member	100,000
Excess liability:	
Per occurrence	3,000,000
Aggregate per member	3,000,000
Cyber and technology liability:	
Combined policy - aggregate limit	5,000,000
Sublimit	1,000,000
Site pollution incident:	
Per incident/district aggregate	1,000,000
Total policy aggregate	5,000,000
Deductible (except mold and legionella)	25,000
Deductible - mold and legionella	50,000
Fiduciary liability:	
Aggregate limit	1,000,000

Settled claims have not exceeded this coverage in any of the past three years. Excess liability coverage was reduced from \$5,000,000 to \$3,000,000 and aggregate coverage for site pollution was reduced from \$10,000,000 to \$5,000,000 from the prior year.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 10 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the Center’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

The Ohio Revised Code limits the Center’s obligation for this liability to annually required payments. The Center cannot control benefit terms or the manner in which pensions are financed; however, the Center does receive the benefit of employees’ services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan’s unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *pension and postemployment benefits payable* on both the accrual and modified accrual bases of accounting.

Plan Description - School Employees Retirement System (SERS)

Plan Description –Center non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

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NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Center is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the entire 14 percent was allocated to pension, death benefits, and Medicare B and no portion of the employer contribution rate was allocated to the Health Care Fund.

The Center’s contractually required contribution to SERS was \$428,819 for fiscal year 2016. Of this amount, \$6,377 is reported as pension and postemployment benefits payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description –Center licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS’ fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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 DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability 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 – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. The Center was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The Center's contractually required contribution to STRS was \$1,392,901 for fiscal year 2016. Of this amount, \$125,526 is reported as pension and postemployment benefits payable.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Center's proportion of the net pension liability was based on the Center's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate share of the net pension liability	\$ 6,376,752	\$ 28,572,405	\$ 34,949,157
Proportion of the net pension liability	0.11175330%	0.10338433%	
Pension expense	\$ 425,586	\$ 1,089,977	\$ 1,515,563

At June 30, 2016, the Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 102,287	\$1,315,754	\$1,418,041
Changes in proportionate share	60,805	-	60,805
Center contributions subsequent to the measurement date	<u>428,819</u>	<u>1,392,901</u>	<u>1,821,720</u>
Total deferred outflows of resources	<u>\$ 591,911</u>	<u>\$2,708,655</u>	<u>\$3,300,566</u>
Deferred inflows of resources			
Net difference between projected and actual earnings on pension plan investments	\$ 201,516	\$2,308,805	\$2,510,321
Changes in proportionate share	<u>-</u>	<u>1,715,189</u>	<u>1,715,189</u>
Total deferred inflows of resources	<u>\$ 201,516</u>	<u>\$4,023,994</u>	<u>\$4,225,510</u>

\$1,821,720 reported as deferred outflows of resources related to pension resulting from Center contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

Fiscal Year Ending June 30:	SERS	STRS	Total
2017	\$ (54,337)	\$ (972,752)	\$ (1,027,089)
2018	(54,337)	(972,752)	(1,027,089)
2019	(54,337)	(972,751)	(1,027,088)
2020	124,587	210,015	334,602
Total	\$ (38,424)	\$ (2,708,240)	\$ (2,746,664)

Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22.00 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	<u>15.00</u>	7.50
Total	<u><u>100.00 %</u></u>	

Discount Rate - The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Changes Between Measurement Date and Report Date - In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in the discount rate from 7.75 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the Center's net pension liability is expected to be significant.

Sensitivity of the Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
Center's proportionate share of the net pension liability	\$ 8,842,263	\$ 6,376,752	\$ 4,300,588

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	<u>1.00</u>	3.00
Total	<u>100.00 %</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

Sensitivity of the Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the Center's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the Center's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Center's proportionate share of the net pension liability	\$ 39,689,226	\$ 28,572,405	\$ 19,171,475

NOTE 11 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Health Care Plan Description - The Center contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) 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 as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, none of the employer contribution was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the Center's surcharge obligation was \$50,029.

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 11 - POSTEMPLOYMENT BENEFITS - (Continued)

The Center's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$50,029, \$90,674, and \$61,667, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

B. State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS 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. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal years 2016 and 2015, STRS did not allocate any employer contributions to post-employment health care. The Center's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$114,422, respectively. The full amount has been contributed for fiscal year 2014.

