



Dave Yost • Auditor of State



**MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER  
MUSKINGUM COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Auditor's Report .....	1
Management's Discussion and Analysis.....	5
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position .....	15
Statement of Activities .....	16
Fund Financial Statements:	
Balance Sheet	
Governmental Funds.....	17
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities .....	18
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds.....	19
Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund Balances of Governmental Funds to the Statement of Activities .....	20
Statement of Fund Net Position	
Self-Insurance Internal Service Fund.....	21
Statement of Revenues, Expenses and Changes in Fund Net Position Self-Insurance Internal Service Fund.....	22
Statement of Fiduciary Net Position	
Fiduciary Funds.....	23
Statement of Changes in Fiduciary Net Position Fiduciary Funds.....	24
Notes to the Basic Financial Statements .....	25
Required Supplementary Information:	
Schedule of the Center's Proportionate Share of the Net Pension Liability:	
School Employees Retirement System of Ohio - Last Two Fiscal Years.....	51
State Teachers Retirement System of Ohio - Last Two Fiscal Years .....	52

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER  
MUSKINGUM COUNTY

TABLE OF CONTENTS  
(Continued)

TITLE	PAGE
Required Supplementary Information (Continued):	
Schedule of Center Contributions:	
School Employees Retirement System of Ohio - Last Ten Fiscal Years .....	54
State Teachers Retirement System of Ohio - Last Ten Fiscal Years .....	56
Supplemental Information:	
Schedule of Revenues, Expenditures and Changes in Fund Balance Budget (Non-GAAP Basis) and Actual – General Fund .....	60
Schedule of Revenues, Expenditures and Changes in Fund Balance Budget (Non-GAAP Basis) and Actual – Special Education Special Revenue Fund .....	61
Notes to the Supplemental Information .....	62
Schedule of Federal Awards Receipts and Expenditures.....	65
Notes to the Schedule of Federal Awards Receipts and Expenditures .....	66
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	67
Independent Auditor's Report on Compliance with Requirements Applicable to the Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133.....	69
Schedule of Findings – OMB Circular A-133 § .505 .....	71



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Muskingum Valley Educational Service Center  
Muskingum County  
205 North Seventh Street  
Zanesville, Ohio 43701

To the Board of Education:

### ***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 Muskingum Valley Educational Service Center, Muskingum County, Ohio (the Educational Service Center), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Educational Service 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 Educational Service 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 Educational Service 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 Muskingum Valley Educational Service Center, Muskingum County, Ohio, as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 3 to the financial statements, during the year ended June 30, 2015, the Educational Service Center adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We did not modify our opinion regarding this matter.

### ***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 Educational Service Center's basic financial statements taken as a whole.

The Schedules of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual present additional analysis and are not a required part of the basic financial statements.

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

The schedules are management's responsibility, and derive from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected these schedules to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the schedules 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, these schedules are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2016, on our consideration of the Educational Service 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 Educational Service 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 "Y" and "O".

**Dave Yost**  
Auditor of State  
Columbus, Ohio

March 15, 2016

**This page intentionally left blank.**

**Muskingum Valley Educational Service Center**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2015**  
**Unaudited**

---

The discussion and analysis of the Muskingum Valley Educational Service Center's (the "Educational Service Center") financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2015. The intent of this discussion and analysis is to look at the Educational Service 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 Educational Service Center's financial performance.

### **Financial Highlights**

Key financial highlights for the fiscal year 2015 are as follows:

- Net position of governmental activities increased \$1,090,800.
- General revenues accounted for \$986,484 in revenue or 5 percent of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$19,781,771, or 95 percent of total revenues of \$20,768,255.
- The Educational Service Center had \$19,677,455 in expenses related to governmental activities; all of these expenses were offset by program specific charges for services and grants and contributions.

### **Using the 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 Muskingum Valley Educational Service Center (ESC) as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities and conditions.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole Educational Service Center, presenting both an aggregate view of the Educational Service 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 Educational Service Center's most significant funds with all other non-major funds presented in total in one column.

### ***Reporting the Educational Service Center as a Whole***

#### ***Statement of Net Position and Statement of Activities***

While this document contains information about the funds used by the Educational Service Center to provide programs and activities for School Districts, the view of the Educational Service Center as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2015?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

**Muskingum Valley Educational Service Center**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2015**  
**Unaudited**

---

These two statements report the Educational Service Center's net position and changes in position. This change in net position is important because it tells the reader that, for the Educational Service Center as a whole, the financial position of the Educational Service Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

In the Statement of Net Position and the Statement of Activities, all of the Educational Service Center's activities are reported as governmental including instruction, support services, operation of non-instructional services, and extracurricular activities.

***Reporting the Educational Service Center's Most Significant Funds***

***Fund Financial Statements***

The analysis of the Educational Service Center's major funds begins on page 11. Fund financial reports provide detailed information about the Educational Service Center's major funds. The Educational Service Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's only major governmental funds are the General Fund and the Special Education Special Revenue Fund.

***Governmental Funds*** Most of the Educational Service 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 fiscal year end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Educational Service Center's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

***Proprietary Funds*** Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match. The Educational Service Center's only fund of this type is the Self-Insurance Internal Service Fund. However, the activity of this fund is combined with the Governmental Activities on the entity wide financial statements.

***Fiduciary Funds*** – The Educational Service Center is the trustee, or fiduciary, for various scholarship programs for student scholarship programs. The Educational Service Center has an investment trust fund that accounts for all the fiscal activities of the "Ohio Coalition for Equity and Adequacy of School Funding." The Educational Service Center also has agency funds. Agency funds are custodial in nature (assets equaling liabilities) and do not involve measurements of results of operations. Fiduciary funds are excluded from the other financial statements because their assets are not available to the Educational Service Center to finance operations. Fiduciary funds use the accrual basis of accounting.

**Muskingum Valley Educational Service Center**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2015**  
**Unaudited**

**The Educational Service Center as a Whole**

Recall that the Statement of Net Position provides the perspective of the Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center's net position for 2015 compared to 2014.

**Table 1**  
**Net Position**

	2015	2014	Change
<b>Assets</b>			
Current and Other Assets	\$6,172,453	\$5,515,814	\$656,639
Capital Assets	357,168	280,601	76,567
Total Assets	<u>6,529,621</u>	<u>5,796,415</u>	<u>733,206</u>
<b>Deferred Outflows of Resources</b>			
Pension	<u>1,947,468</u>	<u>1,554,577</u>	<u>392,891</u>
<b>Liabilities</b>			
Other Liabilities	2,494,158	2,331,231	162,927
Long-Term Liabilities:			
Due Within One Year	5,747	0	5,747
Due In More Than One Year:			
Net Pension Liability	25,163,604	29,874,359	(4,710,755)
Other Amounts	972,396	909,565	62,831
Total Liabilities	<u>28,635,905</u>	<u>33,115,155</u>	<u>(4,479,250)</u>
<b>Deferred Inflows of Resources</b>			
Pension	<u>4,514,547</u>	<u>0</u>	<u>4,514,547</u>
<b>Net Position</b>			
Net Investment in Capital Assets	357,168	280,601	76,567
Restricted	480,065	85,904	394,161
Unrestricted	<u>(25,510,596)</u>	<u>(26,130,668)</u>	<u>620,072</u>
Total Net Position	<u>(\$24,673,363)</u>	<u>(\$25,764,163)</u>	<u>\$1,090,800</u>

During fiscal year 2015, the Educational Service Center adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Educational Service Center's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

**Muskingum Valley Educational Service Center**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2015**  
**Unaudited**

---

Under the new standards required by GASB 68, the net pension liability equals the Educational Service Center's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service.
2. Minus plan assets available to pay these benefits.

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Educational Service Center is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the Educational Service Center's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB 68, the Educational Service Center is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation, along with a restatement of capital assets, also had the effect of restating total net position at June 30, 2014, from \$2,555,619 to (\$25,764,163).

Total assets increased \$733,206. The primary items that impacted the change was an increase in intergovernmental receivables of \$424,520 due to an increase in the receivable for the Title VI-B Grant, an increase in cash and cash equivalents of \$215,307, an increase in capital assets of \$76,567, and an increase in accounts receivable of \$49,804, offset by decreases in prepaid items and inventory held for resale.

**Muskingum Valley Educational Service Center**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2015**  
**Unaudited**

Total liabilities decreased \$4,479,250. This was due primarily to the net pension liability decrease of \$4,710,755, offset by small increases in other liabilities.

Table 2 shows the changes in net position for the fiscal year ended June 30, 2015, and comparisons to fiscal year 2014.

