



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

SINGLE AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2012



Dave Yost • Auditor of State

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

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INDEPENDENT ACCOUNTANTS' REPORT

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

To the Governing Board:

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, 2012, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the basic 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, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2013, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as 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 have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the Center's basic financial statements taken as a whole. The federal awards receipts and expenditures schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The federal awards receipts and expenditure schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information 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 information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

March 1, 2013

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(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, 2012. The intent of this discussion and analysis is to look at 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 2012 are as follows:

- In total, net assets of governmental activities decreased \$1,102,726 which represents a 17.08% decrease from 2011.
- General revenues accounted for \$2,927,726 in revenue or 12.38% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$20,711,652 or 87.62% of total revenues of \$23,639,378.
- The Center had \$24,742,104 in expenses related to governmental activities; \$20,711,652 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily unrestricted grants and entitlements) of \$2,927,726 were not adequate to provide for these programs.
- The Center's major governmental funds are the general fund, the auxiliary services fund and the other grants fund. The Center restated fund balance in accordance with GASB Statement No. 54 to reclassify the technology fund as a component of the general fund rather than as a component of the auxiliary services fund, see Note 3.B for detail. The general fund had \$16,360,699 in revenues and other financing sources and \$16,570,820 in expenditures and other financing uses. During fiscal year 2012, the general fund's fund balance decreased \$210,121 from a restated balance of \$2,400,435 to \$2,190,314.
- The auxiliary services fund had \$3,157,663 in revenues and \$3,014,646 in expenditures.
- The other grants fund had \$486,167 in revenues and other financing sources and \$869,999 in expenditures and other financing uses.

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 assets* and *statement of activities* provide information about the activities of the whole Center, presenting both an aggregate view of the Center's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Center's most significant funds with all other nonmajor funds presented in total in one column. In the case of the Center, the general fund, the auxiliary services fund and the other grants fund are by far the most significant funds, and the only governmental funds reported as major funds.

EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
LUCAS COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

Reporting the Center as a Whole

Statement of Net Assets 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 looks at all financial transactions and asks the question, "How did we do financially during 2012?" The statement of net assets and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account 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 assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Center as a whole, the *financial position* 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 assets and the statement of activities, the governmental activities include the Center's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, and food service operations.

Reporting the Center's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

Most of the Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than 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 you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the statement of net assets and the statement of activities) and governmental *funds* is reconciled in the 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 Net Assets. 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, 2012
(UNAUDITED)**

Notes to the Basic Financial Statements

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

The Center as a Whole

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

The table below provides a summary of the Center's net assets for 2012 and 2011.

	Net Assets	
	Governmental Activities	Governmental Activities
	<u>2012</u>	<u>2011</u>
<u>Assets</u>		
Current and other assets	\$ 5,544,991	\$ 6,533,959
Capital assets, net	<u>3,406,223</u>	<u>3,547,884</u>
Total assets	<u>8,951,214</u>	<u>10,081,843</u>
<u>Liabilities</u>		
Current liabilities	1,841,093	1,884,280
Long-term liabilities	<u>1,757,552</u>	<u>1,742,268</u>
Total liabilities	<u>3,598,645</u>	<u>3,626,548</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	3,400,419	3,539,994
Restricted	588,957	1,395,788
Unrestricted	<u>1,363,193</u>	<u>1,519,513</u>
Total net assets	<u>\$ 5,352,569</u>	<u>\$ 6,455,295</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2012, the Center's assets exceeded liabilities by \$5,352,569. Of this total, \$1,363,193 is unrestricted in use.

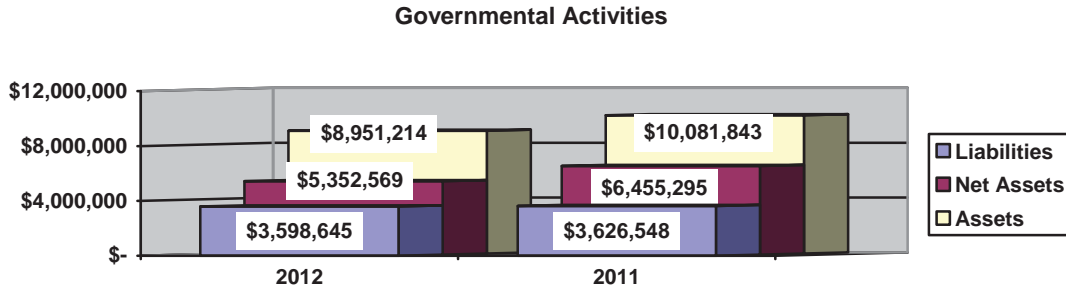
At year-end, capital assets represented 38.05% of total assets. Capital assets include land, buildings and improvements, improvements other than buildings, and furniture, fixtures and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2012, were \$3,400,419. These capital assets are used to provide services to the students and are not available for future spending. Although the Center's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the Center's net assets, \$588,957 represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$1,363,193 may be used to meet the Center's ongoing obligations to the students and creditors.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

The graph below illustrates the Center's governmental activities assets, liabilities and net assets at June 30, 2012 and 2011.



The table below shows the change in net assets for fiscal year 2012 and 2011.

