



Dave Yost • Auditor of State

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
LUCAS COUNTY
JUNE 30, 2017**

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LUCAS COUNTY
JUNE 30, 2017

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Governing Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center of Lake Erie West, Lucas County, Ohio (the Center), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center of Lake Erie West, Lucas County, Ohio, as of June 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2018, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and

compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

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

Dave Yost
Auditor of State

Columbus, Ohio

February 23, 2018

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(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, 2017. The intent of this discussion and analysis is to consider the Center's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Center's financial performance.

Financial Highlights

Key financial highlights for 2017 are as follows:

- In total, net position of governmental activities increased \$1,194,517 which represents a 5.39 percent increase from fiscal year 2016.
- General revenues accounted for \$1,624,394 in revenue or 7.14 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$21,116,575 or 92.86 percent of total revenues of \$22,740,969.
- The Center had \$21,546,452 in expenses related to governmental activities; \$21,116,575 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily unrestricted grants and entitlements) of \$1,624,394 also supported the Center's programs.
- The Center's major governmental funds are the general fund, the auxiliary services fund, and the Title VI-B fund. The general fund had \$15,471,822 in revenues and other financing sources and \$14,090,635 in expenditures and other financing uses. During fiscal year 2017, the general fund's fund balance increased \$1,381,187 from a balance of \$9,571,586 to \$10,952,773 as a result of billing member districts for additional services.
- The auxiliary services fund had \$3,582,157 in revenues and \$3,630,520 in expenditures during fiscal year 2017.
- The Title VI-B fund had \$2,073,830 in revenues and \$2,161,246 in expenditures during fiscal year 2017.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Center as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

Reporting the Center as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the Center to provide programs and activities, the view of the Center as a whole contains all financial transactions and asks the question, "How did the Center perform financially during 2017?" The statement of net position and the statement of activities answer this question. These statements include all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, and expenses using the accrual basis of accounting, similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Center's net position and changes in net position. The change in net position is important because it tells the reader that, for the Center as a whole, the financial condition of the Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the Center's facility conditions, required educational programs and other factors.

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

Reporting the Center's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

Most of the Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the Center's general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is reconciled in the basic financial statements.

Reporting the Center's Fiduciary Responsibilities

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

Notes to the Basic Financial Statements

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

Required Supplementary Information

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

The Center as a Whole

Recall that the statement of net position provides the perspective of the Center as a whole. The table below provides a summary of the Center's net position for 2017 and 2016.

	Net Position	
	Governmental Activities <u>2017</u>	Governmental Activities <u>2016</u>
<u>Assets</u>		
Current and other assets	\$ 13,307,320	\$ 12,031,938
Capital assets	<u>4,287,734</u>	<u>4,251,372</u>
Total assets	<u>17,595,054</u>	<u>16,283,310</u>
<u>Deferred outflows of resources</u>	<u>7,029,194</u>	<u>3,300,566</u>
<u>Liabilities</u>		
Current liabilities	1,425,334	1,368,120
Long-term liabilities:		
Due within one year	260,991	200,365
Due in more than one year:		
Net pension liability	39,303,593	34,949,157
Other amounts	<u>1,037,442</u>	<u>1,006,937</u>
Total liabilities	<u>42,027,360</u>	<u>37,524,579</u>
<u>Deferred inflows of resources</u>	<u>3,568,584</u>	<u>4,225,510</u>
<u>Net Position</u>		
Net investment in capital assets	4,287,734	4,251,372
Restricted	326,795	347,179
Unrestricted (deficit)	<u>(25,586,225)</u>	<u>(26,764,764)</u>
Total net position (deficit)	<u>\$ (20,971,696)</u>	<u>\$ (22,166,213)</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)**

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2017, the Center's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$20,971,696. Of this total, a deficit of \$25,586,225 is unrestricted in use, which is a result of reporting the net pension liability required by GASB Statement No. 68.

At year-end, capital assets represented 24.37 percent of total assets. Capital assets include land, buildings and improvements, improvements other than buildings, and furniture, fixtures and equipment and vehicles. The Center's investment in capital assets at June 30, 2017, was \$4,287,734. These capital assets are used to provide services to the students and are not available for future spending.

A portion of the Center's net position, \$326,795 represents resources that are subject to external restriction on how they may be used.

Governmental Activities

The net position of the Center's governmental activities increased \$1,194,517. Total governmental expenses of \$21,546,452 were offset by program revenues of \$21,116,575 and general revenues of \$1,624,394. Program revenues supported all of the total governmental expenses for fiscal year 2016.

The primary sources of revenue for governmental activities are derived from charges for services. This revenue source represents 77.01 percent of total governmental revenue.

The largest expense of the Center is for support services. Support services expenses totaled \$12,806,293 or 59.44 percent of total governmental expenses for fiscal 2017.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

The table below shows the changes in net position for fiscal years 2017 and 2016.

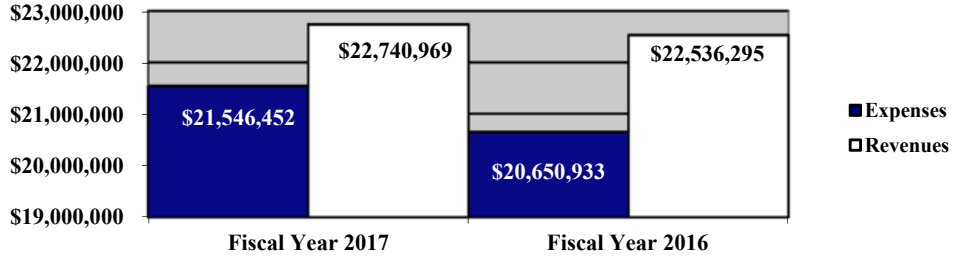
	Governmental Activities <u>2017</u>	Governmental Activities <u>2016</u>
<u>Revenues</u>		
Program Revenues:		
Charges for services and sales	\$ 17,513,236	\$ 17,057,826
Operating grants and contributions	3,603,339	3,867,895
General revenues:		
Grants and entitlements	1,307,816	1,265,486
Investment earnings	63,524	23,459
Other	253,054	321,629
Total revenues	<u>22,740,969</u>	<u>22,536,295</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	218,973	3,864
Special	4,598,176	4,524,184
Adult/continuing	89,412	63,809
Support services:		
Pupil	3,264,669	3,138,344
Instructional staff	4,543,260	4,425,167
Board of education	24,922	26,250
Administration	2,400,273	2,418,761
Fiscal	1,065,618	980,356
Business	82,286	91,496
Operations and maintenance	949,710	876,908
Pupil transportation	111	432
Central	475,444	487,570
Operation of non-instructional services:		
Food service operations	25,750	18,261
Other non-instructional services	3,807,848	3,595,531
Total expenses	<u>21,546,452</u>	<u>20,650,933</u>
Change in net position	1,194,517	1,885,362
Net position (deficit) at beginning of year	<u>(22,166,213)</u>	<u>(24,051,575)</u>
Net position (deficit) at end of year	<u>\$ (20,971,696)</u>	<u>\$ (22,166,213)</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)**

The graph below presents the Center's governmental activities revenue and expenses for fiscal years 2017 and 2016.