**Table 2**  
**Changes in Net Position**

	Governmental Activities		
	2015	2014	Change
<b>Revenues</b>			
Program Revenues:			
Charges for Services	\$15,975,637	\$14,311,286	\$1,664,351
Operating Grants and Contributions	3,806,134	3,208,352	597,782
Total Program Revenues	<u>19,781,771</u>	<u>17,519,638</u>	<u>2,262,133</u>
General Revenues:			
Grants and Entitlements	777,782	730,905	46,877
Investment Earnings	13,971	14,702	(731)
Miscellaneous	194,731	171,445	23,286
Total General Revenues	<u>986,484</u>	<u>917,052</u>	<u>69,432</u>
Total Revenues	<u>20,768,255</u>	<u>18,436,690</u>	<u>2,331,565</u>
<b>Program Expenses</b>			
Instruction:			
Regular	586,491	572,650	13,841
Special	7,309,264	6,786,347	522,917
Adult/Continuing	63,163	61,511	1,652
Student Intervention Services	448,284	627,380	(179,096)
Support Services:			
Pupils	4,373,962	4,015,179	358,783
Instructional Staff	4,314,450	4,560,076	(245,626)
Board of Education	35,965	38,658	(2,693)
Administration	1,160,501	1,328,896	(168,395)
Fiscal	587,034	463,054	123,980
Operation and Maintenance of Plant	120,653	124,451	(3,798)
Pupil Transportation	8,359	31,224	(22,865)
Central	549,232	366,994	182,238
Operation of Non-Instructional Services:			
Community Services	104,978	119,188	(14,210)
Extracurricular Activities	15,119	25,060	(9,941)
Total Expenses	<u>19,677,455</u>	<u>19,120,668</u>	<u>556,787</u>
Change in Net Position	1,090,800	(683,978)	1,774,778
Net Position at Beginning of Year	<u>(25,764,163)</u>	N/A	N/A
Net Position at End of Year	<u>(\$24,673,363)</u>	<u>(\$25,764,163)</u>	<u>\$1,090,800</u>

**Muskingum Valley Educational Service Center**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2015**  
**Unaudited**

The information necessary to restate the fiscal year 2014 beginning balances and the fiscal year 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, fiscal year 2014 functional expenses still include pension expense of \$1,554,577 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the fiscal year 2015 statements report pension expense of \$1,123,037. Consequently, in order to compare fiscal year 2015 total program expenses to fiscal year 2014, the following adjustments are needed:

Total 2015 program expenses under GASB 68	\$19,677,455
Pension expense under GASB 68	(1,123,037)
2015 contractually required contribution	<u>1,712,136</u>
Adjusted 2015 program expenses	20,266,554
Total 2014 program expenses under GASB 27	<u>19,120,668</u>
Increase in program expenses not related to pension	<u><u>\$1,145,886</u></u>

The Educational Service Center provides special instruction, pupil support, and instructional support services to its member districts and, in some cases, districts outside its service region. Charges for services are modeled to cover the cost of the service plus an administrative fee. As economic conditions warrant, the Educational Service Center adjusts its expenditures and charges for services to maintain expenditures within its resources.

The Educational Service Center's net position increased \$1,090,800. Revenues increased \$2,331,565 and expenses increased \$556,787.

The Educational Service Center expanded its special education programs in fiscal year 2015 to sustain district requests and increases in enrollment. The Educational Service Center experienced an increase in demand for pupil support services in the areas of school psychology, speech, interpreter, and occupational therapy services.

The Statement of Activities shows the cost of program services and the charges for services and grants and contributions, offsetting those services. Table 3 shows the total cost of services and the net cost of services. In other words, it identifies the cost of those services supported by unrestricted entitlements.

**Muskingum Valley Educational Service Center**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2015**  
**Unaudited**

**Table 3**  
**Governmental Activities**

	2015 Total Cost of Services	2015 Net Cost of Services	2014 Total Cost of Services	2014 Net Cost of Services
Program Expenses				
Instruction:				
Regular	\$586,491	\$555,061	\$572,650	\$540,206
Special	7,309,264	(4,081,155)	6,786,347	(3,370,209)
Adult/Continuing	63,163	(4,762)	61,511	4,142
Student Intervention Services	448,284	79,083	627,380	(480,427)
Support Services:				
Pupils	4,373,962	2,292,152	4,015,179	3,018,086
Instructional Staff	4,314,450	589,363	4,560,076	865,082
Board of Education	35,965	35,965	38,658	38,658
Administration	1,160,501	935,509	1,328,896	1,184,876
Fiscal	587,034	(412,949)	463,054	(535,169)
Operation and Maintenance of Plant	120,653	72,216	124,451	90,926
Pupil Transportation	8,359	4,929	31,224	13,872
Central	549,232	(149,655)	366,994	164,889
Operation of Non-Instructional Services:				
Community Services	104,978	(19,904)	19,118	52,750
Extracurricular Activities	15,119	(169)	25,060	13,348
<b>Totals</b>	<b>\$19,677,455</b>	<b>(\$104,316)</b>	<b>\$19,020,598</b>	<b>\$1,601,030</b>

Special instruction programs comprise approximately 37 percent of total governmental program expenses while support services comprise approximately 57 percent of total governmental program expenses. Of the support services expenses, approximately 39 percent is for pupils, 39 percent for instructional staff, and 10 percent for administration.

**The Educational Service Center's Major Funds**

The Educational Service Center's General Fund is accounted for using the modified accrual basis of accounting. The General Fund had total revenues of \$16,788,543 and expenditures of \$16,966,995, which resulted in a decrease in fund balance of \$178,452.

The Educational Service Center's Special Education Fund is accounted for using the modified accrual basis of accounting. The Special Education Fund had total revenues of \$1,185,981 and expenditures of \$1,190,056, which resulted in a decrease in fund balance of \$4,075.

As a service organization, the Educational Service Center's primary expense is salaries and benefits.

**Muskingum Valley Educational Service Center  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2015  
Unaudited**

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal year 2015, the Educational Service Center had \$357,168 invested in land; buildings and improvements; and furniture, fixtures, and equipment. Table 4 shows fiscal year 2015 balances compared to 2014.

**Table 4  
Capital Assets at June 30, 2015  
(Net of Depreciation)**

	2015	2014
Land	\$21,155	\$21,155
Buildings and Improvements	140,382	146,548
Furniture, Fixtures, and Equipment	195,631	112,898
<b>Totals</b>	<b>\$357,168</b>	<b>\$280,601</b>

See Note 9 for more detailed information of the Educational Service Center's capital assets.

*Debt*

At June 30, 2015, the Educational Service Center only had compensated absences payable and net pension liability as long-term liabilities. For additional information, see Notes 11 and 15 to the basic financial statements.

*Economic Factors*

The Educational Service Center's net position increased \$1,090,800. As the preceding information shows, the Educational Service Center relies heavily on contracts with its member school districts in Coshocton, Hocking, Morgan, Muskingum, and Perry Counties. Existing contracts with member districts and carryover balances will fund the Educational Service Center's operations during fiscal year 2016. However, the future financial health of the Educational Service Center presents certain challenges.

General Fund revenue for the Educational Service Center is generated by two primary means: State funding and fees for services. State funding has declined as a percentage of the total revenue budget throughout the course of the Educational Service Center's existence. As a comparison of changes in State funding over time, in fiscal year 1998, State funds accounted for 70 percent of total General Fund revenue. For fiscal year 2015, state funding accounted for only five percent of the General Fund's total revenues. Muskingum Valley Educational Service Center uses its state funding to offset administrative costs. As the State of Ohio continues to reduce Educational Service Center funding, Muskingum Valley Educational Service Center must search for ways to fund its administrative costs by either raising administrative fees charged for services or serving as the fiscal agent for additional programs and grants.

**Muskingum Valley Educational Service Center**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2015**  
**Unaudited**

---

Another challenge the Educational Service Center faces is the financial circumstances of its member districts. With the uncertainty of adequate State funding, districts may not be able to continue with existing Educational Service Center services or obtain additional Educational Service Center services. As the State of Ohio reduces Educational Service Center State funding, Educational Service Center customers will be faced with higher participation and service fees.

**Contacting the Educational Service Center's Financial Management**

This financial report is designed to provide our citizens, districts, investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it receives. If you have any questions about this report or need additional financial information please contact Christine Wagner, Treasurer at the Muskingum Valley Educational Service Center, 205 North 7<sup>th</sup> Street, Zanesville, Ohio 43701. You may also email the treasurer at [christine.wagner@mvesc.org](mailto:christine.wagner@mvesc.org).