NOTE 12 - STATE AND LOCAL FUNDING

The main sources of revenues of Educational Service Center (ESC) funding are the local funds that are deducted from the state foundation funding of the client districts and transferred to the ESC under ORC Sections 3313.843 or 3313.845 as well as state funds that are distributed directly to the ESCs based on parameters listed in Ohio Revised Code (ORC) Sections 263.220 and 263.390. Additionally, ESCs can apply to any state or federal agency for competitive grants.

A. State Funding

ORC Sections 263.220 and 263.390 provide for direct state funding of the ESCs for the general purpose of program maintenance and service delivery to client school districts.

State Per-Pupil Funding - One component of state funding is predicated on the per-pupil amounts of \$33 and \$35 in fiscal years 2016 and 2017, respectively. The per-pupil amount is applied to the total count of students of the client districts these entities serve. The law provides for \$37,950,000 and \$41,400,000 in fiscal years 2016 and 2017, respectively, for this purpose. As the appropriation for this funding is set and the funding is based on a constant per-pupil amount, it is often necessary and authorized by law for the fund distribution to be prorated in order to stay within the appropriations. As the data changes during the course of a fiscal year, so does the proration rate to maintain the appropriated levels.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 12 - STATE AND LOCAL FUNDING - (Continued)

State Gifted Funding - Another component of the state funding of ESCs is for gifted education. Under this section of the law the Ohio Department of Education (ODE) is authorized to set aside \$3,800,000 of the total statewide appropriation slated for Foundation Funding for ESC gifted education. ODE is to distribute this funding through the unit-based funding methodology in place under ORC Section 3317.024(L), ORC Section 3317.05(E) and ORC Section 3317.035(A), (B) and (C) as they existed prior to fiscal year 2010. These sections of the law provide for the cost of each gifted unit to be predicated on the salary and fringes of the full time equivalent of the personnel involved at 15% of the salary figure as well as any additional unit allowances the law allows. The law also provides for the proration of the resulting state funding if the appropriation is not sufficient.

In addition to the above-mentioned funding from the state, ESCs also receive funding to cover the costs associated with the transportation of special needs students and for special equipment needed for such transportation. This aid is calculated as the lesser of the actual cost reported or the sum of \$6 per pupil per day plus half of the amount by which the actual cost exceeds \$6 per pupil per day. The state covers 60% of this amount.

B. Local Funding

ORC Section 3313.843 Contracts

Presently the law provides that city, exempted village and local school districts with an average daily enrollment of 16,000 or less must enter into an agreement with an ESC under ORC Section 3313.843. The services the ESC provides to the client district under this section may include a variety of services including special education for students with special needs. Since ESCs have no legal taxing or bonding authority they must depend on revenues from member school districts.

Local Per-Pupil Funding - ORC Section 3313.843(H) provides that pursuant to provisions of ORC Section 3317.023 the ODE annually shall deduct from each school district that enters into an agreement with an ESC under this section, a per-pupil amount of \$6.50 or an alternative amount in excess of \$6.50 if agreed upon by both the ESC and the client districts to be paid to the ESC. The per-pupil amount is multiplied by the school age students count of the client district as reported on the latest Report Card.

Local Preschool Funding - In addition to services provided to school age children, ESCs can also provide preschool services to children with disabilities who are under the age of 6 and are not enrolled in kindergarten. Under the provisions of ORC 3317.0213, the ODE shall compute and pay additional state aid to school districts for preschool children with disabilities. The state funding for preschool services goes directly to the school district based on the count of students the district reports. The district can choose to provide the services itself or contract with an ESC. Preschool funding will be calculated based on parameters specified in ORC Section 3317.0213(A). If the district provides the services itself, then the funding will remain with the district. If on the other hand the district contracts with an ESC, the calculated funding will be deducted from the foundation payment of the district and sent to the ESC.

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 12 - STATE AND LOCAL FUNDING - (Continued)

School districts and ESCs can also agree on an alternative payment mechanism or they can agree on bypassing ODE altogether and base the payments directly from the district to the ESC. Should the district use these services for the preschool children and have ODE deduct the foundation from its foundation funding, the ESC funding will be based on a constant per-pupil amount of \$4,000 applied to the total count of all preschool children with disabilities plus special education per-pupil amounts as specified in the law, applied to each one of the 6 categories of special education preschool children. For this purpose special education preschool children are classified into 6 categories in accordance with their handicapping condition. The law provides for a unique per-pupil amount for each one of the categories that is applied at 50% strength to the number of children in the respective category. To wealth equalize this funding the law also calls for the application of the state share index which is the measure of the state contribution to the foundation formula of the district to this part of the funding calculation.