Governmental Activities - Revenues and Expenses



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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

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

	Total Cost of Services 2017	Net Cost of Services 2017	Total Cost of Services 2016	Net Cost of Services 2016
Program expenses				
Instruction:				
Regular	\$ 218,973	\$ 212,967	\$ 3,864	\$ (1,075)
Special	4,598,176	4,081	4,524,184	152,087
Adult/continuing	89,412	45,501	63,809	(42,270)
Support services:				
Pupil	3,264,669	(129,932)	3,138,344	268,828
Instructional staff	4,543,260	139,241	4,425,167	37,229
Board of education	24,922	9,121	26,250	9,258
Administration	2,400,273	66,621	2,418,761	(29,986)
Fiscal	1,065,618	6,991	980,356	13,881
Business	82,286	5,517	91,496	5,004
Operations and maintenance	949,710	44,524	876,908	(21,546)
Pupil transportation	111	(2)	432	1,483
Central	475,444	(105,645)	487,570	(12,334)
Operation of non-instructional services:				
Food service operations	25,750	6,376	18,261	(3,232)
Other non-instructional services	3,807,848	124,516	3,595,531	(102,539)
Total expenses	\$ 21,546,452	\$ 429,877	\$ 20,650,933	\$ 274,788

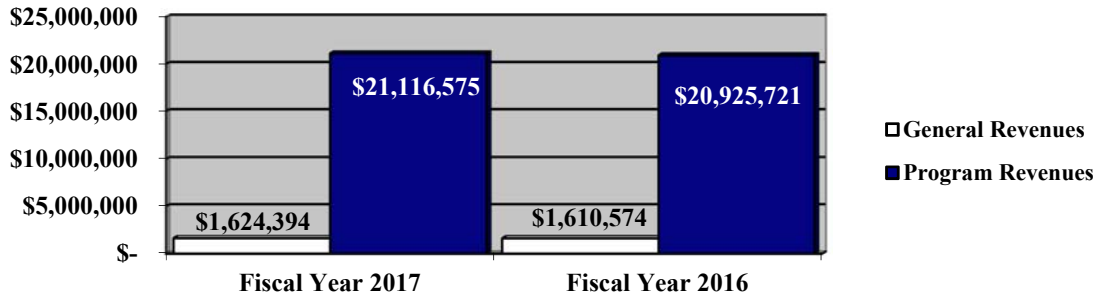
Governmental activities were primarily supported by program revenues for fiscal years 2017 and 2016. The primary support of the Center is tuition and contracted fees for services provided to school districts. These revenues increased during 2017 as a result of billing member districts for additional services.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

The graph below presents the Center's governmental activities revenue for fiscal years 2017 and 2016.

Governmental Activities - General and Program Revenues



The Center's Funds

The Center's governmental funds reported a combined fund balance of \$11,700,409, which is higher than last year's total of \$10,550,075. The schedule below indicates the fund balances and the changes in fund balances as of June 30, 2017 and 2016.

Funds	Fund Balance June 30, 2017	Fund Balance June 30, 2016	Increase (Decrease)	Percentage Change
General	\$ 10,952,773	\$ 9,571,586	\$ 1,381,187	14.43 %
Auxiliary services	184,394	232,757	(48,363)	(20.78) %
Title VI-B	17,703	105,119	(87,416)	(83.16) %
Nonmajor governmental	545,539	640,613	(95,074)	(14.84) %
Total	\$ 11,700,409	\$ 10,550,075	\$ 1,150,334	10.90 %

General Fund

The Center's general fund balance increased \$1,381,187. The table that follows shows the revenues of the general fund for fiscal years 2017 and 2016.

Revenues	2017 Amount	2016 Amount	Increase (Decrease)	Percentage Change
Tuition	\$ 5,280,471	\$ 5,782,498	\$ (502,027)	(8.68) %
Earnings on investments	63,524	23,459	40,065	170.79 %
Customer services	8,454,431	7,732,083	722,348	9.34 %
Intergovernmental	1,298,605	1,265,487	33,118	2.62 %
Other revenues	353,977	432,276	(78,299)	(18.11) %
Total	\$ 15,451,008	\$ 15,235,803	\$ 215,205	1.41 %

Overall, revenues of the general fund increased 1.41 percent during fiscal year 2017. Tuition revenue decreased \$502,027 from fiscal year 2016 as a result of less contract revenue paid by local school schools. The Center billed member districts for more services, resulting in increased customer services revenue. Earnings on the Center's investments increased from fiscal year 2016 as a result of higher interest rates. Meanwhile, intergovernmental revenues increased based on the amount of per-pupil foundation revenue received from the state of Ohio for fiscal year 2017.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

Expenditures	2017 Amount	2016 Amount	Increase (Decrease)	Percentage Change
Instruction	\$ 4,292,373	\$ 4,096,459	\$ 195,914	4.78 %
Support services	9,308,972	8,829,562	479,410	5.43 %
Non-instructional services	49,341	59,538	(10,197)	(17.13) %
Facilities acquisition and construction	298,146	82,225	215,921	262.60 %
Total	<u>\$ 13,948,832</u>	<u>\$ 13,067,784</u>	<u>\$ 881,048</u>	6.74 %

Instruction expenditures and support services increased 4.78 and 5.43 percent, respectively, from fiscal year 2016. Less expenditures related to ALC programs contributed to a decrease in spending for non-instructional services. Facilities acquisition and construction expenditures for various repairs and improvements throughout the Center's buildings increased.

Auxiliary Services Fund

The auxiliary services fund had \$3,582,157 in revenues and \$3,630,520 in expenditures. During fiscal year 2017, the auxiliary services fund's fund balance decreased \$48,363 to a balance of \$184,394.

Title VI-B Fund

The Title VI-B fund had \$2,073,830 in revenues and \$2,161,246 in expenditures. During fiscal year 2017, the Title VI-B fund's fund balance decreased \$87,416 to a balance of \$17,703.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2017 the Center had \$4,287,734 invested in land, buildings and improvements, improvements other than buildings, furniture, fixtures and equipment, and vehicles. This entire amount is reported in governmental activities. A reclassification was made between building improvements and improvements other than buildings at June 30, 2016, to properly state certain assets (see Note 7 to the notes to the basic financial statements for detail). The table that follows shows the balances of the Center's capital assets at June 30, 2017 compared to restated balances at June 30, 2016.