**This page intentionally left blank.**

**Muskingum Valley Educational Service Center, Ohio**

*Statement of Net Position*

*June 30, 2015*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$4,271,210
Inventory Held for Resale	61,016
Accrued Interest Receivable	2,278
Accounts Receivable	99,908
Intergovernmental Receivable	1,532,705
Prepaid Items	205,336
Nondepreciable Capital Assets	21,155
Depreciable Capital Assets, Net	336,013
	<hr/>
<i>Total Assets</i>	6,529,621
	<hr/>
<b>Deferred Outflows of Resources</b>	
Pensions	1,947,468
	<hr/>
<b>Liabilities</b>	
Accounts Payable	142,301
Accrued Wages and Benefits Payable	1,903,849
Vacation Benefits Payable	47,055
Matured Compensated Absences Payable	48,377
Intergovernmental Payable	352,576
Long-Term Liabilities:	
Due within One Year	5,747
Due in More than One Year:	
Net Pension Liability (See Note 11)	25,163,604
Other Amounts Due in More Than One Year	972,396
	<hr/>
<i>Total Liabilities</i>	28,635,905
	<hr/>
<b>Deferred Inflows of Resources</b>	
Pensions	4,514,547
	<hr/>
<b>Net Position</b>	
Net Investment in Capital Assets	357,168
Restricted for:	
Unclaimed Monies	4,461
Other Purposes	475,604
Unrestricted (Deficit)	(25,510,596)
	<hr/>
<i>Total Net Position</i>	(\$24,673,363)
	<hr/> <hr/>

See accompanying notes to the basic financial statements

**Muskingum Valley Educational Service Center, Ohio**

*Statement of Activities*

*For the Fiscal Year Ended June, 30, 2015*

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
<b>Governmental Activities</b>				
Instruction:				
Regular	\$586,491	\$0	\$31,430	(\$555,061)
Special	7,309,264	10,738,101	652,318	4,081,155
Adult/Continuing	63,163	0	67,925	4,762
Student Intervention Services	448,284	301,016	68,185	(79,083)
Support Services:				
Pupils	4,373,962	2,035,864	45,946	(2,292,152)
Instructional Staff	4,314,450	1,618,386	2,106,701	(589,363)
Board of Education	35,965	0	0	(35,965)
Administration	1,160,501	97,132	127,860	(935,509)
Fiscal	587,034	911,285	88,698	412,949
Operation and Maintenance of Plant	120,653	0	48,437	(72,216)
Pupil Transportation	8,359	0	3,430	(4,929)
Central	549,232	211,224	487,663	149,655
Operation of Non-Instructional Services:				
Community Services	104,978	52,338	72,544	19,904
Extracurricular Activities	15,119	10,291	4,997	169
<i>Totals</i>	<u>\$19,677,455</u>	<u>\$15,975,637</u>	<u>\$3,806,134</u>	<u>104,316</u>
<b>General Revenues</b>				
				777,782
Grants and Entitlements not Restricted to Specific Programs				13,971
Investment Earnings				194,731
Miscellaneous				
<i>Total General Revenues</i>				<u>986,484</u>
<i>Change in Net Position</i>				<u>1,090,800</u>
<i>Net Position (Deficit) at Beginning of Year - Restated (See Note 3)</i>				<u>(25,764,163)</u>
<i>Net Position (Deficit) at End of Year</i>				<u><u>(\$24,673,363)</u></u>

See accompanying notes to the basic financial statements

**Muskingum Valley Educational Service Center, Ohio**

*Balance Sheet  
Governmental Funds  
June 30, 2015*

	General	Special Education	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$3,947,952	\$53,364	\$75,656	\$4,076,972
Receivables:				
Accounts	43,786	0	56,122	99,908
Intergovernmental	859,039	453,120	220,546	1,532,705
Interfund	109,769	0	0	109,769
Accrued Interest	2,278	0	0	2,278
Prepaid Items	204,394	867	75	205,336
Inventory Held for Resale	61,016	0	0	61,016
Restricted Assets				
Equity in Pooled Cash and Cash Equivalents	4,461	0	0	4,461
<b>Total Assets</b>	<b>\$5,232,695</b>	<b>\$507,351</b>	<b>\$352,399</b>	<b>\$6,092,445</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts Payable	\$52,610	\$25,108	\$64,583	\$142,301
Accrued Wages and Benefits Payable	1,731,371	78,860	93,618	1,903,849
Interfund Payable	0	11,901	97,868	109,769
Matured Compensated Absences Payable	48,377	0	0	48,377
Intergovernmental Payable	322,691	13,885	16,000	352,576
<b>Total Liabilities</b>	<b>2,155,049</b>	<b>129,754</b>	<b>272,069</b>	<b>2,556,872</b>
<b>Deferred Inflows of Resources</b>				
Unavailable Revenue	318,423	377,646	45,926	741,995
<b>Fund Balances</b>				
Nonspendable				
Prepaid Items	204,394	867	75	205,336
Unclaimed Monies	4,461	0	0	4,461
Restricted for:				
Capital Improvements	0	0	4,478	4,478
State Grant Expenditures	0	0	7,861	7,861
Federal Grant Expenditures	0		957	957
Local Grant Expenditures	0	0	52,850	52,850
Committed to:				
Encumbrances	32,108	0	0	32,108
Assigned to:				
Purchases on Order	53,338	0	0	53,338
School Support Services	81,734	0	0	81,734
Unassigned (Deficits)	2,383,188	(916)	(31,817)	2,350,455
<b>Total Fund Balances</b>	<b>2,759,223</b>	<b>(49)</b>	<b>34,404</b>	<b>2,793,578</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$5,232,695</b>	<b>\$507,351</b>	<b>\$352,399</b>	<b>\$6,092,445</b>

See accompanying notes to the basic financial statements

**Muskingum Valley Educational Service Center, Ohio**  
*Reconciliation of Total Governmental Fund Balances  
to Net Position of Governmental Activities  
June 30, 2015*

---

<b>Total Governmental Fund Balances</b>	<b>\$2,793,578</b>
---	--------------------

*Amounts reported for governmental activities in the statement of net position are different because*

Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds.	357,168
---	---------

Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds:

Investment Earnings	2,278	
Tuition and Fees	253,372	
Charges for Services	61,057	
Miscellaneous	1,716	
Grants	423,572	741,995

The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/ outflows are not reported in the governmental funds:

Deferred Outflows - Pension	1,947,468	
Deferred Inflows - Pension	(4,514,547)	
Net Pension Liability	(25,163,604)	(27,730,683)

An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.

189,777

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:

Vacation Benefits Payable	(47,055)	
Sick Leave Benefits Payable	(978,143)	
	(1,025,198)	(1,025,198)

Net Position (Deficit) of Governmental Activities	(\$24,673,363)
---	----------------

See accompanying notes to the basic financial statements

**Muskingum Valley Educational Service Center, Ohio**  
*Statement of Revenues, Expenditures, and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2015*

	General	Special Education	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Intergovernmental	\$1,106,048	\$1,185,981	\$1,935,782	\$4,227,811
Investment Earnings	15,386	0	0	15,386
Tuition and Fees	10,488,710	0	0	10,488,710
Charges for Services	4,970,343	0	242,050	5,212,393
Extracurricular	10,291	0	0	10,291
Rent	4,500	0	0	4,500
Gifts and Donations	250	0	1,695	1,945
Miscellaneous	193,015	0	0	193,015
<i>Total Revenues</i>	<u>16,788,543</u>	<u>1,185,981</u>	<u>2,179,527</u>	<u>20,154,051</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	585,864	0	30,630	616,494
Special	6,867,993	0	588,319	7,456,312
Adult/Continuing	0	0	63,118	63,118
Student Intervention Services	402,895	0	70,448	473,343
Support Services:				
Pupils	4,472,336	0	47,214	4,519,550
Instructional Staff	2,701,558	959,005	827,233	4,487,796
Board of Education	36,068	0	0	36,068
Administration	999,966	0	221,261	1,221,227
Fiscal	438,391	48,325	109,444	596,160
Operation and Maintenance of Plant	81,590	27,528	12,802	121,920
Pupil Transportation	4,863	0	3,496	8,359
Central	312,119	99,937	141,081	553,137
Operation of Non-Instructional Services:				
Community Services	51,019	55,261	1,210	107,490
Extracurricular Activities	12,333	0	2,786	15,119
<i>Total Expenditures</i>	<u>16,966,995</u>	<u>1,190,056</u>	<u>2,119,042</u>	<u>20,276,093</u>
<i>Net Change in Fund Balance</i>	(178,452)	(4,075)	60,485	(122,042)
<i>Fund Balances (Deficit) at Beginning of Year</i>	<u>2,937,675</u>	<u>4,026</u>	<u>(26,081)</u>	<u>2,915,620</u>
<i>Fund Balances (Deficit) at End of Year</i>	<u><u>\$2,759,223</u></u>	<u><u>(\$49)</u></u>	<u><u>\$34,404</u></u>	<u><u>\$2,793,578</u></u>

See accompanying notes to the basic financial statements

**Muskingum Valley Educational Service Center, 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, 2015*

---

**Net Change in Fund Balances - Total Governmental Funds** (\$122,042)

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

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

Capital Asset Additions	142,378	
Depreciation Expense	(65,811)	76,567

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

Investment Earnings	(1,415)	
Tuition and Fees	249,391	
Charges for Services	11,352	
Miscellaneous	1,716	
Grants	353,160	614,204

Contractually required contributions are reported as expenditures in the governmental funds; however, the statement of net position reports these amounts as deferred outflows 1,712,136

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (1,123,037)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Vacation Benefits Payable	1,550	
Sick Leave Benefits Payable	(68,578)	(67,028)