Change in Net Assets

	Governmental Activities 2012	Governmental Activities 2011
<u>Revenues</u>		
Program Revenues:		
Charges for services and sales	\$ 16,336,061	\$ 17,239,717
Operating grants and contributions	4,375,591	4,827,881
General revenues:		
Grants and entitlements	2,705,405	2,791,559
Investment earnings	10,012	31,356
Other	212,309	138,668
Total revenues	<u>23,639,378</u>	<u>25,029,181</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

Change in Net Assets

	Governmental Activities <u>2012</u>	Governmental Activities <u>2011</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 16,680	\$ 33,972
Special	5,550,094	5,803,292
Vocational	101,786	116,156
Adult/continuing	51,494	54,555
Other	79,260	160,536
Support services:		
Pupil	5,746,438	5,866,468
Instructional staff	5,008,125	5,141,583
Board of education	25,754	27,876
Administration	2,334,436	2,748,700
Fiscal	1,218,789	1,201,593
Business	60,538	67,730
Operations and maintenance	981,127	1,181,199
Pupil transportation	43,132	2,450
Central	394,476	271,751
Food service operations	27,677	27,411
Other non-instructional services	3,101,875	3,115,541
Extracurricular activities		700
Interest and fiscal charges	<u>423</u>	<u>546</u>
Total expenses	<u>24,742,104</u>	<u>25,822,059</u>
Change in net assets	(1,102,726)	(792,878)
Net assets at beginning of year	<u>6,455,295</u>	<u>7,248,173</u>
Net assets at end of year	<u>\$ 5,352,569</u>	<u>\$ 6,455,295</u>

Governmental Activities

Net assets of the Center's governmental activities decreased \$1,102,726. Total governmental expenses of \$24,742,104 were offset by program revenues of \$20,711,652, and general revenues of \$2,927,726. Program revenues supported 83.71% of the total governmental expenses. The decrease in net assets, revenues, and expenses is a result of a reduction in State funding in the general fund and special revenue funds.

The primary sources of revenue for governmental activities are derived from charges for services. This revenue source represents 69.11% of total governmental revenue.

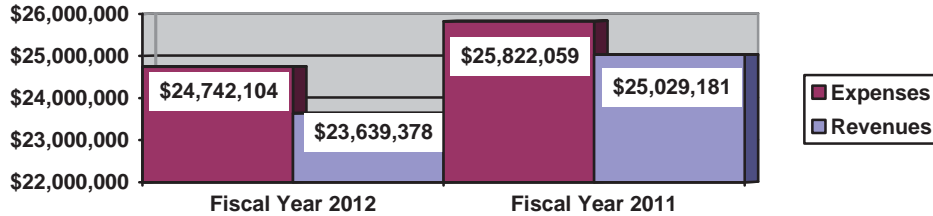
The largest expense of the Center is for support services. Support services expenses totaled \$15,812,815 or 63.91% of total governmental expenses for fiscal 2012.

The graph below presents the Center's governmental activities revenue and expenses for fiscal years 2012 and 2011.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

Governmental Activities - Revenues and Expenses



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities

	Total Cost of Services 2012	Net Cost of Services 2012	Total Cost of Services 2011	Net Cost of Services 2011
Program expenses				
Instruction:				
Regular	\$ 16,680	\$ 12,283	\$ 33,972	\$ 11,679
Special	5,550,094	1,000,135	5,803,292	1,763,871
Vocational	101,786	38,379	116,156	100,431
Adult/Continuing	51,494	33,469	54,555	(33,855)
Other	79,260	79,260	160,536	51,068
Support services:				
Pupil	5,746,438	1,088,508	5,866,468	10,921
Instructional staff	5,008,125	702,637	5,141,583	1,523,076
Board of education	25,754	25,754	27,876	27,876
Administration	2,334,436	364,396	2,748,700	226,796
Fiscal	1,218,789	244,445	1,201,593	(251,769)
Business	60,538	60,253	67,730	67,588
Operations and maintenance	981,127	191,170	1,181,199	322,279
Pupil transportation	43,132	41,016	2,450	2,093
Central	394,476	83,013	271,751	142,253
Food service operations	27,677	1,587	27,411	(3,178)
Other non-instructional services	3,101,875	63,724	3,115,541	(207,289)
Extracurricular activities			700	75
Interest and fiscal charges	423	423	546	546
Total expenses	\$ 24,742,104	\$ 4,030,452	\$ 25,822,059	\$ 3,754,461

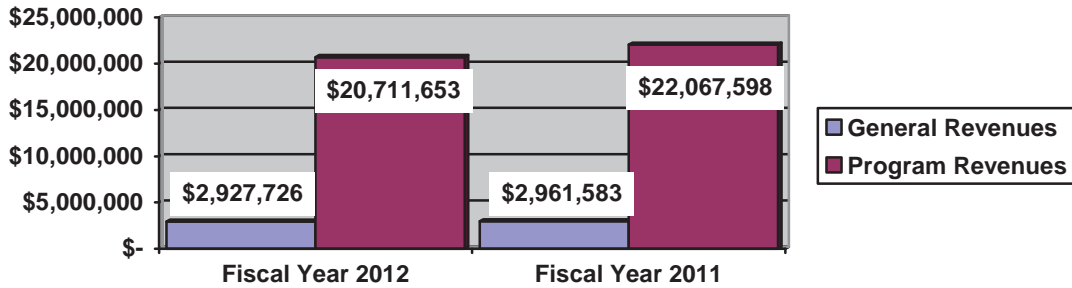
For all governmental activities, program revenue support is 83.71%. The primary support of the Center is contracted fees for services provided to other school districts.