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

	Governmental Activities	
	2017	(Restated) 2016
Land	\$ 314,321	\$ 314,321
Building and improvements	3,384,787	3,571,763
Improvements other than buildings	331,053	73,521
Furniture, fixtures, and equipment	238,589	279,667
Vehicles	18,984	12,100
Total	<u>\$ 4,287,734</u>	<u>\$ 4,251,372</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)**

The overall increase in capital assets during fiscal year 2017 resulted from capital outlay of \$309,410 exceeding depreciation expense of \$262,964 and disposals (net of accumulated depreciation) of \$10,084 during the current period.

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

Debt Administration

The Center had no debt obligations outstanding as of June 30, 2017.

Current Financial Related Activities

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

Contacting the Center's Financial Management

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

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

STATEMENT OF NET POSITION
JUNE 30, 2017

	Governmental Activities
Assets:	
Equity in pooled cash and investments	\$ 12,474,604
Receivables:	
Accounts	95,849
Accrued interest	556
Intergovernmental	702,229
Prepayments	34,082
Capital assets:	
Nondepreciable capital assets	314,321
Depreciable capital assets, net.	3,973,413
Capital assets, net	4,287,734
Total assets	17,595,054
Deferred outflows of resources:	
Pension - STRS.	5,370,730
Pension - SERS.	1,658,464
Total deferred outflows of resources	7,029,194
Liabilities:	
Accounts payable.	86,171
Accrued wages and benefits payable	1,103,020
Intergovernmental payable	48,299
Pension and postemployment benefits payable.	187,844
Long-term liabilities:	
Due within one year.	260,991
Due in more than one year:	
Net pension liability (See Note 10)	39,303,593
Other amounts due in more than one year	1,037,442
Total liabilities	42,027,360
Deferred inflows of resources:	
Pension - STRS.	3,016,763
Pension - SERS.	551,821
Total deferred inflows of resources	3,568,584
Net position:	
Investment in capital assets	4,287,734
Restricted for:	
Locally funded programs.	220,747
State funded programs	68,295
Federally funded programs.	21,871
Other purposes.	15,882
Unrestricted (deficit)	(25,586,225)
Total net position (deficit)	\$ (20,971,696)

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, 2017

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	
Governmental activities:				
Instruction:				
Regular	\$ 218,973	\$ 5,050	\$ 956	\$ (212,967)
Special	4,598,176	4,292,369	301,726	(4,081)
Adult/continuing	89,412	11,824	32,087	(45,501)
Support services:				
Pupil	3,264,669	3,272,759	121,842	129,932
Instructional staff	4,543,260	1,995,375	2,408,644	(139,241)
Board of education	24,922	15,801	-	(9,121)
Administration	2,400,273	2,055,986	277,666	(66,621)
Fiscal	1,065,618	924,656	133,971	(6,991)
Business	82,286	76,301	468	(5,517)
Operations and maintenance	949,710	761,915	143,271	(44,524)
Pupil transportation	111	113		2
Central	475,444	556,140	24,949	105,645
Operation of non-instructional services:				
Food service operations	25,750	1,786	17,588	(6,376)
Other non-instructional services	3,807,848	3,543,161	140,171	(124,516)
Total governmental activities	\$ 21,546,452	\$ 17,513,236	\$ 3,603,339	(429,877)
 General revenues:				
Grants and entitlements not restricted				
to specific programs				1,307,816
Investment earnings				63,524
Miscellaneous				253,054
Total general revenues				1,624,394
Change in net position				1,194,517
Net position (deficit) at beginning of year				(22,166,213)
Net position (deficit) at end of year				\$ (20,971,696)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017

	<u>General</u>	<u>Auxiliary Services</u>	<u>Title VI-B</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and investments	\$ 11,435,836	\$ 528,078	\$ -	\$ 510,690	\$ 12,474,604
Receivables:					
Accounts	84,051	-	-	11,798	95,849
Accrued interest	556	-	-	-	556
Intergovernmental.	361,854	17,340	116,776	206,259	702,229
Prepayments.	22,535	6,501	3,077	1,969	34,082
Due from other funds	141,394	-	-	-	141,394
Total assets	<u>\$ 12,046,226</u>	<u>\$ 551,919</u>	<u>\$ 119,853</u>	<u>\$ 730,716</u>	<u>\$ 13,448,714</u>
Liabilities:					
Accounts payable	\$ 59,330	\$ 402	\$ 11,500	\$ 14,939	\$ 86,171
Accrued wages and benefits payable	752,572	319,659	9,720	21,069	1,103,020
Compensated absences payable	88,676	-	-	-	88,676
Intergovernmental payable	31,676	4,225	141	12,257	48,299
Pension and postemployment benefits payable.	128,865	43,239	1,361	14,379	187,844
Due to other funds.	-	-	79,428	61,966	141,394
Total liabilities.	<u>1,061,119</u>	<u>367,525</u>	<u>102,150</u>	<u>124,610</u>	<u>1,655,404</u>
Deferred inflows of resources:					
Customer services revenue not available	14,256	-	-	3,354	17,610
Rental income not available	6,681	-	-	-	6,681
Miscellaneous revenue not available.	2,186	-	-	240	2,426
Intergovernmental revenue not available.	9,211	-	-	56,973	66,184
Total deferred inflows of resources	<u>32,334</u>	<u>-</u>	<u>-</u>	<u>60,567</u>	<u>92,901</u>
Fund balances:					
Nonspendable:					
Prepays.	22,535	6,501	3,077	1,969	34,082
Restricted:					
Public school preschool	-	-	-	10,590	10,590
Special education	-	-	14,626	9,200	23,826
Food service operations	-	-	-	5,187	5,187
Vocational education.	-	-	-	3,601	3,601
Other purposes.	-	-	-	241,605	241,605
Committed:					
Auxiliary services	-	184,394	-	-	184,394
Other preschool base programs.	-	-	-	126,108	126,108
Technology.	21,053	-	-	-	21,053
Community school operations	4,122,672	-	-	-	4,122,672
Other purposes.	47,118	-	-	-	47,118
Assigned:					
Student instruction	744	-	-	-	744
Student and staff support.	145,655	-	-	-	145,655
Extracurricular activities	5,015	-	-	-	5,015
Staff development	-	-	-	147,969	147,969
Unassigned (deficit).	<u>6,587,981</u>	<u>(6,501)</u>	<u>-</u>	<u>(690)</u>	<u>6,580,790</u>
Total fund balances	<u>10,952,773</u>	<u>184,394</u>	<u>17,703</u>	<u>545,539</u>	<u>11,700,409</u>
Total liabilities, deferred inflows of resources and fund balances.	<u>\$ 12,046,226</u>	<u>\$ 551,919</u>	<u>\$ 119,853</u>	<u>\$ 730,716</u>	<u>\$ 13,448,714</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2017