*Change in Net Position of Governmental Activities* \$1,090,800

See accompanying notes to the basic financial statements

**Muskingum Valley Educational Service Center, Ohio**

*Statement of Fund Net Position*

*Self-Insurance Internal Service Fund*

*June 30, 2015*

---

**Current Assets**

Equity in Pooled Cash and Cash Equivalents	<u><u>\$189,777</u></u>
--	-------------------------

**Net Position**

Unrestricted	<u><u>\$189,777</u></u>
--------------	-------------------------

See accompanying notes to the basic financial statements

**Muskingum Valley Educational Service Center, Ohio**  
*Statement of Revenues, Expenses, and Changes in Fund Net Position*  
*Self-Insurance Internal Service Fund*  
*For the Fiscal Year Ended June 30, 2015*

---

<i>Net Position at Beginning of Year</i>	<u>\$189,777</u>
<i>Net Position at End of Year</i>	<u><u>\$189,777</u></u>

See accompanying notes to the basic financial statements

**Muskingum Valley Educational Service Center, Ohio**

*Statement of Fiduciary Net Position*

*Fiduciary Funds*

*June 30, 2015*

---

	Private Purpose Trust Fund	Investment Trust Fund	Agency Funds
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$33,118	\$199,176	\$0
Cash and Cash Equivalents in Segregated Accounts	<u>0</u>	<u>0</u>	<u>15,307,510</u>
Total Assets	<u>33,118</u>	<u>199,176</u>	<u>\$15,307,510</u>
<b>Liabilities</b>			
Undistributed Monies	0	0	<u>\$15,307,510</u>
<b>Net Position</b>			
Held in Trust for Pool Participants	0	199,176	
Held in Trust for Scholarships	<u>\$33,118</u>	<u>\$0</u>	

See accompanying notes to the basic financial statements

**Muskingum Valley Educational Service Center, Ohio**

*Statement of Changes in Fiduciary Net Position*

*Fiduciary Funds*

*For the Fiscal Year Ended June 30, 2015*

---

	<u>Private Purpose Trust Fund</u>	<u>Investment Trust Fund</u>
<b>Additions</b>		
Investment Earnings	\$0	\$310
<b>Deductions</b>		
Distributions to Participants	0	3,036
Capital Transactions	0	61,090
Payments in Accordance with Trust Agreements	8,100	0
Total Deductions	8,100	64,126
Change in Net Position	(8,100)	(63,816)
Net Position at Beginning of Year	41,218	262,992
Net Position at End of Year	<u>\$33,118</u>	<u>\$199,176</u>

See accompanying notes to the basic financial statements

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

---

**NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER AND REPORTING ENTITY**

The Muskingum Valley Educational Service Center (the Educational Service Center) is located in Zanesville, Ohio, the county seat. The Educational Service Center operates programs in Coshocton, Hocking, Morgan, Muskingum, and Perry counties. The Educational Service Center provides supervisory, special education, administrative, cooperative classes, multi-handicapped programming, preschool, and other services to Crooksville Exempted Village, East Muskingum Local, Franklin Local, Logan-Hocking Local, Maysville Local, Morgan Local, New Lexington City, Northern Local, Ridgewood Local, River View Local, Tri-Valley Local, West Muskingum Local, Coshocton City, Coshocton County Career Center, Mid-East Career and Technology Centers, and Zanesville City Schools. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Educational Service Center operates under a locally-elected Board form of government consisting of nine members elected at-large for staggered four year terms. The Educational Service Center has 174 support staff employees and 187 certified personnel that provide services to the school districts.

The reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements of the Educational Service Center are not misleading.

**A. Primary Government**

The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the Educational Service Center. For the Educational Service Center, this includes general operations and student related activities.

The Educational Service Center participates in the Ohio Mid-Eastern Regional Education Service Agency, Coalition of Rural and Appalachian Schools, and the Ohio Coalition of Equity and Adequacy of School Funding, which are defined as jointly governed organizations. The Educational Service Center also participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan, the Schools of Ohio Risk Sharing Authority, and the Ohio School Benefits Cooperative, which are defined as insurance purchasing pools. These organizations are presented in Notes 16 and 17.

**B. Component Units**

Component units are legally separate organizations for which the Educational Service Center is financially accountable. The Educational Service Center is financially accountable for an organization if the Educational Service Center appoints a voting majority of the organization's governing board and (1) the Educational Service Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Educational Service Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Educational Service Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Educational Service Center in that the Educational Service Center approves the budget, the issuance of debt, or the levying of taxes, and there is a potential for the organization to provide specific financial benefit to, or impose specific financial burdens on, the primary government. No separate governmental units meet the criteria for inclusion as a component unit.

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

---

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Basis Of Presentation**

The Educational Service Center's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

**Government-wide Financial Statements** The statement of net position and the statement of activities display information about the Educational Service Center as a whole. These statements include the financial activities of the primary government. These statements usually distinguish between those activities of the Educational Service Center that are governmental (primarily supported by intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges). The Educational Service Center, however, has no business-type activities.

The statement of net position presents the financial condition of the governmental activities of the Educational Service Center at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Educational Service Center's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department, and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Educational Service Center. 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 Educational Service Center.

**Fund Financial Statements** During the fiscal year, the Educational Service Center segregates transactions related to certain Educational Service Center functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Educational Service Center at this more detailed level. The focus of governmental fund financial statements is on major funds. The Educational Service Center's major funds are presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

**B. Fund Accounting**

The Educational Service Center uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds used by the Educational Service Center: governmental, proprietary, and fiduciary.

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

---

**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, liabilities, and deferred inflows of resources is reported as fund balance. The following is a description of the Educational Service Center's major governmental funds:

**General Fund** The General Fund accounts for and reports all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the Educational Service Center for any purpose, provided it is expended and transferred according to the general laws of Ohio.

**Special Education Special Revenue Fund** The Special Education Special Revenue Fund accounts for and reports federal grant monies which are restricted for special education.

The other governmental funds of the Educational Service Center account for grants and other resources whose use is restricted to a particular purpose.

**Proprietary Fund Types** Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service; the Educational Service Center has no enterprise funds.

**Internal Service Fund** The Internal Service Fund accounts for the financing of services provided by one department or agency to other departments or agencies of the Educational Service Center on a cost reimbursement basis. The Educational Service Center's only Internal Service Fund accounts for the Educational Service Center's self-insurance program for employee dental, vision, and healthcare reimbursement claims.

**Fiduciary Fund Type** 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. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center has a private purpose trust fund which accounts for the activity of the "Susan Award Writing Scholarship Program" for students and the "Mahoney Aspiring Administrator Scholarship Program" for teachers/administrators. The Educational Service Center also has an investment trust fund that accounts for all the fiscal activities of the "Ohio Coalition for Equity and Adequacy of School Funding." The Educational Service Center's agency funds account for the activity of the Southeastern Ohio Title I Consortium, which is a group of school districts that organizes professional development meetings for teachers, and for the Ohio School Benefits Cooperative, which is a claims servicing and purchasing pool, both of which the Educational Service Center acts as the fiscal agent.

**C. Measurement Focus**

**Government-wide Financial Statements** The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the Educational Service Center are included on the statement of net position. The statement of activities presents increases (revenues) and decreases (expenses) in total net position.

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

---

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

The private purpose trust fund is reported using the economic resources measurement focus.

**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. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, in the recording of deferred inflows of resources, and in the presentation of expenses versus expenditures.

**Revenues - Exchange and Non-Exchange Transactions** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means 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 Educational Service Center, available means expected to be received within 60 days of fiscal year end.

Nonexchange transactions, in which the Educational Service Center receives value without directly giving equal value in return, include grants, entitlements, and donations. On the accrual basis, revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied, provided the revenue is available. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Educational Service Center must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the Educational Service Center on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: charges for services, tuition, and grants.

**Deferred Outflows/Inflows of Resources** In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent 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 Educational Service Center, deferred outflows of resources are reported on the government-wide statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 11.

In addition to liabilities, the statements of financial position 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 until that time. For the Educational Service Center, deferred inflows of resources include pension, and unavailable revenue. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and governmental fund financial

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

---

statements. 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 Educational Service Center, unavailable revenue includes tuition and fees, investment earnings, charges for services, and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 11)

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

The purpose of 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. Cash and Cash Equivalents**

To improve cash management, cash received by the Educational Service Center is pooled. Monies for all funds, excluding the agency funds, are maintained in these accounts or temporarily used to purchase short term investments. Individual fund integrity is maintained through Educational Service Center records. Interest in the pool is presented as “Equity in Pooled Cash and Cash Equivalents” on the financial statements.

The Educational Service Center has a segregated bank account for monies held separate from the Educational Service Center’s central bank account. This account maintains monies received in the Educational Service Center’s capacity as fiscal agent for the Ohio School Benefits Cooperative. This interest bearing depository account is presented on the financial statements as “Cash and Cash Equivalents in Segregated Accounts” since it is not deposited into the Educational Service Center treasury.