The graph below presents the Center's governmental activities revenue for fiscal years 2012 and 2011.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

Governmental Activities - General and Program Revenues



The Center's Funds

The Center's governmental funds reported a combined fund balance of \$3,377,075 which is lower than last year's total of \$3,862,790. See Note 3.B for detail on the restatement made at the beginning of the year for a fund reclassification between the general and auxiliary services fund. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2012 and 2011.

	Fund Balance June 30, 2012	(Restated) Fund Balance June 30, 2011	Increase (Decrease)	Percentage Change
General	\$ 2,190,314	\$ 2,400,435	\$ (210,121)	(8.75) %
Auxiliary services	372,170	229,153	143,017	62.41 %
Other grants	588,903	972,735	(383,832)	(39.46) %
Other governmental	225,688	260,467	(34,779)	(13.35) %
Total	\$ 3,377,075	\$ 3,862,790	\$ (485,715)	(12.57) %

An analysis of the general fund revenues and expenditures is provided in the section below. The decrease in the fund balance of the other governmental funds is due to transfers out in several funds to close out grant programs. In addition, the other governmental funds received less federal and state funding during fiscal year 2012.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

General Fund

The Center's general fund balance decreased \$210,121. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	2012 <u>Amount</u>	Restated 2011 <u>Amount</u>	Increase (Decrease)	Percentage Change
<u>Revenues</u>				
Customer services	\$ 6,432,607	\$ 6,416,654	\$ 15,953	0.25 %
Tuition	6,793,002	7,146,052	(353,050)	(4.94) %
Earnings on investments	10,012	52,601	(42,589)	(80.97) %
Intergovernmental	2,705,405	2,794,559	(89,154)	(3.19) %
Other revenues	<u>228,156</u>	<u>155,182</u>	<u>72,974</u>	47.02 %
 Total	 <u>\$ 16,169,182</u>	 <u>\$ 16,565,048</u>	 <u>\$ (395,866)</u>	 (2.39) %
<u>Expenditures</u>				
Instruction	\$ 5,142,049	\$ 5,426,407	\$ (284,358)	(5.24) %
Support services	11,214,333	11,312,830	(98,497)	(0.87) %
Non-instructional services	118,786	152,941	(34,155)	(22.33) %
Facilities acquisition and construction	6,406	100,895	(94,489)	(93.65) %
Debt service	<u>2,509</u>	<u>2,509</u>		%
 Total	 <u>\$ 16,484,083</u>	 <u>\$ 16,995,582</u>	 <u>\$ (511,499)</u>	 (3.01) %

Earnings on investments decreased due to lower interest rates and fewer dollars to invest. Tuition revenue decreased due to decreased enrollment. Other revenues increased due to the increase in rental revenues. The Center paid significantly more in facilities acquisition and construction in 2011 than 2012 for HVAC capital improvements. The decrease in instruction is due to decreased enrollment and services provided to entities serviced by the Center.

Auxiliary Services Fund

The auxiliary services fund had \$3,157,663 in revenues and \$3,014,646 in expenditures. During fiscal year 2012, the auxiliary services fund's fund balance increased \$143,017 to \$372,170.

Other Grants Fund

The other grants fund had \$486,167 in revenues and other financing sources and \$869,999 in expenditures and other financing uses. During fiscal year 2012, the other grants fund's fund balance decreased \$383,832 to \$588,903.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2012, the Center had \$3,406,223 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 following table shows fiscal 2012 balances compared to 2011:

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

	Governmental Activities	
	2012	2011
Land	\$ 314,321	\$ 314,321
Building and improvements	2,657,910	2,764,842
Improvements other than buildings	4,385	4,806
Furniture, fixtures and equipment	403,677	434,528
Vehicles	25,930	29,387
Total	\$ 3,406,223	\$ 3,547,884

The overall decrease in capital assets of \$141,661 is due to depreciation expense of \$252,243 exceeding capital outlays of \$110,582 in the fiscal year.

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

Debt Administration

At June 30, 2012, the Center had a lease agreement of \$5,804. Of this total \$2,216 is due within one year and \$3,588 is due in greater than one year. See Note 9 to the basic financial statements for additional information on the Center's debt obligations.

Current Financial Related Activities

The Center is financially solvent. As the preceding information shows, the Center relies heavily on contracts with local, city, and exempted village school districts in Lucas County, 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 by e-mail at RCox@esclakeeriewest.org.

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

STATEMENT OF NET ASSETS
JUNE 30, 2012

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents	\$ 4,346,955
Receivables:	
Accounts	6,103
Accrued interest	201
Intergovernmental	1,191,732
Capital assets:	
Land	314,321
Depreciable capital assets, net	3,091,902
Capital assets, net	3,406,223
 Total assets	 8,951,214
 Liabilities:	
Accounts payable	131,320
Accrued wages and benefits	1,391,883
Intergovernmental payable	108,695
Pension obligation payable	209,195
Long-term liabilities:	
Due within one year	293,713
Due in more than one year	1,463,839
	1,757,552
 Total liabilities	 3,598,645
 Net Assets:	
Invested in capital assets, net of related debt	3,400,419
Restricted for:	
Locally funded programs	312,701
State funded programs	56,960
Federally funded programs	205,757
Food service operations	9,465
Other purposes	4,074
Unrestricted	1,363,193
	1,931,087
 Total net assets	 \$ 5,352,569