Total governmental fund balances		\$ 11,700,409
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		4,287,734
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds:		
Accounts receivable	26,717	
Intergovernmental receivable	66,184	
Total	92,901	92,901
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows of resources are not reported in governmental funds:		
Deferred outflows of resources - pension	7,029,194	
Deferred inflows of resources - pension	(3,568,584)	
Net pension liability	(39,303,593)	
Total	(35,842,983)	(35,842,983)
Long-term liabilities (compensated absences payable) are not due and payable in the current period and therefore are not reported in the funds.		(1,209,757)
Net position of governmental activities		\$ (20,971,696)

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, 2017

	<u>General</u>	<u>Auxiliary Services</u>	<u>Title VI-B</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
From local sources:					
Tuition	\$ 5,280,471	\$ -	\$ -	\$ -	\$ 5,280,471
Earnings on investments	63,524	1,485	-	-	65,009
Classroom materials and fees	104,699	-	-	10,641	115,340
Charges for services	-	-	-	522	522
Customer services	8,454,431	3,580,672	-	136,382	12,171,485
Rental income	143,942	-	-	1,078	145,020
Contributions and donations	500	-	-	30,649	31,149
Other local revenues	104,836	-	-	117,118	221,954
Intergovernmental - state	1,298,605	-	-	1,101,953	2,400,558
Intergovernmental - federal	-	-	2,073,830	237,654	2,311,484
Total revenues	15,451,008	3,582,157	2,073,830	1,635,997	22,742,992
Expenditures:					
Current:					
Instruction:					
Regular	212,342	-	-	4,395	216,737
Special	4,079,474	125,873	-	313,287	4,518,634
Adult/continuing	557	-	-	61,154	61,711
Support services:					
Pupil	3,182,084	275	24,211	92,576	3,299,146
Instructional staff	1,900,472	200	1,641,335	947,949	4,489,956
Board of education	24,922	-	-	-	24,922
Administration	1,995,253	110	217,562	150,361	2,363,286
Fiscal	909,706	-	88,946	47,960	1,046,612
Business	79,705	-	-	1,578	81,283
Operations and maintenance	763,979	-	133,843	29,908	927,730
Pupil transportation	111	-	-	-	111
Central	452,740	-	24,845	2,289	479,874
Operation of non-instructional services:					
Food service operations	-	-	-	25,750	25,750
Other non-instructional services	49,341	3,504,062	30,504	191,003	3,774,910
Facilities acquisition and construction	298,146	-	-	-	298,146
Total expenditures	13,948,832	3,630,520	2,161,246	1,868,210	21,608,808
Excess (deficiency) of revenues over (under) expenditures	1,502,176	(48,363)	(87,416)	(232,213)	1,134,184
Other financing sources (uses):					
Sale of assets	16,150	-	-	-	16,150
Transfers in	4,664	-	-	141,803	146,467
Transfers (out)	(141,803)	-	-	(4,664)	(146,467)
Total other financing sources (uses)	(120,989)	-	-	137,139	16,150
Net change in fund balances	1,381,187	(48,363)	(87,416)	(95,074)	1,150,334
Fund balances at beginning of year	9,571,586	232,757	105,119	640,613	10,550,075
Fund balances at end of year	\$ 10,952,773	\$ 184,394	\$ 17,703	\$ 545,539	\$ 11,700,409

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, 2017

Net change in fund balances - total governmental funds	\$	1,150,334
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital asset additions	\$ 309,410	
Current year depreciation	<u>(262,964)</u>	
Total		46,446
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net position.		
		(10,084)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Tuition revenue	(6,000)	
Miscellaneous revenues	(2,666)	
Customer services revenue	(49,658)	
Rental income	6,681	
Intergovernmental	<u>49,620</u>	
Total		(2,023)
Contractually required pension contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows.		
		1,852,457
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
		(1,821,339)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		<u>(21,274)</u>
Change in net position of governmental activities	\$	<u><u>1,194,517</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2017

	Agency
Assets:	
Equity in pooled cash and investments.	\$ 129,041
Receivables:	
Intergovernmental	10,586
Prepayments	372
Total assets.	\$ 139,999
 Liabilities:	
Accounts payable	\$ 4,717
Accrued wages and benefits	3,378
Compensated absences.	21,331
Pension and postemployment benefits payable . .	473
Intergovernmental payable	110,100
Total liabilities	\$ 139,999

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER

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

The Center operates under a locally elected Board of Education consisting of five members elected at-large for staggered four year terms. The Center, as of June 30th, 2017, is staffed by 13 administrators, 175 full-time and part-time certified employees, and 78 full-time and part-time classified employees who provide services to the local, exempted village and city school districts.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Center have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Center’s significant accounting policies are described below.

A. Reporting Entity

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

As of June 30, 2017, the Center served as fiscal agent for charter schools established under Chapter 3314 of the Ohio Revised Code. These charter schools are not considered a part of the Center.

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

JOINTLY GOVERNED ORGANIZATIONS

Penta Career Center (PCC)

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

Northwest Ohio Computer Association (NWOCA)

NWOCA is an association of thirty-seven educational entities, primarily school districts, located in Defiance, Fulton, Henry, Lucas, Williams and Wood Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among members. NWOCA is governed by its participating members, which consists of a representative from each member entity. Financial information can be obtained from Robin Pfund, who serves as Treasurer, at 209 Nolan Parkway, P.O. Box 407, Archbold, Ohio 43502.

Ohio Schools' Council Association

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

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

PUBLIC ENTITY RISK POOL

Southwestern Ohio Educational Purchasing Council (SOEPC)

The SOEPC is a purchasing council made up of over 139 schools in 18 counties. The purpose of the council is to obtain prices for quality merchandise and services commonly used by schools. All members are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member has one voting representative. Title to any and all equipment, furniture, and supplies purchased by the SOEPC is held in trust for the members; any member withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. During fiscal year 2017, the Center paid \$60,280 to the SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, Director, 303 Corporate Center Drive Suite 208, Vandalia, Ohio 45377.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets plus deferred outflows of resources and liabilities plus deferred inflows of resources is reported as fund balance. The following are the Center's major governmental funds:

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

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

FIDUCIARY FUNDS

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

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

C. Basis of Presentation and Measurement Focus

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

The statement of net position presents the financial condition of the governmental activities of the Center at fiscal year end. The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the Center. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the Center, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Center.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

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

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

D. Basis of Accounting

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

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

Nonexchange transactions, in which the Center receives value without directly giving equal value in return, include grants, entitlements and donations.

Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year in which resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Center must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Center on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

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

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

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized in the period during which they are incurred.