ORC Section 3313.845 Contracts

Service Contracts – In addition to service contracts under ORC Section 3313.843, districts may set up contracts with ESCs for various services based on agreed upon fees beyond those covered by ORC Section 3313.843 contracts. Funds for those contractual services can be deducted from contracting school districts' foundation calculation and sent to the appropriate ESCs. To receive payment for these contracts an ESC must furnish the ODE with a copy of the contract or a written statement clearly indicating the amount of the contract for each contracting school district. ESCs also have the option of billing school districts directly for these contracts instead of having the state deduct the contract amounts from their foundation funding.

NOTE 13 - 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. School Foundation

School district Foundation funding is based on the annualized full-time (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school students must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula ODE is legislatively required to follow will continue to adjust as enrollment information is updated by the school districts, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 or June 30, 2016 Foundation funding for the Center; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the Center. A portion of the Center's foundation receipts are determined by FTE of the member school districts.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 13 - CONTINGENCIES - (Continued)

C. Litigation

The Center is involved in pending legal litigation, but the impact is undetermined at this time.

NOTE 14 - 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:

<u>Fund</u>	<u>Year-End Encumbrances</u>
General	\$ 360,768
Auxiliary services	21,066
Title VI-B	101,396
Nonmajor governmental	<u>77,175</u>
Total	<u>\$ 560,405</u>

REQUIRED SUPPLEMENTARY INFORMATION

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CENTER'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST THREE FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Center's proportion of the net pension liability	0.111753300%	0.11016800%	0.11016800%
Center's proportionate share of the net pension liability	\$ 6,376,752	\$ 5,575,540	\$ 6,551,337
Center's covered-employee payroll	\$ 3,364,355	\$ 3,201,263	\$ 3,048,100
Center's proportionate share of the net pension liability as a percentage of its covered-employee payroll	189.54%	174.17%	214.93%
Plan fiduciary net position as a percentage of the total pension liability	69.16%	71.70%	65.52%

Note: Information prior to fiscal year 2013 was unavailable.

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CENTER'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST THREE FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Center's proportion of the net pension liability	0.103384330%	0.11090770%	0.11090770%
Center's proportionate share of the net pension liability	\$ 28,572,405	\$ 26,976,586	\$ 32,134,333
Center's covered-employee payroll	\$ 10,835,579	\$ 11,331,700	\$ 12,099,377
Center's proportionate share of the net pension liability as a percentage of its covered-employee payroll	263.69%	238.06%	265.59%
Plan fiduciary net position as a percentage of the total pension liability	72.10%	74.70%	69.30%

Note: Information prior to fiscal year 2013 was unavailable.

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CENTER CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 428,819	\$ 443,422	\$ 443,695	\$ 421,857
Contributions in relation to the contractually required contribution	<u>(428,819)</u>	<u>(443,422)</u>	<u>(443,695)</u>	<u>(421,857)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Center's covered-employee payroll	\$ 3,062,993	\$ 3,364,355	\$ 3,201,263	\$ 3,048,100
Contributions as a percentage of covered-employee payroll	14.00%	13.18%	13.86%	13.84%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 406,561	\$ 429,072	\$ 494,151	\$ 348,926	\$ 376,618	\$ 367,537
<u>(406,561)</u>	<u>(429,072)</u>	<u>(494,151)</u>	<u>(348,926)</u>	<u>(376,618)</u>	<u>(367,537)</u>
<u>\$ -</u>					
\$ 3,022,758	\$ 3,413,461	\$ 3,649,564	\$ 3,545,996	\$ 3,835,214	\$ 3,441,358
13.45%	12.57%	13.54%	9.84%	9.82%	10.68%

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CENTER CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 1,392,901	\$ 1,516,981	\$ 1,473,121	\$ 1,572,919
Contributions in relation to the contractually required contribution	<u>(1,392,901)</u>	<u>(1,516,981)</u>	<u>(1,473,121)</u>	<u>(1,572,919)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Center's covered-employee payroll	\$ 9,949,293	\$ 10,835,579	\$ 11,331,700	\$ 12,099,377
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.00%	13.00%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 1,589,872	\$ 1,674,185	\$ 1,695,174	\$ 1,727,538	\$ 1,718,843	\$ 1,502,796
<u>(1,589,872)</u>	<u>(1,674,185)</u>	<u>(1,695,174)</u>	<u>(1,727,538)</u>	<u>(1,718,843)</u>	<u>(1,502,796)</u>
<u>\$ -</u>					
\$ 12,229,785	\$ 12,878,346	\$ 13,039,800	\$ 13,288,754	\$ 13,221,869	\$ 11,559,969
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Information about factors that significantly affect trends in the amounts reported in the schedules should be presented as notes to the schedule.