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, 2012

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	
Governmental activities:				
Instruction:				
Regular	\$ 16,680	\$ 659	\$ 3,738	\$ (12,283)
Special	5,550,094	4,303,666	246,293	(1,000,135)
Vocational	101,786	63,359	48	(38,379)
Adult/continuing	51,494	3,759	14,266	(33,469)
Other	79,260			(79,260)
Support services:				
Pupil	5,746,438	3,983,268	674,662	(1,088,508)
Instructional staff	5,008,125	1,775,777	2,529,711	(702,637)
Board of education	25,754			(25,754)
Administration	2,334,436	1,661,979	308,061	(364,396)
Fiscal	1,218,789	841,344	133,000	(244,445)
Business	60,538	144	141	(60,253)
Operations and maintenance	981,127	587,869	202,088	(191,170)
Pupil transportation	43,132	1,067	1,049	(41,016)
Central	394,476	305,904	5,559	(83,013)
Operation of non-instructional services:				
Food service operations	27,677	1,070	25,020	(1,587)
Other non-instructional services	3,101,875	2,806,196	231,955	(63,724)
Interest and fiscal charges	423			(423)
Totals	\$ 24,742,104	\$ 16,336,061	\$ 4,375,591	(4,030,452)
		General Revenues:		
		Grants and entitlements not restricted to specific programs		
				2,705,405
				10,012
				212,309
				2,927,726
				(1,102,726)
				6,455,295
				\$ 5,352,569

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	<u>General</u>	<u>Auxiliary Services</u>	<u>Other Grants</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and cash equivalents	\$ 3,185,432	\$ 544,999	\$ 595,482	\$ 21,042	\$ 4,346,955
Receivables:					
Accounts	3,748		2,355		6,103
Intergovernmental	373,289	226,310	4,500	587,633	1,191,732
Accrued interest	201				201
Due from other funds	165,381				165,381
Total assets	<u>\$ 3,728,051</u>	<u>\$ 771,309</u>	<u>\$ 602,337</u>	<u>\$ 608,675</u>	<u>\$ 5,710,372</u>
Liabilities:					
Accounts payable	\$ 61,034	\$ 31,250	\$ 5,803	\$ 33,233	\$ 131,320
Accrued wages and benefits	1,069,283	273,217		49,383	1,391,883
Intergovernmental payable	86,274	13,251	883	8,287	108,695
Compensated absences payable	95,737	2,422		16,844	115,003
Pension obligation payable	159,459	36,778	5,973	6,985	209,195
Due to other funds				165,381	165,381
Deferred revenue	65,950	42,221	775	102,874	211,820
Total liabilities	<u>1,537,737</u>	<u>399,139</u>	<u>13,434</u>	<u>382,987</u>	<u>2,333,297</u>
Fund Balances:					
Restricted:					
Food service operations				9,465	9,465
Public school preschool				28,119	28,119
Special education				195,702	195,702
Targeted academic assistance				31,085	31,085
Vocational education				5,100	5,100
Other purposes			312,701	37,580	350,281
Committed:					
Auxiliary services		372,170			372,170
Other purposes	529,454				529,454
Community school operations	754,955				754,955
Preschool and base programs			134,231		134,231
Assigned:					
Student instruction	897				897
Student and staff support	88,049				88,049
Facilities acquisition and construction	1,254				1,254
Staff development			141,971		141,971
Unassigned (deficit)	815,705			(81,363)	734,342
Total fund balances	<u>2,190,314</u>	<u>372,170</u>	<u>588,903</u>	<u>225,688</u>	<u>3,377,075</u>
Total liabilities and fund balances	<u>\$ 3,728,051</u>	<u>\$ 771,309</u>	<u>\$ 602,337</u>	<u>\$ 608,675</u>	<u>\$ 5,710,372</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 ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2012

Total governmental fund balances	\$	3,377,075
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		3,406,223
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Accounts receivable	\$ 150	
Intergovernmental receivable	211,670	
Total		211,820
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(1,636,745)	
Capital lease obligation	(5,804)	
Total		(1,642,549)
Net assets of governmental activities	\$	<u>5,352,569</u>