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

E. Budgetary Process

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

F. Cash and Investments

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

As of June 30, 2017, the Center had invested funds in a negotiable certificate of deposit and non-negotiable certificates of deposit. Except for non-participating investment contracts, investments are reported at fair value which is based on quoted market prices. Non-participating investment contracts, such as nonnegotiable certificates of deposit are reported at cost.

Under existing Ohio statutes, all investment earnings are assigned to the general fund unless required to be credited to a specific fund by statute or by policy of the Board. Interest revenue credited to the general fund during fiscal year 2017 amounted to \$63,524, which includes \$4,544 assigned from other funds.

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

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

G. Capital Assets

General capital assets are those assets related to activities reported in the governmental funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded their acquisition value 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>	Governmental Activities <u>Estimated Lives</u>
Buildings and Improvements	40 years
Improvements Other than Buildings	20 years
Furniture, fixtures, and Equipment	5 - 15 years
Vehicles	5 years

H. Interfund Balances

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

I. Prepayments

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

J. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) benefits. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2017, 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, 2017 and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

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

L. Fund Balance

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

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

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

M. Budget Stabilization Arrangement

The Center has established a budget stabilization reserve in accordance with authority established by State law. Additions to the budget stabilization reserve can only be made by formal resolution of the Board of Education. Expenditures out of the budget stabilization reserve can be made to offset future budget deficits or expenditures as approved by the Board of Education. At June 30, 2017, the balance in the budget stabilization reserve was \$4,068,076. This amount is included in unassigned fund balance of the general fund and in unrestricted net position on the statement of net position.

N. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. The net position component "investment in capital assets," consists of capital assets, net of accumulated depreciation. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Center or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Amounts restricted for other purposes include amounts restricted for miscellaneous federal grants and professional growth programs.

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

O. Estimates

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

P. Interfund Activity

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Center and that are either unusual in nature or infrequent in occurrence. The Center did not have any transactions that were considered a special or extraordinary item during year 2017.

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

R. Pensions

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

S. Fair Market Value

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2017, the Center has implemented GASB Statement No. 77, “*Tax Abatement Disclosures*”, GASB Statement No. 78, “*Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*”, GASB Statement No. 80, “*Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14*” and GASB Statement No. 82, “*Pension Issues - An Amendment of GASB Statements No. 67, No. 68 and No. 73*”.

GASB Statement No. 77 requires governments that enter into tax abatement agreements to disclose certain information about the agreement. GASB Statement No. 77 also requires disclosures related to tax abatement agreements that have been entered into by other governments that reduce the reporting government’s tax revenues. The implementation of GASB Statement No. 77 did not have an effect on the financial statements of the Center.

GASB Statement No. 78 establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan) that meets the criteria in paragraph 4 of Statement 68 and that (a) is not a state or local governmental pension plan, (b) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (c) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the Center.

GASB Statement No. 80 improves the financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the Center.

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The implementation of GASB Statement No. 82 did not have an effect on the financial statements of the Center.

B. Deficit Fund Balance

Fund balances at June 30, 2017 included the following individual fund deficit:

<u>Nonmajor fund</u>	<u>Deficit</u>
Vocational education enhancement	\$ 690

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 adjustments for accrued liabilities. Negative fund cash balances in this fund resulted from a lag between disbursements and grant funding that was requested but not received by fiscal year-end.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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, 2017, the carrying amount of all the Center deposits, including \$11,205,746 in non-negotiable certificates of deposits, was \$12,503,629. Based on the criteria described in GASB Statement No. 40, "*Deposits and Investment Risk Disclosures*", as of June 30, 2017, \$598,386 of the Center's bank balance of \$12,627,899 was exposed to custodial risk as discussed below, while \$12,029,513 was covered by the FDIC.

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, 2017, the Center had the following investment:

<u>Investment type</u>	<u>Amortized Cost</u>	<u>Investment Maturity</u> 7 to 12 months
Negotiable certificate of deposit	\$ 100,016	\$ 100,016

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

The Center’s investment in the negotiable certificate of deposit is valued using quoted prices in markets that are not considered to be active, dealer quotations or alternative pricing sources for similar assets or liabilities for which all significant inputs are observable, either directly or indirectly (Level 2 inputs).

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

Credit Risk: The Center’s negotiable certificate of deposit was not rated. The Center’s investment policy does not specifically address credit risk beyond requiring the Center to only invest in securities authorized by State statute.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Center has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, 2017:

<u>Investment type</u>	<u>Amortized Cost</u>	<u>Percent of Total</u>
Negotiable certificate of deposit	\$ 100,016	100.00

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2017:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 12,503,629
Investments	100,016
Total	<u>\$ 12,603,645</u>
<u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 12,474,604
Agency fund	129,041
Total	<u>\$ 12,603,645</u>

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund transfers for the fiscal year ended June 30, 2017, consisted of the following, as reported on the fund financial statements:

<u>Transfers from general fund to:</u>	<u>Amount</u>
Nonmajor special revenue funds:	
Food service	\$ 12,500
Other grants	129,303
Total transfers	<u>\$ 141,803</u>
<u>Transfers to general fund from:</u>	
Nonmajor special revenue funds:	
Victim impact program	50
Motorcycle safety	2,246
Public school preschool	1
State and community highway safety	2,367
Total transfers to general fund	<u>4,664</u>
Total transfers	<u>\$ 146,467</u>

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

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 during fiscal year 2017 were made to close out grant programs.

- B.** Interfund balances at June 30, 2017, as reported on the fund financial statements, consist of the following amounts due to/from other funds:

<u>Receivable fund</u>	<u>Payable funds</u>	<u>Amount</u>
General fund	Nonmajor special revenue funds:	
	Motorcycle safety	\$ 12,687
	Public school preschool	1,023
	Alternative education	2,420
	Miscellaneous state grants	12,892
	Title VI-B	79,428
	State and community highway safety	28,030
	Preschool grant for handicapped	4,539
	Miscellaneous federal grants	<u>375</u>
Total due to/due from other funds		<u>\$ 141,394</u>

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

NOTE 6 - RECEIVABLES

Receivables at June 30, 2017 consisted of accounts (billings for user charged services and student fees), accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the stable condition of State programs and the current year guarantee of federal funds. A summary of the items of receivables reported on the statement of net position follows:

Governmental activities:

Accounts	\$ 95,849
Accrued interest	556
Intergovernmental	<u>702,229</u>
Total	<u>\$ 798,634</u>

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

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 7 - CAPITAL ASSETS

A reclassification was made between buildings and improvements and improvements other than buildings at July 1, 2016 to properly classify certain assets. The reclassification did not have an effect on net position at the beginning of the year. Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