During fiscal year 2015, investments were limited to certificates of deposit. The Educational Service Center reports its nonnegotiable certificates of deposit at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2015 amounted to \$15,386, which includes \$12,101 assigned from other Educational Service Center funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Educational Service Center are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

**F. Receivables and Payables**

Receivables and payables on the Educational Service Center’s financial statements are recorded to the extent that the amounts are determined material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and in the case of receivables, collectability.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2015, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

---

time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

**H. Inventory**

Inventories are presented at cost on a first-in, first-out basis and are expensed/expended when used. Inventories consist of instructional materials held for resale.

**I. Capital Assets**

The Educational Service Center's only capital assets are general capital assets. 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, except land, are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. The Educational Service Center was able to estimate the historical cost for the initial reporting of capital assets by backtrending (i.e., estimating the current replacement cost of the assets to be capitalized and using an appropriate price-index to deflate the costs to the acquisition year or estimated acquisition year). Donated fixed assets are recorded at their fair market values as of the date received. The Educational Service Center maintains a capitalization threshold of five hundred dollars. The Educational Service Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	15-30 years
Furniture, Fixtures, and Equipment	3-15 years

**J. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Educational Service Center will compensate the employees for the benefits through paid time off or some other means. The Educational Service Center records a liability for accumulated unused vacation time when earned for all employees.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Educational Service Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year-end, taking into consideration any limits specified in the Educational Service Center's termination policy. The Educational Service Center records a liability for accumulated unused sick leave for all employees after ten years of service with one of the State retirement systems.

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

---

and retirements. These amounts are recorded in the account “Matured Compensated Absences Payable” in the funds from which these payments will be paid.

**K. Accrued Liabilities and Long-Term Obligations**

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and net pension liability that are 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. Internal Activity**

Transfers within governmental activities are eliminated on the government-wide statements.

Internal allocations of overhead expenses from one program to another or within the same program are eliminated on the Statement of Activities. Payments for interfund services provided and used are not eliminated.

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 financial statements.

**M. Restricted Assets**

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other government or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the General Fund represent cash and cash equivalents restricted for unclaimed monies.

**N. Fund Balance**

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

**Nonspendable:** The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” includes items that are not expected to be converted to cash.

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

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

---

**Committed:** The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action (resolution) of the Board of Education. Those committed amounts cannot be used for any other purpose unless the Board of Education 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 the use in satisfying those contractual requirements.

**Assigned:** Amounts in the assigned fund balance classification are intended to be used by the Educational Service Center for specific purposes but do not meet the criteria to be classified as restricted or 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 the Board of Education.

**Unassigned:** The unassigned fund balance is the residual classification for the General Fund and includes amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Educational Service Center applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are 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 the amounts in any of the unrestricted fund balance classifications could be used.

**O. 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.

**P. Net Position**

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes include resources restricted for local, federal and state grants restricted for specified purposes.

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

**Q. Estimates**

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

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

---

**NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF NET POSITION**

For fiscal year 2015, the Educational Service Center has implemented Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions," and Statement No. 71, "Pension Transition for Contributions made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68." GASB Statement No. 68 establishes standards for measuring and recognizing pension liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditure.

The implementation of this pronouncement had the following effect on net position as reported June 30, 2014:

Net Position June 30, 2014	\$2,555,619
Adjustments:	
Net Pension Liability	(29,874,359)
Deferred Outflow - Payments Subsequent to Measurement Date	<u>1,554,577</u>
Restated Net Position June 30, 2014	<u><u>(\$25,764,163)</u></u>

Other than employer contributions subsequent to the measurement date, the Educational Service Center made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

**NOTE 4 - FUND DEFICITS**

The following special revenue funds had deficit fund balances as of June 30, 2015:

Public School Preschool	\$21,934
EHA Preschool Handicap	8,094
21st Century	676
Center of Practice	224
Miscellaneous Federal Grants	889

The deficits were the result of the application of generally accepted accounting principles. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

**NOTE 5 - DEPOSITS AND INVESTMENTS**

Monies held by the Educational Service Center are classified by State statute into three categories.

Active deposits are public deposits determined to be necessary to meet current demands on the treasury. Active monies must be maintained either as cash in the Educational Service 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 the Board of Education 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.

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

---

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 held by the Educational Service Center may be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury or any obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and obligations of the State of Ohio;
5. Time certificates of deposits or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) above;
7. The State Treasurer's investment pool (STAR Ohio); and,
8. Commercial paper and bankers acceptances if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Educational Service Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year-end, \$13,320,472 of the Educational Service Center's bank balance of \$20,816,714 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirement could potentially subject the Educational Service Center to a successful claim by the FDIC.

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

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

---

**NOTE 6 - STATE FUNDING**

The Educational Service Center, under state law, provides supervisory services to the local school districts within its territory. Each city and exempted village school district that entered into an agreement with the Educational Service Center is considered to be provided supervisory services. The cost of the supervisory services is determined by formula under State law. The State Department of Education apportions the costs for all supervisory services among the Educational Service Center's local school districts based on each school's total student count.

The Department of Education deducts each school district's amount from their State Foundation Program settlements and remits the amount to the Educational Service Center. The Educational Service Center may provide additional supervisory services if the majority of local school districts agree to the services and the apportionment of the costs to all of the local school districts.

The Educational Service Center also receives funding from the State Department of Education in the amount of \$37.00 times the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all local school districts within the Educational Service Center's territory and all of the Educational Service Center's client school districts. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the Educational Service Center's local and client school districts an amount equal to \$6.50 times the school district's total student count and remits this amount to the Educational Service Center.

The Educational Service Center may contract with city, exempted village, local, joint vocational, or cooperative education school districts to provide special education and related services or career-technical education services. The individual boards of education pay the costs for these services directly to the Educational Service Center.

**NOTE 7 - INTERFUND ACTIVITY**

Interfund balances at June 30, 2015, arise from the provision of cash flow resources from the General Fund until the receipt of grant monies by the Special Revenue Funds for \$21,334, and \$88,435 due to the General Fund from Special Revenue Funds for cash deficits.

	<u>Receivable</u>	<u>Payable</u>
General Fund	<u>\$109,769</u>	<u>\$0</u>
Special Education Fund	<u>0</u>	<u>11,901</u>
Other Governmental Funds:		
Public Preschool	0	8,551
Miscellaneous State Grants	0	3,201
Race to the Top	0	54,050
Center of Practice Grant	0	2,974
21st Century Grant	0	8,498
Miscellaneous Federal Grants	<u>0</u>	<u>20,594</u>
Total Other Governmental Funds	<u>0</u>	<u>97,868</u>
Total All Funds	<u><u>\$109,769</u></u>	<u><u>\$109,769</u></u>

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

**NOTE 8 - RECEIVABLES**

Receivables at June 30, 2015, consisted of accounts receivable (charges for services, excess costs), interfund, accrued interest, and intergovernmental grants. All receivables are considered collectible in full due to the stable condition of State programs and the current fiscal year guarantee of federal funds. All receivables are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amounts</u>
Tuition	\$598,198
Program Costs	260,841
Early Childhood Education Grant	50,170
State Grants	16,890
IDEA B Grant	453,120
ABLE Grant	7,829
Early Childhood Special Education Grant	6,511
Early Childhood Special Education Discretionary Grant	13,317
Race to the Top Grant	54,043
Ohio Teacher Evaluation System Grant	3,202
Federal Grants	56,246
21st Century Grant	<u>12,338</u>
Total	<u><u>\$1,532,705</u></u>

**NOTE 9 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

	<u>Balance</u> <u>June 30, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2015</u>
<u>Nondepreciable Capital Assets</u>				
Land	<u>\$21,155</u>	<u>\$0</u>	<u>\$0</u>	<u>\$21,155</u>
<u>Depreciable Capital Assets</u>				
Buildings and Improvements	285,154	0	0	285,154
Furniture, Fixtures, and Equipment	<u>1,095,480</u>	<u>142,378</u>	<u>(65,230)</u>	<u>1,172,628</u>
Total at Historical Cost	<u>1,380,634</u>	<u>142,378</u>	<u>(65,230)</u>	<u>1,457,782</u>
Less Accumulated Depreciation				
Buildings and Improvements	(138,606)	(6,166)	0	(144,772)
Furniture, Fixtures, and Equipment	<u>(982,582)</u>	<u>(59,645)</u>	65,230	<u>(976,997)</u>
Total Accumulated Depreciation	<u>(1,121,188)</u>	<u>(65,811) *</u>	<u>65,230</u>	<u>(1,121,769)</u>
Depreciable Capital Assets, Net of Accumulated Depreciation	<u>259,446</u>	<u>76,567</u>	<u>0</u>	<u>336,013</u>
Governmental Activities Capital Assets, Net	<u><u>\$280,601</u></u>	<u><u>\$76,567</u></u>	<u><u>\$0</u></u>	<u><u>\$357,168</u></u>

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

---

\* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$5,492
Special	11,173
Student Intervention Services	2,623
Support Services:	
Pupils	457
Instructional Staff	15,772
Administration	29,620
Fiscal	605
Central	69
	<hr/>
Total Depreciation Expense	<u>\$65,811</u>