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, 2012

	<u>General</u>	<u>Auxiliary Services</u>	<u>Other Grants</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
From local sources:					
Tuition	\$ 6,793,002		\$ 266		\$ 6,793,268
Earnings on investments	10,012	\$ 434		\$ 10	10,456
Classroom materials and fees	14,920		75,178	725	90,823
Charges for services	927			1,070	1,997
Extracurricular			1,793		1,793
Customer services	6,432,607	3,157,229	118,845	8,720	9,717,401
Rental income	140,408		3,450		143,858
Contributions and donations	79		82,162		82,241
Other local revenues	71,822		67,672		139,494
Intergovernmental - state	2,705,405		50,064	1,184,930	3,940,399
Intergovernmental - federal				3,137,186	3,137,186
Total revenues	16,169,182	3,157,663	399,430	4,332,641	24,058,916
Expenditures:					
Current:					
Instruction:					
Regular	970		1,903	13,189	16,062
Special	4,942,624	336,281	18,921	206,409	5,504,235
Vocational	119,144		191		119,335
Adult/continuing	51		12,669	37,574	50,294
Other	79,260				79,260
Support services:					
Pupil	4,797,762	112,407	72,978	685,685	5,668,832
Instructional staff	2,094,717	2,021	356,090	2,437,731	4,890,559
Board of education	25,754				25,754
Administration	2,030,928	519	151,893	272,202	2,455,542
Fiscal	1,053,306		72	133,805	1,187,183
Business	57,520		558		58,078
Operations and maintenance	732,585		10,502	197,950	941,037
Pupil transportation	38,992		4,140		43,132
Central	382,769		628	5,400	388,797
Operation of non-instructional services:					
Other non-instructional services	118,786	2,563,418	140,919	253,515	3,076,638
Food service operations				27,677	27,677
Facilities acquisition and construction	6,406		3,301		9,707
Debt service:					
Principal retirement	2,086				2,086
Interest and fiscal charges	423				423
Total expenditures	16,484,083	3,014,646	774,765	4,271,137	24,544,631
Excess (deficiency) of revenues over (under) expenditures	(314,901)	143,017	(375,335)	61,504	(485,715)
Other financing sources (uses):					
Transfers in	191,517		86,737		278,254
Transfers (out)	(86,737)		(95,234)	(96,283)	(278,254)
Total other financing sources (uses)	104,780		(8,497)	(96,283)	
Net change in fund balances	(210,121)	143,017	(383,832)	(34,779)	(485,715)
Fund balances at beginning of year (restated)	2,400,435	229,153	972,735	260,467	3,862,790
Fund balances at end of year	\$ 2,190,314	\$ 372,170	\$ 588,903	\$ 225,688	\$ 3,377,075

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, 2012

Net change in fund balances - total governmental funds \$ (485,715)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period.

Capital asset additions	110,582	
Current year depreciation	(252,243)	
Total		(141,661)

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

Customer services revenue	(307,111)	
Other local revenues	(4,419)	
Intergovernmental revenue	(108,008)	
Total		(419,538)

Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		2,086
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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.		(57,898)

Change in net assets of governmental activities \$ (1,102,726)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
LUCAS COUNTY, OHIO

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012

	<u>Agency</u>
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 164,825
Receivables:	
Intergovernmental	<u>751</u>
Total assets	<u>\$ 165,576</u>
Liabilities:	
Accounts payable	\$ 2,413
Accrued wages and benefits	24,681
Intergovernmental payable	76,039
Compensated absences	56,702
Pension obligation payable	<u>5,741</u>
Total liabilities	<u>\$ 165,576</u>

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, 2012**

NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER

Effective January 1, 2012, the Lucas County Educational Service Center changed its name to the Educational Service Center of Lake Erie West (the "Center"). The Center is located in Toledo, Ohio, the county seat. 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 has 19 administrators, 2 coordinators, 220 full-time and part-time certified employees, and 109 full-time and part-time classified employees who provide services to the local, exempted village and city school districts.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Center have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Center also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities, provided they do not conflict with or contradict GASB pronouncements. 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". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the Center are not misleading. 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, contract services, and student related programs 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. 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, 2012
(Continued)**

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

As of June 30, 2012, 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 the even number 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 the odd number years, one each from the Fulton, Lucas, Sandusky, and Wood County Centers and one from the Perrysburg Exempted Village School District. The Board possesses its own budgeting and taxing authority. 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.

Northwest Ohio Educational Council (NWOEC)

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

EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
LUCAS COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)

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

PUBLIC ENTITY RISK POOL

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

The Center participates in the Northwest Ohio Educational Council Self-Insurance Pool Program (NWOEC Program) which is an insurance purchasing pool. The NWOEC Program is created and organized pursuant to and as authorized by 2744.081 of the Ohio Revised Code. The NWOEC Program is a non-profit organization to its members and an instrumentality for each member the purpose of enabling members of the NWOEC to provide for a formalized, joint insurance program to maintain adequate insurance protection, risk management programs, and other administrative services. The NWOEC Program's business and affairs are conducted by a nine member Insurance Committee created by the Governing Board of the NWOEC.

The NWOEC Program has an agreement with Arthur J. Gallagher Risk Management Services, Inc. for administrative services and Cambridge Integrated Services, Inc. for claims processing. The Center paid \$50,007 for these services to the NWOEC Program in fiscal year 2012. To obtain financial information write to Steve Privasky, LIC, Arthur J. Gallagher Risk Management Services, Inc., 300 Ottawa, NW, Suite 301, Grand Rapids, MI, 49503.

Separately issued financial statements for the NWOEC Program can be obtained by writing to Paul Brotski, Treasurer of Maumee City School District, 716 Askin Street, Maumee, Ohio 43537.

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. There are 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 and liabilities 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

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

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

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

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. 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 assets 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 assets 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 and all liabilities associated with the operation of the Center are included on the statement of net assets.

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, 2012
(Continued)

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 and current liabilities 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 - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. 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 when the 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, the following revenue sources are considered to be both measurable and available at fiscal year end: interest, tuition, customer services, grants, student fees and rentals.

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

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

Revenues received in advance of the fiscal year for which they are intended to finance have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgetary Process

In fiscal year 2004, the Center 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 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.

Beginning in fiscal year 2012, the Center has elected to not present budgetary schedules as supplementary information for the general fund and major special revenue funds.

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 cash equivalents" on the basic financial statements.