	(Restated) Balance 7/1/2016	Additions	Deductions	Balance 6/30/17
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 314,321	\$ -	\$ -	\$ 314,321
Total capital assets, not being depreciated	<u>314,321</u>	<u>-</u>	<u>-</u>	<u>314,321</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	5,051,617	-	-	5,051,617
Improvements other than buildings	81,333	275,224	-	356,557
Furniture, fixtures, and equipment	2,029,083	12,280	-	2,041,363
Vehicles	34,573	21,906	(34,573)	21,906
Total capital assets, being depreciated	<u>7,196,606</u>	<u>309,410</u>	<u>(34,573)</u>	<u>7,471,443</u>
<i>Less: accumulated depreciation</i>				
Buildings and improvements	(1,479,854)	(186,976)	-	(1,666,830)
Improvements other than buildings	(7,812)	(17,692)	-	(25,504)
Furniture, fixtures, and equipment	(1,749,416)	(53,358)	-	(1,802,774)
Vehicles	(22,473)	(4,938)	24,489	(2,922)
Total accumulated depreciation	<u>(3,259,555)</u>	<u>(262,964)</u>	<u>24,489</u>	<u>(3,498,030)</u>
Governmental activities capital assets, net	<u>\$ 4,251,372</u>	<u>\$ 46,446</u>	<u>\$ (10,084)</u>	<u>\$ 4,287,734</u>

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 7 - CAPITAL ASSETS - (Continued)

Depreciation expense during fiscal year 2017 was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 2,608
Special	66,493
Adult/continuing	289
<u>Support services:</u>	
Pupil	38,539
Instructional staff	39,530
Administration	29,610
Fiscal	10,345
Business	1,003
Operations and maintenance	28,044
Central	4,827
Operation of non-instructional services	<u>41,676</u>
Total depreciation expense	<u>\$ 262,964</u>

NOTE 8 - LONG-TERM OBLIGATIONS

During fiscal year 2017, the following activity occurred in governmental activities long-term obligations:

	<u>Balance</u> <u>06/30/16</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>06/30/17</u>	<u>Amounts</u> <u>due in</u> <u>one year</u>
Governmental activities:					
Compensated absences payable	\$ 1,207,302	\$ 436,633	\$ (345,502)	\$ 1,298,433	\$ 260,991
Net pension liability:					
STRS	28,572,405	3,502,977	-	32,075,382	-
SERS	<u>6,376,752</u>	<u>851,459</u>	<u>-</u>	<u>7,228,211</u>	<u>-</u>
Total net pension liability	<u>34,949,157</u>	<u>4,354,436</u>	<u>-</u>	<u>39,303,593</u>	<u>-</u>
Total long-term obligations	<u>\$ 36,156,459</u>	<u>\$ 4,791,069</u>	<u>\$ (345,502)</u>	<u>\$ 40,602,026</u>	<u>\$ 260,991</u>

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

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

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 9 - RISK MANAGEMENT

Comprehensive

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

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

Real and personal property (\$5,000 maintenance deductible)	\$1,000,000
Excess property - per occurrence	350,000,000
Flood - annual aggregate	20,000,000
Earthquake - annual aggregate	25,000,000
Business auto:	
Limit of liability - per occurrence	1,000,000
Self-insured retention - auto liability	150,000
Auto medical payments - per person (non-students excluded)	5,000
Self-insured retention - auto physical damage	150,000
Comprehensive & collision deductible	1,000
Garage liability - any auto (each accident)	1,000,000
Crime (\$5,000 deductible per occurrence):	
Money & securities (within premises)	500,000
Money & securities (outside premises)	500,000
Commercial blanket bond - public employee dishonesty	500,000
Depositors forgery	500,000
Boiler and machinery:	
Property damage	250,000,000
Hazardous substance	10,000,000
Spoilage damage	100,000,000
General liability:	
Per occurrence	1,000,000
Self-insurance retention	150,000
Aggregate per member	3,000,000
Sexual abuse/molestation - per occurrence	1,000,000
Sexual abuse/molestation - aggregate per member	1,000,000
Employers liability-stop gap coverage - per occurrence	1,000,000

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 9 - RISK MANAGEMENT - (Continued)

School Board legal liability and employment practices liability:	
Each loss and aggregate for each policy year - per member	\$1,000,000
Employment practices violation and Title IX	1,000,000
Breach of contract - aggregate per member	25,000
Personal injury and wrongful acts - aggregate per member	150,000
IEP claims - aggregate per member	250,000
Integration and/or desegregation - aggregate per member	100,000
Wage and hour claims - aggregate per member	100,000
Wrongful acts - aggregate per member	150,000
Excess liability:	
Per occurrence	3,000,000
Aggregate per member	3,000,000
Cyber and technology liability:	
Combined policy - aggregate limit	5,000,000
Sublimit	1,000,000
Site pollution incident:	
Per incident/district aggregate	1,000,000
Total policy aggregate	5,000,000
Deductible (except mold and legionella)	25,000
Deductible - mold and legionella	50,000
Fiduciary liability:	
Aggregate limit	1,000,000

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

NOTE 10 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

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

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NOTE 10 - DEFINED BENEFIT 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 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the entire 14 percent was allocated to pension, death benefits, and Medicare B and no portion of the employer contribution rate was allocated to the Health Care Fund.

The Center's contractually required contribution to SERS was \$440,847 for fiscal year 2017. Of this amount, \$3,943 is reported as pension and postemployment benefits payable.

Plan Description - State Teachers Retirement System (STRS)

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

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

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

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

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

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2017, plan members were required to contribute 14 percent of their annual covered salary. The Center was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The Center's contractually required contribution to STRS was \$1,411,610 for fiscal year 2017. Of this amount, \$131,399 is reported pension and postemployment benefits payable.

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

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Center's proportion of the net pension liability was based on the Center's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	SERS	STRS	Total
Proportion of the net pension liability prior measurement date	0.11175330%	0.10338433%	
Proportion of the net pension liability current measurement date	0.09875850%	0.09582460%	
Change in proportionate share	-0.01299480%	-0.00755973%	
Proportionate share of the net pension liability	\$ 7,228,211	\$ 32,075,382	\$ 39,303,593
Pension expense	\$ 576,058	\$ 1,245,281	\$ 1,821,339

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

At June 30, 2017, the Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	SERS	STRS	Total
Deferred outflows of resources			
Differences between expected and actual experience	\$ 97,492	\$ 1,296,000	\$ 1,393,492
Net difference between projected and actual earnings on pension plan investments	596,223	2,663,120	3,259,343
Changes of assumptions	482,523	-	482,523
Difference between Center contributions and proportionate share of contributions/ change in proportionate share	41,379	-	41,379
Center contributions subsequent to the measurement date	440,847	1,411,610	1,852,457
Total deferred outflows of resources	<u>\$ 1,658,464</u>	<u>\$ 5,370,730</u>	<u>\$ 7,029,194</u>
Deferred inflows of resources			
Difference between Center contributions and proportionate share of contributions/ change in proportionate share	<u>\$ 551,821</u>	<u>\$ 3,016,763</u>	<u>\$ 3,568,584</u>
Total deferred inflows of resources	<u>\$ 551,821</u>	<u>\$ 3,016,763</u>	<u>\$ 3,568,584</u>