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for fiscal years 2014 - 2016.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2015 and 2016. See the notes to the basic financials for the methods and assumptions in this calculation.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for fiscal years 2014 - 2016.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014 - 2016. See the notes to the basic financials for the methods and assumptions in this calculation.

EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
LUCAS COUNTY

SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

FEDERAL GRANTOR/ <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Passed Through to Subrecipients	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			\$ 10,296	\$ 10,296
School Breakfast Program	10.553			4,275	4,275
TOTAL U.S. DEPARTMENT OF AGRICULTURE				14,571	14,571
U.S. DEPARTMENT OF TRANSPORTATION					
<i>Passed Through Ohio Department of Public Safety:</i>					
State and Community Highway Safety	20.600			71,720	71,764
U.S. DEPARTMENT OF DEFENSE					
<i>Direct Assistance</i>					
Jr. R.O.T.C.	12.556			69,445	69,445
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			2,287,201	2,255,489
Special Education_Grants to States (IDEA, Part B): Parent Mentoring				26,235	25,811
Total Special Education_Grants to States				2,313,436	2,281,300
Special Education_Preschool Grants	84.173			86,428	91,243
Special Education_Preschool Grants: Early Learning Discretionary				54,958	52,209
Total Special Education_Preschool Grants				141,386	143,452
Total Special Education Cluster				2,454,822	2,424,752
Special Education_State Personnel Development	84.323			60,541	100,488
Improving Teacher Quality State Grants: Toledo Diocese	84.367			41,161	-
Improving Teacher Quality State Grants: Ohio Teacher Evaluation System				809	3,950
Total Improving Teacher Quality State Grants				41,970	3,950
ARRA Race to the Top – Early Learning Challenge	84.412			10,154	14,172
ARRA - Race to the Top - Beginning Principal Mentor	84.395			8,126	23,250
TOTAL U.S. DEPARTMENT OF EDUCATION				2,575,613	2,566,612
TOTAL FEDERAL AWARDS RECEIPTS AND EXPENDITURES				\$ 2,731,349	\$ 2,722,392

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE.

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

**NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)**

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Receipts and Expenditures of Federal Awards (the Schedule) includes the federal award activity of Educational Service Center of Lake Erie West, Lucas County, Ohio (the Center) under programs of the federal government for the year ended June 30, 2016. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Center, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Center.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Receipts and expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments* (codified in 2 CFR Part 225), or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The Center has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE C - 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.

NOTE D – REFUND OF FEDERAL RECEIPTS

During fiscal year 2016, the District refunded the Ohio Department of Education \$438 for the Special Education IDEA, Part B: Parent Mentoring grant and \$81 for the Improving Teacher Quality: Toledo Diocese grant. Monies were refunded since the grant fiscal year had expired and there were no other expenditures made.

NOTE E - TRANSFERS BETWEEN PROGRAM YEARS

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. The Center transferred the following amounts from 2016 to 2017 programs:

Program Title	CFDA Number	Amt. Transferred
IDEA, Part B Special Education	84.027	\$ 586,805
IDEA, Early Childhood Special Education	84.173	18,259
State Personnel Development Grant	84.323	28,650
Early Learning Challenge	84.412	56,477



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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, 2106, 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 3, 2017.

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 opinion 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.

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 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

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 3, 2017



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

To the Governing Board:

Report on Compliance for the Major Federal Program

We have audited the Educational Service Center of Lake Erie West, Lucas County, Ohio's (the Center) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *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, 2016. The *Summary of Auditor's 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the Center's compliance for the Center's major federal program 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance 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, 2016.

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 the Uniform Guidance, 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 over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

March 3, 2017

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

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2016**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material weaknesses in internal control reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under 2 CFR § 200.516(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education Cluster
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee under 2 CFR §200.520?	No

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

None

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 16, 2017