The Center invested funds in repurchase agreements and non-negotiable certificates of during fiscal year 2012. Investments in repurchase agreements and non-negotiable certificates of deposit are reported at cost.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund or by policy of the Board. Interest revenue credited to the general fund during fiscal year 2012 amounted to \$10,012, which includes \$2,823 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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

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

purchased by the Center 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 assets, but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the 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:

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

H. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "due to/from other funds". These amounts are eliminated in the governmental type activities columns of the statement of net assets.

I. Compensated Absences

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

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

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, 2012, 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, 2012 and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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.

J. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Capital leases are recognized as a liability on the fund financial statements when due.

K. Fund Balance

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

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The "not in spendable form" criterion includes items that are not

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)

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

expected to be converted to cash. It also includes the long-term amount of loans receivable.

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.

L. Budget Stabilization Arrangement

The Center has established a budget stabilization reserve in accordance with authority established by State law. Additions to the budget stabilization reserve can only be made by formal resolution of the Governing Board. Expenditures out of the budget stabilization reserve can be made to offset future budget deficits or expenditures as approved by the Governing Board. At June 30, 2012, the balance in the budget stabilization reserve was \$344,888. This amount is included in committed fund balance of the general fund and in unrestricted net assets on the statement of net assets.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

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

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Center or through external restrictions imposed by creditors, grantors, or laws and regulations of other governments.

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

N. Estimates

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

O. Interfund Activity

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

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Center and that are either unusual in nature or infrequent in occurrence. The Center did not have any transactions that were considered a special item or extraordinary during year 2012.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2012, the Center has implemented GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an Amendment of GASB Statement No. 53".

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in

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(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

agent multiple-employer other postemployment benefit (OPEB) plans. The implementation of GASB Statement No. 57 did not have an effect on the financial statements of the Center.

GASB Statement No. 64 clarifies the circumstances in which a hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of GASB Statement No. 64 did not have an effect on the financial statements of the Center.

B. Fund Reclassification

A fund reclassification is required in order to report the technology fund as a component of the general fund, rather than as a component of the auxiliary services major special revenue fund, in accordance with GASB Statement No. 54. The fund reclassification had the following effect on the Center's governmental fund balances as previously reported:

	<u>General</u>	<u>Auxiliary Services</u>	<u>Other Grants</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental</u>
Fund balance as previously reported	\$ 2,380,276	\$ 249,312	\$ 972,735	\$ 260,467	\$ 3,862,790
Fund reclassification:					
Technology fund	<u>20,159</u>	<u>(20,159)</u>			
Restated fund balance at July 1, 2011	<u>\$ 2,400,435</u>	<u>\$ 229,153</u>	<u>\$ 972,735</u>	<u>\$ 260,467</u>	<u>\$ 3,862,790</u>

The fund reclassification did not have an effect on net assets as previously reported.

C. Deficit Fund Balance

Fund balances at June 30, 2012 included the following individual fund deficit:

<u>Nonmajor fund</u>	<u>Deficit</u>
Miscellaneous federal grants	\$ 81,363

The general fund is liable for any deficit in this fund and provides transfers when cash is required, not when accruals occur. The deficit fund balance resulted from a negative cash balance outstanding at June 30, 2012 and adjustments for accrued liabilities. The negative fund cash balance was a result of grant monies that were requested but not received by fiscal year-end for the reimbursement of expenditures.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, 2012, the carrying amount of all the Center deposits was \$4,079,911. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2012, \$2,579,616 of the Center's bank balance of \$4,323,359 was exposed to custodial risk as discussed below, while \$1,743,743 was covered by the FDIC.

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

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

B. Investments

As of June 30, 2012, the Center had the following investment:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity 6 months or less</u>
Repurchase agreement	\$ 431,869	\$ 431,869

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Interest Rate Risk: Interest rate risk arises potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. 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 investments in the federal agency securities that underlie the repurchase agreement were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. The Center's investment policy does not specifically address credit risk beyond requiring the Center to only invest in securities authorized by State statute.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent, but not in the Center's name. Of the Center's \$431,869 investment in repurchase agreements, the entire balance is collateralized by underlying securities that are held by the investment's counterparty, not in the name of the Center. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of securities subject to a repurchase agreement by 2%. The Center has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk: The Center places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the Center at June 30, 2012:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Repurchase agreement	\$ 431,869	<u>100.00</u>

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

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 assets as of June 30, 2012:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 4,079,911
Investments	<u>431,869</u>
Total	<u>\$ 4,511,780</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 4,346,955
Agency fund	<u>164,825</u>
Total	<u>\$ 4,511,780</u>

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund transfers for the fiscal year ended June 30, 2012, consisted of the following, as reported on the fund financial statements:

<u>Transfers from general fund to:</u>	<u>Amount</u>
Other grants fund	\$ 86,737
<u>Transfers to general fund from:</u>	
Other grants fund	95,234
Nonmajor governmental funds	<u>96,283</u>
Total transfers	<u>\$ 278,254</u>

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

The transfers to the general fund from the other grants fund and nonmajor governmental funds were made during fiscal year 2012 to close out grant funds.