\$1,852,457 reported as deferred outflows of resources related to pension resulting from Center contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2018	\$ 110,889	\$ (234,543)	\$ (123,654)
2019	110,461	(234,541)	(124,080)
2020	273,054	787,370	1,060,424
2021	171,392	624,071	795,463
Total	<u>\$ 665,796</u>	<u>\$ 942,357</u>	<u>\$ 1,608,153</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2016, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal (level percent of payroll)

For post-retirement mortality, the table used in evaluating allowances to be paid is the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, with 120% of male rates and 110% of female rates used. The RP-2000 Disabled Mortality Table with 90% for male rates and 100% for female rates set back five years is used for the period after disability retirement. Special mortality tables are used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an experience study that was completed June 30, 2015. As a result of the actuarial experience study, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates and (g) mortality among disable member was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US Equity	22.50	4.75
International Equity	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	<u>10.00</u>	3.00
Total	<u>100.00 %</u>	

Discount Rate - The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
Center's proportionate share of the net pension liability	\$ 9,569,701	\$ 7,228,211	\$ 5,268,287

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return *</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
 Total	 <u>100.00 %</u>	 <u>7.61 %</u>

* 10-Year annualized geometric nominal returns, which include the real rate of return and inflation of 2.50% and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

Discount Rate - The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2016.

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Center's proportionate share of the net pension liability	\$ 42,625,576	\$ 32,075,382	\$ 23,175,671

Changes Between Measurement Date and Report Date - In March 2017, the STRS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall decrease to Center's NPL is expected to be significant.

NOTE 11 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 11 - POSTEMPLOYMENT BENEFITS - (Continued)

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2017, none of the employer contribution was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2017, this amount was \$23,500. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, the Center's surcharge obligation was \$52,608.

The Center's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were \$52,608, \$50,029, and \$90,674, respectively. The fiscal year 2017 amount has been reported as pension and postemployment benefits payable. The full amount has been contributed for fiscal years 2016 and 2015.

B. State Teachers Retirement System

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

Funding Policy - Ohio 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 2017, STRS Ohio did not allocate any employer contributions to the Health Care Stabilization Fund. The Center's did not make any contributions for health care for the fiscal years ended June 30, 2017, 2016 and 2015.

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 12 - STATE AND LOCAL FUNDING

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

A. State Funding

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

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

The Am. Sub. HB 49 continued state per-pupil funding for ESCs. For fiscal year 2018, an ESC may apply to the Ohio Department of Education to be designated as a High-Performing ESC. The Educational Service Center of Lake Erie is a High-Performing ESC that will generate \$26.00 per student instead of the standard amount of \$24.00 (subject to appropriation limitations).

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

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

**EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 12 - STATE AND LOCAL FUNDING - (Continued)

B. Local Funding

ORC Section 3313.843 Contracts

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 12 - STATE AND LOCAL FUNDING - (Continued)

ORC Section 3313.845 Contracts

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

NOTE 13 - CONTINGENCIES

A. Grants

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

B. School Foundation

School district Foundation funding is based on the annualized full-time (FTE) enrollment of each student. Traditional school students must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula ODE is legislatively required to follow will continue to adjust as enrollment information is updated by the school districts, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 or June 30, 2017. Foundation funding for the Center; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the Center. A portion of the Center's foundation receipts are determined by FTE of the member school districts.

C. Contingent Liabilities

The Center serves as the sponsor for the Electronic Classroom of Tomorrow (ECOT). On June 12, 2017, the Ohio Board of Education voted to require ECOT to repay \$60 million paid out of state funds. The Ohio Department of Education (ODE) had previously determined that ECOT was overpaid for the 2015-2016 school year because many of ECOT's full-time students did not partake in the state mandated hours of instruction, and lowered ECOT's enrollment upon which funding is based. The Ode has also determined that \$13-\$19 million was overpaid to ECOT for the 2016-2017 school year. ECOT has appealed to the Ohio Supreme Court. Should the FTE findings against ECOT not be overturned by the Ohio Supreme Court, ECOT's payment will be reduced. In fact, while pending, ECOT's payments from the State are already being reduced and the State has already recovered a portion of the payments.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 13 - CONTINGENCIES - (Continued)

The Center received a fee of 1.5% of the total amount of payments for operating expenses received by ECOT from the State of Ohio (as opposed to the statutorily allowable percentage of up to 3%). As long as ECOT's payments are being reduced, the amount of the fee received by the Center are reduced as well. The Treasurer of the Center has set aside approximately \$900,000 for potential claims regarding purported overpayment of public funds.

The Center serves as the sponsor for the Buckeye Online School for Success (BOSS), and BOSS may be required by ODE to repay state per-pupil funds due to FTE issues from prior fiscal years; however, the amount is not determinable at this time.

D. Litigation

The Center is not involved in pending legal litigation.

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:

Fund	Year-End Encumbrances
General	\$ 151,414
Auxiliary services	21,750
Title VI-B	32,767
Nonmajor governmental	75,058
Total	\$ 280,989

NOTE 15 - SUBSEQUENT EVENTS

The Center issued a Notice of Intent to suspend its Sponsorship with the Electronic Classroom of Tomorrow (ECOT) on January 12, 2018. ECOT timely submitted a Plan to remedy the reasons for suspension. The first plan was deemed insufficient to cure the reasons for suspension, and ECOT submitted a second plan. That plan will be considered soon.

Along with suspending a school's operations, the Center has authority through a separate procedure to terminate a school's sponsorship contract. The Center has issued a notice of termination to ECOT for similar reasons to those supporting its intended suspension that would take effect on June 30, 2018. Under Ohio law, ECOT had the right to request an informal hearing regarding the Center's reasons for termination. ECOT timely requested an informal hearing, and the hearing occurred on February 6, 2018. The decision will be issued soon.

Oral arguments in the Ohio Supreme Court for ECOT's lawsuit against the Ohio Department of Education are scheduled for February 2018.

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FOUR FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Center's proportion of the net pension liability	0.098758500%	0.111753300%	0.11016800%	0.11016800%
Center's proportionate share of the net pension liability	\$ 7,228,211	\$ 6,376,752	\$ 5,575,540	\$ 6,551,337
Center's covered-employee payroll	\$ 3,062,993	\$ 3,364,355	\$ 3,201,263	\$ 3,048,100
Center's proportionate share of the net pension liability as a percentage of its covered-employee payroll	235.99%	189.54%	174.17%	214.93%
Plan fiduciary net position as a percentage of the total pension liability	62.98%	69.16%	71.70%	65.52%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the Center's measurement date which is the prior year-end.