**NOTE 10 - RISK MANAGEMENT**

The Educational Service Center is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2015, the Educational Service Center participated with other school districts in the Schools of Ohio Risk Sharing Authority (SORSA), a public entity insurance purchasing pool. Each individual school district enters into an agreement with SORSA and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The Educational Service Center pays this annual premium to SORSA. (See Note 17)

The types and amounts of coverage provided by the SORSA are as follows:

Building and Contents (deductible waived)

Building	\$2,243,774
Personal Property	100,000
Valuable Paper and Records	1,000,000
Accounts Receivable	1,000,000
Extra Expense	2,000,000
Business Income	2,000,000

Earthquake (\$50,000 deductible) 2,000,000

Crime Insurance (deductible waived)

Employee Theft	100,000
Forgery or Alteration	100,000
Computer Fraud	100,000

Inland Marine (deductible waived)

Electronic Data Processing Media and Data Reproduction	1,250,000
--	-----------

Fleet Insurance (deductible waived)

Automobile Liability (per occurrence)	15,000,000
Uninsured Motorists (per occurrence)	1,000,000

General Liability (deductible waived)

Per Occurrence	15,000,000
Aggregate Limit	17,000,000

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

---

Educational Legal Liability for General Liability (deductible waived)

Errors and Omissions

Per Occurrence	\$15,000,000
Aggregate Limit	15,000,000

Settled claims have not exceeded coverage in any of the past three years. There have been no significant reductions in insurance coverage from last year.

For fiscal year 2015, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control, and actuarial services to the GRP.

In previous fiscal years, dental, vision, and healthcare reimbursement insurance was offered to employees of Perry-Hocking Educational Service Center through a self-insurance internal service fund. This program was discontinued on December 31, 2011. The Educational Service Center is currently awaiting a legal opinion as to the proper way to disburse the remaining balance of this fund.

**NOTE 11 - DEFINED BENEFIT PENSION PLANS**

**A. 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 Educational Service 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.

Ohio Revised Code limits the Educational Service Center's obligation for this liability to annually required payments. The Educational Service Center cannot control benefit terms or the manner in which pensions are financed; however, the Educational Service 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

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

---

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 intergovernmental payable on both the accrual and modified accrual bases of accounting.

***Plan Description - School Employees Retirement System (SERS)***

Plan Description – Educational Service 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](http://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 on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service 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, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

---

The Educational Service Center's contractually required contribution to SERS was \$495,518 for fiscal year 2015. Of this amount, \$61,046 is reported as an intergovernmental payable.

***Plan Description - State Teachers Retirement System (STRS)***

Plan Description – The Educational Service Center's 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](http://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.

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

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The Educational Service Center was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The Educational Service Center's contractually required contributions to STRS was \$1,216,618 for fiscal year 2015. Of this amount, \$164,937 is reported as an intergovernmental 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, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The Educational Service Center's proportion of the net pension liability was based on the Educational Service Center's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$6,203,046	\$18,960,558	\$25,163,604
Proportion of the Net Pension Liability	0.122567%	0.07795173%	
Pension Expense	\$366,296	\$756,741	\$1,123,037

At June 30, 2015, the Educational Service Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$52,795	\$182,537	\$235,332
Center contributions subsequent to the measurement date	495,518	1,216,618	1,712,136
Total Deferred Outflows of Resources	<u>\$548,313</u>	<u>\$1,399,155</u>	<u>\$1,947,468</u>
<b>Deferred Inflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	<u>\$1,006,772</u>	<u>\$3,507,775</u>	<u>\$4,514,547</u>

\$1,712,136 reported as deferred outflows of resources related to pension resulting from the Educational Service Center contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

---

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2016	(\$238,361)	(\$831,310)	(\$1,069,671)
2017	(238,361)	(831,310)	(1,069,671)
2018	(238,361)	(831,310)	(1,069,671)
2019	(238,894)	(831,308)	(1,070,202)
Total	<u>(\$953,977)</u>	<u>(\$3,325,238)</u>	<u>(\$4,279,215)</u>

***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, 2014, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

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

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

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

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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:

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

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Center's proportionate share of the net pension liability	\$8,849,903	\$6,203,046	\$3,976,810

**Actuarial Assumptions - STRS**

The total pension liability in the June 30, 2014, 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

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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, 2014, 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>	

**Discount Rate** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. 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, 2014. 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, 2014.

**Sensitivity of the Educational Service Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents the Educational Service 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 Educational Service 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:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
Educational Service Center's proportionate share of the net pension liability	\$27,144,107	\$18,960,558	\$12,040,031

**B. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

---

Employees Retirement System / State Teachers Retirement System. As of June 30, 2015, four members of the Board of Education elected Social Security. The Board's liability is 6.2 percent of wages paid.

**NOTE 12 - POST-EMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

Health Care Plan Description - The Educational Service 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](http://www.ohsers.org) under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the 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 2015, 0.82 percent of covered payroll 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 2015, this amount was \$20,450. 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 2015, the Educational Service Center's surcharge obligation was \$63,504.

The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013, were \$30,829, \$36,970, and \$37,101 respectively. For fiscal year 2015, 94.14 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2014 and 2013.

**B. State Teachers Retirement System**

Plan Description - The Educational Service 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](http://www.strsoh.org) or by calling (888) 227-7877.

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

---

Funding Policy – Ohio Revised Code Chapter 3307 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. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to post-employment health care. The Educational Service Center’s contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013, were \$0, \$82,019, and \$77,068 respectively. The full amount has been contributed for all three fiscal years.

**NOTE 13 - EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees and administration employees earn ten to twenty-five days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 180 days for employees working 182 days to 191 days, 192 days for employees working 192 days to 201 days, and 202 days for employees working 202 days. Upon retirement, payment is made for accrued, but unused sick leave credit to a maximum of 40 days for employees working 182 to 191 days and 45 days for employees working 192 days or more.

**B. Insurance Benefits**

The Educational Service Center provides medical/surgical insurance through Medical Mutual of Ohio for all eligible employees. The Educational Service Center pays between 80 to 100 percent of the cost of both the individual plans and the monthly family coverage premiums, depending on the plan selected by the employee. Premiums are paid from the same funds that pay the employees’ salaries.

The Educational Service Center pays the total cost for life and dental insurance for its employees. Life insurance is provided through SCS Life, and dental insurance is provided through Coresource.

**NOTE 14 - OPERATING LEASE**

The Educational Service Center is obligated under an operating lease to Muskingum County for the rental of office space for a period of twenty years. The Educational Service Center paid to the County half of the lease obligation (\$400,000), in December of 1996. The operating lease does not give rise to property rights or lease obligations, and therefore the results of the lease agreement are not reflected in the Educational Service Center’s financial statements. The following is a schedule by years of future minimum rental payments required under the operating lease that have remaining noncancelable lease terms in excess of one year as of June 30, 2015:

Fiscal Year Ending June 30,	Total
2016	\$46,020
2017	23,010
Total minimum lease payments	<u>\$69,030</u>

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

---

**NOTE 15 - LONG-TERM OBLIGATIONS**

The changes in the Educational Service Center's long-term obligations during fiscal year 2015 were as follows:

	<u>Outstanding 6/30/2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Outstanding 6/30/2015</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>					
Net Pension Liability:					
STRS	\$22,585,693	\$0	\$3,625,135	\$18,960,558	\$0
SERS	7,288,666	0	1,085,620	6,203,046	0
Total Net Pension Liability	<u>29,874,359</u>	<u>0</u>	<u>4,710,755</u>	<u>25,163,604</u>	<u>0</u>
Sick Leave Benefits Payable	<u>909,565</u>	<u>208,201</u>	<u>139,623</u>	<u>978,143</u>	<u>5,747</u>
Total Governmental Activities Long Term Liabilities	<u>\$30,783,924</u>	<u>\$208,201</u>	<u>\$4,850,378</u>	<u>\$26,141,747</u>	<u>\$5,747</u>

Compensated absences will be paid from the General Fund. The Educational Service Center pays obligations related to employee compensation from the fund benefitting from their service. For additional information related to the net pension liability, see Note 11.

**NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS**

**A. Ohio Mid-Eastern Regional Education Service Agency (OME-RESA)**

OME-RESA was created as a regional council of governments pursuant to State statutes. OME-RESA has 11 participating counties consisting of Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Muskingum, Noble and Tuscarawas Counties. OME-RESA is governed by a governing board which is selected by member districts. OME-RESA possesses its own budgeting and taxing authority. The Educational Service Center's payments to OME-RESA for computer services for fiscal year 2015 were \$17,350. To obtain financial information write to the Ohio Mid-Eastern Regional Education Service Agency, Attn: Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio 43952.