- B. Interfund balances at June 30, 2012 as reported on the fund financial statements consist of the following amounts due to/from other funds:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 165,381

The primary purpose of the due to/from other funds is to cover the negative cash balances at fiscal year- end in the motorcycle safety, high schools that work, miscellaneous state grants, race to the top, state and highway safety, IDEA preschool grant for handicapped, improving teacher quality, and miscellaneous federal grants nonmajor special revenue funds. The interfund balances will be repaid once the anticipated revenues are received.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2012 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 assets follows:

Governmental activities:	
Accounts	\$ 6,103
Accrued interest	201
Intergovernmental	<u>1,191,732</u>
Total	<u>\$ 1,198,036</u>

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

NOTE 6 - RECEIVABLES - (Continued)

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

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

Governmental activities:

Capital assets, not being depreciated:

Land	\$ 314,321		\$ 314,321
Total capital assets, not being depreciated	314,321		314,321

Capital assets, being depreciated:

Buildings and improvements	3,177,894		3,177,894
Improvements other than buildings	8,421		8,421
Furniture, fixtures, and equipment	1,904,565	\$ 110,582	2,015,147
Vehicles	34,573		34,573
Total capital assets, being depreciated	5,125,453	110,582	5,236,035

Less: accumulated depreciation

Buildings and improvements	(413,052)	(106,932)	(519,984)
Improvements other than buildings	(3,615)	(421)	(4,036)
Furniture, fixtures, and equipment	(1,470,037)	(141,433)	(1,611,470)
Vehicles	(5,186)	(3,457)	(8,643)

Total accumulated depreciation	(1,891,890)	(252,243)	(2,144,133)
Governmental activities capital assets, net	\$ 3,547,884	\$ (141,661)	\$ 3,406,223

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

NOTE 7 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 618
Special	31,506
Vocational	517
Adult/continuing	1,200
<u>Support services:</u>	
Pupil	29,217
Instructional staff	112,601
Administration	13,627
Fiscal	7,964
Business	2,460
Operations and maintenance	27,071
Central	5,577
Operation of non-instructional services	<u>19,885</u>
Total depreciation expense	<u>\$ 252,243</u>

NOTE 8 - CAPITAL LEASES - LESSEE DISCLOSURE

During a prior fiscal year, the Center entered into a lease agreement for office equipment. The Center's lease obligation met the criteria of a capital lease. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis. The general fund made payments of principal and interest in the amount of \$2,086 and \$423, respectively on the capital lease during fiscal year 2012.

Capital assets acquired by lease have been capitalized and depreciated as follows:

Governmental activities	
Capital assets, being depreciated:	
Furniture, fixtures and equipment	\$ 10,800
Less: accumulated depreciation	
Furniture, fixtures and equipment	<u>(5,400)</u>
<i>Total capital assets, being depreciated, net</i>	<u>\$ 5,400</u>

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

NOTE 8 - CAPITAL LEASES - LESSEE DISCLOSURE - (Continued)

The following is a schedule of the future long-term minimum lease payments required under capital lease and the present value of the minimum lease payments as of June 30, 2012:

<u>Fiscal Year Ending June 30,</u>	<u>Governmental Activities</u>
2013	\$ 2,509
2014	2,509
2015	<u>1,255</u>
	6,273
Less: amount representing interest	<u>(469)</u>
Present value of minimum lease payments	<u>\$ 5,804</u>

NOTE 9 - LONG-TERM OBLIGATIONS

During fiscal year 2012, the following activity occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/11</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/12</u>	Amounts Due in <u>One Year</u>
Governmental activities:					
Compensated absences	\$ 1,734,378	\$ 389,325	\$ (371,955)	\$ 1,751,748	\$ 291,497
Capital lease obligation	<u>7,890</u>		<u>(2,086)</u>	<u>5,804</u>	<u>2,216</u>
Total long-term obligations, governmental activities	<u>\$ 1,742,268</u>	<u>\$ 389,325</u>	<u>\$ (374,041)</u>	<u>\$ 1,757,552</u>	<u>\$ 293,713</u>

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

NOTE 10 - RISK MANAGEMENT

Comprehensive

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

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

Property (\$1,000 deductible)	\$1,000,000
Excess property	201,000,000
Flood & earthquake	1,000,000
Auto liability/physical damage (\$1,000 deductible)	1,000,000
Auto liability (\$5,000 per person medical payments)	1,000,000
Crime	500,000
Public employee dishonesty	500,000
Boiler and machinery (\$2,500 deductible)	
50,000,000	
General liability:	
Per occurrence	1,000,000
Aggregate per district	3,000,000
Educator’s legal liability (\$5,000 deductible)	
1,000,000	
Employee benefit liability:	
Per occurrence	1,000,000
Aggregate per district	3,000,000
Umbrella coverage:	
Per occurrence	10,000,000
Aggregate per district	10,000,000

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

NOTE 11 - PENSION PLANS

A. School Employees Retirement System

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

NOTE 11 - PENSION PLANS - (Continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current Center rate is 14 percent of annual covered payroll. A portion of the Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2012, 12.65 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Center's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$383,890, \$403,130 and \$466,414, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

B. State Teachers Retirement System of Ohio

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

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

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

NOTE 11 - PENSION PLANS - (Continued)

Funding Policy - For fiscal year 2012, plan members were required to contribute 10 percent of their annual covered salaries. The Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011 and 2010 were \$1,589,872, \$1,674,185 and \$1,695,174, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010. Contributions to the DC and Combined Plans for fiscal year 2012 were \$84,747 made by the Center and \$60,533 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2012, certain members of the Board of Education have elected Social Security. The Center's liability is 6.2 percent of wages paid.