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FOUR FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Center's proportion of the net pension liability	0.095842460%	0.103384330%	0.11090770%	0.11090770%
Center's proportionate share of the net pension liability	\$ 32,075,382	\$ 28,572,405	\$ 26,976,586	\$ 32,134,333
Center's covered-employee payroll	\$ 9,949,293	\$ 10,835,579	\$ 11,331,700	\$ 12,099,377
Center's proportionate share of the net pension liability as a percentage of its covered-employee payroll	322.39%	263.69%	238.06%	265.59%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	72.10%	74.70%	69.30%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the Center's measurement date which is the prior year-end.

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 440,847	\$ 428,819	\$ 443,422	\$ 443,695
Contributions in relation to the contractually required contribution	<u>(440,847)</u>	<u>(428,819)</u>	<u>(443,422)</u>	<u>(443,695)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Center's covered-employee payroll	\$ 3,148,907	\$ 3,062,993	\$ 3,364,355	\$ 3,201,263
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.18%	13.86%

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$ 421,857	\$ 406,561	\$ 429,072	\$ 494,151	\$ 348,926	\$ 376,618
<u>(421,857)</u>	<u>(406,561)</u>	<u>(429,072)</u>	<u>(494,151)</u>	<u>(348,926)</u>	<u>(376,618)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 3,048,100	\$ 3,022,758	\$ 3,413,461	\$ 3,649,564	\$ 3,545,996	\$ 3,835,214
13.84%	13.45%	12.57%	13.54%	9.84%	9.82%

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 1,411,610	\$ 1,392,901	\$ 1,516,981	\$ 1,473,121
Contributions in relation to the contractually required contribution	<u>(1,411,610)</u>	<u>(1,392,901)</u>	<u>(1,516,981)</u>	<u>(1,473,121)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Center's covered-employee payroll	\$ 10,082,929	\$ 9,949,293	\$ 10,835,579	\$ 11,331,700
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	14.00%	13.00%

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$ 1,572,919	\$ 1,589,872	\$ 1,674,185	\$ 1,695,174	\$ 1,727,538	\$ 1,718,843
<u>(1,572,919)</u>	<u>(1,589,872)</u>	<u>(1,674,185)</u>	<u>(1,695,174)</u>	<u>(1,727,538)</u>	<u>(1,718,843)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 12,099,377	\$ 12,229,785	\$ 12,878,346	\$ 13,039,800	\$ 13,288,754	\$ 13,221,869
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

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

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014 - 2017.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. For fiscal year 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates and (g) mortality among disable member was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014 - 2017.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014 - 2017. See the notes to the basic financials for the methods and assumptions in this calculation.

EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST
LUCAS COUNTY

SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

FEDERAL GRANTOR/ <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Passed Through to Subrecipients	Receipts	Disbursements
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed Through Ohio Department of Education:</i>				
<i>Nutrition Cluster:</i>				
National School Lunch Program	10.555		\$ 11,844	\$ 11,844
School Breakfast Program	10.553		5,443	5,443
Total Child Nutrition Cluster			<u>17,287</u>	<u>17,287</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>17,287</u>	<u>17,287</u>
U.S. DEPARTMENT OF TRANSPORTATION				
<i>Passed Through Ohio Department of Public Safety:</i>				
State and Community Highway Safety	20.600		55,346	72,139
U.S. DEPARTMENT OF DEFENSE				
<i>Direct Assistance</i>				
Competitive Grants: Promoting K-12 Student Achievement at Military-Connected Schools	12.556		54,248	54,248
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education:</i>				
<i>Special Education Cluster:</i>				
Special Education_Grants to States (IDEA, Part B)	84.027		1,960,827	2,132,616
Special Education_Grants to States (IDEA, Part B): Parent Mentoring			23,516	25,295
Special Education_Grants to State (IDEA, Part B): Early Literacy			8,190	8,190
Total Special Education_Grants to States			<u>1,992,533</u>	<u>2,166,101</u>
Special Education_Preschool Grants	84.173		55,327	59,186
Special Education_Preschool Grants: ARRA-Race to the Top Early Learning Discretionary			47,300	54,054
Total Special Education Preschool Grants			<u>102,627</u>	<u>113,240</u>
Total Special Education Cluster			<u>2,095,160</u>	<u>2,279,341</u>
Supporting Effective Instruction State Grants	84.367		3,950	-
Special Education - State Personnel Development	84.323		67,834	23,092
ARRA Race to the Top – Early Learning Challenge	84.412		400	421
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>2,167,344</u>	<u>2,302,854</u>
TOTAL FEDERAL AWARDS RECEIPTS AND EXPENDITURES			<u>\$ 2,294,225</u>	<u>\$ 2,446,528</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE.

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

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Receipts and Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Educational Service Center of Lake Erie West, Lucas County, Ohio (the Center) under programs of the federal government for the year ended June 30, 2017. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Center, it is not intended to and does not present the financial position or changes in net position of the Center.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C - CHILD NUTRITION CLUSTER

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

NOTE D - TRANSFERS BETWEEN PROGRAM YEARS

Federal regulations require schools to obligate certain federal awards by June 30. However, with the Ohio Department of Education’s consent, schools can transfer unobligated amounts to the subsequent fiscal year’s program. The Center transferred the following amounts from 2017 to 2018 programs:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amt. Transferred</u>
IDEA, Part B Special Education	84.027	\$ 500,364
IDEA, Early Childhood Special Education	84.173	16,967
State Personnel Development Grant	84.323	11,995

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Dave Yost • Auditor of State

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

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

To the Governing Board

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center of Lake Erie West, Lucas County, Ohio (the Center) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements and have issued our report thereon dated February 23, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

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

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

Dave Yost
Auditor of State

Columbus, Ohio

February 23, 2018



Dave Yost • Auditor of State

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

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

To the Governing Board:

Report on Compliance for the Major Federal Program

We have audited the Educational Service Center of Lake Erie West, Lucas County, Ohio's (the Center) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the Educational Service Center of Lake Erie West's major federal program for the year ended June 30, 2017. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the Center's major federal program.

Management's Responsibility

The Center's Management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the Center's compliance for the Center's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on the Major Federal Program

In our opinion, the Educational Service Center of Lake Erie West, Lucas County, Ohio complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2017.

Report on Internal Control Over Compliance

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

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

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

This report only describes the scope of our internal control over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

February 23, 2018

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

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2017**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None

3. FINDINGS FOR FEDERAL AWARDS

None

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EDUCATIONAL SERVICE CENTER OF LAKE ERIE WEST

LUCAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 8, 2018