**B. Coalition of Rural and Appalachian Schools**

The Coalition of Rural and Appalachian Schools is a jointly governed organization composed of 136 Educational Service Centers and other educational institutions in the 35-county region of Ohio designated as Appalachia. The Coalition is operated by a Board which is composed of seventeen members. One elected and one appointed from each of the seven regions into which the 35 Appalachian counties are divided; and three from Ohio University College of Education. The Council provides various in-service training programs for Educational Service Center administrative personnel; gathers data regarding the level of education provided to children in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for Educational Service Center personnel. The Educational Service Center membership fees were \$325 during fiscal year 2015. The financial information for the Coalition can be obtained from the Executive Director, at McCracken Hall, Ohio University, Athens, Ohio 45701.

**C. Ohio Coalition for Equity and Adequacy of School Funding**

The Ohio Coalition for Equity and Adequacy of School Funding is a regional council of governments established in January 1991. The purpose of the Coalition is to bring about greater equity and adequacy of public school funding in Ohio. The Coalition is governed by a steering committee consisting of

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

---

representatives from the membership group. The steering committee consists of not more than 78 representatives, who are Superintendents of Boards of Education that are Coalition members, plus an additional 12 representatives may be appointed by the Chairperson. The Educational Service Center's membership fee was \$1,000 for fiscal year 2015. The Education Service Center serves as the fiscal agent of the Coalition and financial activity of the Coalition is reported as an investment trust fund as discussed in Note 20.

**NOTE 17 - INSURANCE PURCHASING POOLS**

**A. Ohio School Boards Association Workers' Compensation Group Rating Plan**

The Educational Service Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating Educational Service Centers pay an enrollment fee to the GRP to cover the costs of administering the program.

**B. Schools of Ohio Risk Sharing Authority**

The Educational Service Center participates in the Schools of Ohio Risk Sharing Authority (SORSA), a protected self-insurance purchasing pool under the authority of Ohio Revised Code 2744. Ninety-one school districts, educational service centers, and joint vocational school districts participate in the SORSA. SORSA is governed by a body elected by members. Members agree to jointly participate in coverages of losses and pay all contributions necessary for the specified insurance coverages provided by SORSA. These coverages include comprehensive general liability, automobile liability, certain property insurance, and public officials errors and omissions liability insurance.

**C. Ohio School Benefits Cooperative**

The Educational Service Center participates in the Ohio School Benefits Cooperative, a claims servicing and group purchasing pool composed of fifteen members. The Ohio School Benefits Cooperative (OSBC) is created and organized pursuant to and as authorized by Section 9.833 of the Ohio Revised Code. OSBC is governed by a nine member Board of Directors, all of whom must be school district and/or educational service center administrators. The Muskingum Valley Educational Service Center serves as the fiscal agent for OSBC. OSBC is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to maximize benefits and/or reduce costs of medical, prescription drug, vision, dental, life, and/or other group insurance coverages for their employees and the eligible dependents, and designated beneficiaries of such employees.

Participants pay a \$500 membership fee to OSBC. OSBC offers two options to participants. Participants may enroll in the joint insurance purchasing program for medical, prescription drug, vision dental and/or life insurance. A second option is available for self-insured participants that provides for the purchase of stop loss insurance coverage through OSBC's third party administrator. Medical Mutual/Antares is the Administrator of the OSBC. On October 1, 2006, the Educational Service Center elected to participate in the joint insurance purchasing program for medical, prescription drug, and dental coverage.

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

---

**NOTE 18 - CONTINGENCIES**

**A. Grants**

The Educational Service Center received financial assistance from federal and State agencies in the form of grants. The expenditure 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 General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2015.

**B. Litigation**

The Educational Service Center is currently party to any litigation, however, the outcome of this litigation is unknown, and any judgment would be immaterial to the financial statements.

**NOTE 19 - SIGNIFICANT COMMITMENTS**

Encumbrances are commitments to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At fiscal year end, the amount of encumbrances expected to be honored upon performance by the vendor in the next fiscal year were as follows:

<u>Governmental Funds</u>	
General Fund	\$143,694
Other Nonmajor Governmental Funds	<u>294,255</u>
Total All Funds	<u><u>\$437,949</u></u>

**NOTE 20 - INVESTMENT TRUST FUND**

Effective June 25, 2004, the Educational Service Center began to serve as fiscal agent for the Ohio Coalition of Equity and Adequacy of School Funding (the Coalition), a legally separate entity. The Educational Service Center pooled the moneys of the Coalition with its own for investment purposes. Participation in the pool is voluntary. The investment trust fund is not registered with the SEC as an investment company. The fair value of investments is determined annually. The pool does not issue shares. Each participant will be allocated a pro rata share of each investment at fair value, along with the pro rata share of the interest that it earns. Condensed financial information for the investment pool follows:

Statement of Net Position  
June 30, 2015

<i>Assets:</i>	
Equity in Pooled Cash and Cash Equivalents	\$4,503,504
Accrued Interest Receivable	<u>2,278</u>
<b>Total Assets</b>	<b><u><u>\$4,505,782</u></u></b>
 <i>Net Position Held in Trust for Pool Participants:</i>	
Internal Portion	\$4,306,606
External Portion	<u>199,176</u>
<b>Total Net Position Held in Trust for Pool Participants</b>	<b><u><u>\$4,505,782</u></u></b>

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

---

Statement of Changes in Net Position  
For the Fiscal Year Ended June 30, 2015

<b><i>Additions:</i></b>	
Interest Income	\$14,281
<b><i>Deductions:</i></b>	
Operating Deductions	0
Net Increase in Assets Resulting from Operations	14,281
Distributions paid to Participants	(15,696)
Capital Transactions	143,391
<b><i>Total Deductions</i></b>	<b>127,695</b>
Total Increase in Net Position	141,976
<b><i>Net Position at Beginning of Year</i></b>	<b>4,363,806</b>
<b><i>Net Position at End of Year</i></b>	<b>\$4,505,782</b>

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Educational Service Center's Investment Trust will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$3,531,701 of the Educational Service Center's Investment Trust bank balance of \$5,315,534 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirement could potentially subject the Educational Service Center to a successful claim by the FDIC.

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

**Muskingum Valley Educational Service Center, Ohio**  
*Required Supplementary Information*  
*Schedule of the Center's Proportionate Share of the Net Pension Liability*  
*School Employees Retirement System of Ohio*  
*Last Two Fiscal Years (1)*

	2014	2013
Center's Proportion of the Net Pension Liability	0.122567%	0.122567%
Center's Proportionate Share of the Net Pension Liability	\$6,203,046	\$7,288,666
Center's Covered-Employee Payroll	\$3,592,633	\$3,093,411
Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	172.66%	235.62%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.70%	65.52%

(1) Information prior to 2013 is not available.

Amounts presented as of the Center's measurement date which is the prior fiscal year end.

**Muskingum Valley Educational Service Center, Ohio**  
*Required Supplementary Information*  
*Schedule of the Center's Proportionate Share of the Net Pension Liability*  
*State Teachers Retirement System of Ohio*  
*Last Two Fiscal Years (1)*

	2014	2013
Center's Proportion of the Net Pension Liability	0.07795173%	0.07795173%
Center's Proportionate Share of the Net Pension Liability	\$18,960,558	\$22,585,693
Center's Covered-Employee Payroll	\$8,127,986	\$7,579,840
Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	233.27%	297.97%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.70%	69.30%

(1) Information prior to 2013 is not available.

Amounts presented as of the Center's measurement date which is the prior fiscal year end.

**This page intentionally left blank.**

**Muskingum Valley Educational Service Center, Ohio**

*Required Supplementary Information  
Schedule of Center Contributions  
School Employees Retirement System of Ohio  
Last Ten Fiscal Years*

---

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually Required Contribution	\$495,518	\$497,939	\$405,237	\$295,249
Contributions in Relation to the Contractually Required Contribution	<u>(495,518)</u>	<u>(497,939)</u>	<u>(405,237)</u>	<u>(295,249)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Center Covered-Employee Payroll	\$3,759,621	\$3,592,633	\$3,093,411	\$2,324,796
Contributions as a Percentage of Covered-Employee Payroll	13.18%	13.86%	13.10%	12.70%

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$194,240	\$196,350	\$133,521	\$117,975	\$118,841	\$109,690
<u>(194,240)</u>	<u>(196,350)</u>	<u>(133,521)</u>	<u>(117,975)</u>	<u>(118,841)</u>	<u>(109,690)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$1,644,709	\$1,536,387	\$1,468,879	\$1,287,935	\$1,112,740	\$1,036,764
11.81%	12.78%	9.09%	9.16%	10.68%	10.58%

**Muskingum Valley Educational Service Center, Ohio**

*Required Supplementary Information  
Schedule of Center Contributions  
State Teachers Retirement System of Ohio  
Last Ten Fiscal Years*

---

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually Required Contribution	\$1,216,618	\$1,056,638	\$985,379	\$792,671
Contributions in Relation to the Contractually Required Contribution	<u>(1,216,618)</u>	<u>(1,056,638)</u>	<u>(985,379)</u>	<u>(792,671)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Center Covered-Employee Payroll	\$8,690,129	\$8,127,986	\$7,579,840	\$6,097,466
Contributions as a Percentage of Covered-Employee Payroll	14.00%	13.00%	13.00%	13.00%