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The Center participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 (latest information available) was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2012, 0.55 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the actuarially determined amount was \$35,800.

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

The Center's contributions for health care (including surcharge) for the fiscal years ended June 30, 2012, 2011 and 2010 were \$66,453, \$129,539 and \$77,341, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The Center's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$22,671, \$25,942 and \$27,737, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Center's contributions for health care for the fiscal years ended June 30, 2012, 2011 and 2010 were \$122,298, \$128,783 and \$130,298, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

NOTE 13 - STATE AND LOCAL FUNDING

A. State Funding

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

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

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

B. Local Funding

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

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

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

NOTE 13 - STATE AND LOCAL FUNDING - (Continued)

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

NOTE 14 - 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	\$ 90,200
Auxiliary services	69,099
Other grants	3,547
Other governmental	<u>201,737</u>
 Total	 <u>\$ 364,583</u>

NOTE 15 - CONTINGENCIES

A. Grants

The Center receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Center. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the Center.

B. Litigation

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

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

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

FEDERAL GRANTOR/ <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Education:</i>			
<i>Nutrition Cluster:</i>			
National School Lunch Program	10.555	\$ 20,105	\$ 20,105
School Breakfast Program	10.553	8,491	8,491
TOTAL U.S. DEPARTMENT OF AGRICULTURE		28,596	28,596
U.S. DEPARTMENT OF TRANSPORTATION			
<i>Passed Through Ohio Department of Public Safety:</i>			
<i>Highway Safety Cluster:</i>			
State and Community Highway Safety	20.600	63,487	65,375
Incentive Grant Program to Increase Motorcyclist Safety	20.612	3,000	1,370
TOTAL U.S. DEPARTMENT OF TRANSPORTATION		66,487	66,745
U.S. DEPARTMENT OF DEFENSE			
<i>Direct Assistance</i>			
Jr R.O.T.C.	12.556	49,342	49,342
U.S. DEPARTMENT OF EDUCATION			
<i>Passed Through Ohio Department of Education:</i>			
ARRA - Title I Grants to Local Education Agencies	84.389		600
<i>Special Education Cluster:</i>			
Special Education_Grants to States (IDEA, Part B)	84.027	1,917,879	2,009,386
Special Education_Grants to States (IDEA, Part B): Parent Mentoring	84.027	57,844	57,940
<i>Total Special Education Grants to States</i>		<u>1,975,723</u>	<u>2,067,326</u>
Special Education_Preschool Grants (IDEA, Part B) Early Childhood Special Education	84.173	72,376	89,828
ARRA - Special Education_Preschool Grants (IDEA, Part B) Early Childhood Special Education	84.392	3,197	7,818
<i>Total Special Education Cluster</i>		<u>2,051,297</u>	<u>2,164,972</u>
Special Education_State Personnel Development (IDEA, Part D)	84.323	31,788	40,117
Safe and Drug Free Schools and Communities_State Grants	84.186	1,763	7,263
Improving Teacher Quality State Grants: Toledo Diocese	84.367	225,033	179,267
Improving Teacher Quality State Grants: Resident Educator Transition	84.367A	3,240	9,521
Improving Teacher Quality State Grants: Center of Practice	84.367A	8,606	648
Improving Teacher Quality State Grants: Ohio Principal Evaluation System	84.367A	40,436	39,896
<i>Total Improving Teacher Quality State Grants</i>		<u>277,315</u>	<u>229,332</u>
Education Secondary Transition Specialist	84.235U	21,210	35,423
ARRA - Race to the Top	84.395	42,013	62,012
TOTAL U.S. DEPARTMENT OF EDUCATION		2,425,387	2,539,720
TOTAL FEDERAL AWARDS RECEIPTS AND EXPENDITURES		\$ 2,569,812	\$ 2,684,402

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE.

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

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' 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 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, 2012, which collectively comprise the Center's basic financial statements and have issued our report thereon dated March 1, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the Center's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Center's internal control over financial reporting.

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 more than a reasonable possibility that a material misstatement of the Center's financial statements will not be prevented, or detected and timely corrected.

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

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, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Educational Service Center of Lake Erie West
Lucas County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We did note a certain matter not requiring inclusion in this report that we reported to the Center's management in a separate letter dated March 1, 2013.

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

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

March 1, 2013



Dave Yost • Auditor of State

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

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

To the Governing Board:

Compliance

We have audited the compliance of the Educational Service Center of Lake Erie West, Lucas County, Ohio (the Center), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the Center's major federal program for the year ended June 30, 2012. The *summary of auditor's results* section of the accompanying schedule of findings identifies the Center's major federal program. The Center's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the Center's compliance based on our audit.

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

In our opinion, the Educational Service Center of Lake Erie West, Lucas County, Ohio, complied, in all material respects, with the requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2012.

Internal Control Over Compliance

The Center's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Center's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining 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 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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

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

Dave Yost
Auditor of State

March 1, 2013

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2012**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	No
(d)(1)(vii)	Major Programs (list):	Special Education Cluster: • Special Education Grants to States - CFDA # 84.027 • Special Education Preschool Grants - CFDA # 84.173 • ARRA Special Education Preschool Grants - CFDA # 84.392
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

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 21, 2013