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$608,551	\$623,506	\$612,634	\$487,866	\$456,453	\$424,154
<u>(608,551)</u>	<u>(623,506)</u>	<u>(612,634)</u>	<u>(487,866)</u>	<u>(456,453)</u>	<u>(424,154)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$4,681,163	\$4,796,203	\$4,712,572	\$3,752,817	\$3,511,179	\$3,262,724
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

**This page intentionally left blank.**

## **Supplemental Information**

**Muskingum Valley Educational Service Center, Ohio**  
*Schedule of Revenues, Expenditures, and Changes*  
*in Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2015*

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>Revenues</b>				
Intergovernmental	\$991,468	\$991,468	\$1,106,048	\$114,580
Investment Earnings	15,000	15,000	15,386	386
Tuition and Fees	11,300,361	11,300,361	10,505,800	(794,561)
Charges for Services	4,126,198	4,146,198	4,977,626	831,428
Extracurricular Activities	0	0	10,291	10,291
Rent	0	0	4,500	4,500
Gifts and Donations	68	68	250	182
Miscellaneous	39,495	39,495	144,166	104,671
<b>Total Revenues</b>	<b>16,472,590</b>	<b>16,492,590</b>	<b>16,764,067</b>	<b>271,477</b>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	735,346	735,346	563,653	171,693
Special	7,308,932	7,308,932	6,769,954	538,978
Student Intervention Services	601,270	601,270	408,589	192,681
Support Services:				
Pupils	4,019,700	4,019,700	4,440,442	(420,742)
Instructional Staff	2,586,626	2,691,226	2,671,068	20,158
Board of Education	38,768	38,768	36,684	2,084
Administration	1,018,298	1,018,298	1,063,090	(44,792)
Fiscal	427,436	427,436	429,483	(2,047)
Operation and Maintenance of Plant	67,732	67,732	75,121	(7,389)
Pupil Transportation	4,000	4,000	3,367	633
Central	309,047	309,047	328,476	(19,429)
Community Services	0	0	48,296	(48,296)
Extracurricular Activities	0	0	10,706	(10,706)
<b>Total Expenditures</b>	<b>17,117,155</b>	<b>17,221,755</b>	<b>16,848,929</b>	<b>372,826</b>
Excess of Revenues Over (Under) Expenditures	(644,565)	(729,165)	(84,862)	644,303
<b>Other Financig Sources (Uses)</b>				
Refund of Prior Year Expenditures	738,544	738,544	36,244	(702,300)
Refund of Prior Year Receipts	(330)	(330)	0	330
Other Financing Uses	(25,000)	(25,000)	0	25,000
<b>Total Other Financing Sources and Uses</b>	<b>713,214</b>	<b>713,214</b>	<b>36,244</b>	<b>(676,970)</b>
Net Change in Fund Balances	68,649	(15,951)	(48,618)	(32,667)
Fund Balance at Beginning of Year	3,726,957	3,726,957	3,726,957	0
Prior Year Encumbrances Appropriated	137,913	137,913	137,913	0
<b>Fund Balance at End of Year</b>	<b>\$3,933,519</b>	<b>\$3,848,919</b>	<b>\$3,816,252</b>	<b>(\$32,667)</b>

**Muskingum Valley Educational Service Center, Ohio**  
*Schedule of Revenues, Expenditures, and Changes  
in Fund Balance - Budget (Non-GAAP Basis) and Actual  
Special Education Special Revenue Fund  
For the Fiscal Year Ended June 30, 2015*

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>Revenues</b>				
Intergovernmental	\$1,619,738	\$1,950,980	\$1,164,194	(\$786,786)
<b>Expenditures</b>				
Current:				
Support Services:				
Instructional Staff	1,231,649	1,430,992	955,751	475,241
Fiscal	71,225	70,517	50,910	19,607
Operation and Maintenance of Plant	36,727	52,393	27,528	24,865
Central	243,283	349,438	99,750	249,688
Community Services	70,887	81,673	54,841	26,832
Total Expenditures	1,653,771	1,985,013	1,188,780	796,233
Net Change in Fund Balances	(34,033)	(34,033)	(24,586)	9,447
Fund Balance (Deficit) at Beginning of Year	(28,534)	(28,534)	(28,534)	0
Prior Year Encumbrances Appropriated	62,567	62,567	62,567	0
Fund Balance at End of Year	\$0	\$0	\$9,447	\$9,447

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Supplemental Information*

*For the Fiscal Year Ended June 30, 2015*

---

**NOTE 1 - BUDGETARY PROCESS**

There are no budgetary requirements for Educational Service Centers identified in the Ohio Revised Code nor does the State Department of Education specify any budgetary guidelines to be followed. The Educational Service Center adopts its budget on or before the start of the new fiscal year. Included in the budget are estimated resources and expenditures for each fund. Upon review by the Educational Service Center's Board, the annual appropriation resolution is adopted. After the start of the fiscal year, the estimated resources are revised to include the actual beginning of the fiscal year fund balances and accepted by the Board. Both the estimated resources and appropriations may be amended or supplemented throughout the year as circumstances warrant.

**A. Appropriations**

The annual appropriation resolution is enacted by the Educational Service Center at the fund level of expenditures, which are the levels of budgetary control. Prior to the passage of the annual appropriation measure, the Educational Service Center may pass a temporary appropriation measure to meet the ordinary expenditures of the Educational Service Center. The appropriation resolution, by fund, must be within the estimated resources and the total expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation must be approved by the Educational Service Center. The Educational Service Center may pass supplemental appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions.

**B. Lapsing of Appropriations**

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the subsequent fiscal year and need not be reappropriated.

**C. Budgetary Basis of Accounting**

The Educational Service Center's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP).

The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than restricted, committed, or unassigned fund balance (GAAP basis).

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Supplemental Information  
For the Fiscal Year Ended June 30, 2015*

4. Reclassification of excess of expenditures over revenues into financial statement fund types represents the perspective difference between GAAP basis statements and budget basis statements due to the combining of additional funds (Public School Support – 018 Fund) on a GAAP basis but not including them on the budget basis.
  
5. Prepaid items and negative cash advances to other funds are reported on the balance sheet (GAAP basis) but not on the budget basis.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements:

Net Change in Fund Balance

	General Fund	Special Education Fund
	<u>          </u>	<u>          </u>
GAAP Basis	(\$178,452)	(\$4,075)
Net Adjustment for:		
Revenue Accruals	85,072	(21,787)
Expenditure Accruals	62,774	44,776
Prepaid Items:		
Beginning of Fiscal Year	227,140	1,284
End of Fiscal Year	(204,394)	(867)
To reclassify excess of expenditures over revenues over expenditures into financial statement fund types	7,337	0
Negative Cash Advances to Other Funds	88,435	0
Encumbrances	<u>(136,530)</u>	<u>(43,917)</u>
 Budget Basis	 <u><u>(\$48,618)</u></u>	 <u><u>(\$24,586)</u></u>

**This page intentionally left blank.**

**MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER  
MUSKINGUM COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

<b>FEDERAL GRANTOR/ Pass Through Grantor Program Title</b>	<b>Grant Year</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>	<b>Disbursements</b>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>				
<i>Passed Through Ohio Department of Education:</i>				
Adult Education - Basic Grants to States	2014	84.002	\$2,562	\$2,388
	2015		<u>72,571</u>	<u>71,951</u>
Total Adult Education - Basic Grants to States			<u>75,133</u>	<u>74,339</u>
Special Education Cluster:				
Special Education Grants to States	2014	84.027	80,017	113,105
	2015		<u>1,085,122</u>	<u>1,031,760</u>
Total Special Education Grants to States			<u>1,165,139</u>	<u>1,144,865</u>
Special Education Preschool Grants	2014	84.173	12,067	3,496
	2015		<u>84,547</u>	<u>83,699</u>
Total Special Education Preschool Grants			<u>96,614</u>	<u>87,195</u>
Total Special Education Cluster			1,261,753	1,232,060
Twenty - First Century Community Learning Centers	2014	84.287	49,419	26,575
	2015		<u>133,536</u>	<u>138,239</u>
Total Twenty - First Century Community Learning Centers			<u>182,955</u>	<u>164,814</u>
Special Education - State Personnel Development	2014	84.323	17,969	5,207
	2015		<u>64,030</u>	<u>82,167</u>
Total Special Education - State Personnel Development			<u>81,999</u>	<u>87,374</u>
Improving Teacher Quality State Grants	2014	84.367	4,140	1,528
	2015		<u>5,597</u>	<u>8,573</u>
Total Improving Teacher Quality State Grants			<u>9,737</u>	<u>10,101</u>
ARRA - Race to the Top Incentive Grants, Recovery Act				
Regional Specialist Grant	2014	84.395	19,357	17,672
Regional FIP Grant	2014		18,736	15,727
Student Growth Measure	2014		15,640	14,027
Assessment Literacy Grant	2014		7,314	4,732
eTPES Training Grant	2014		548	331
Teach Ohio Grant	2014		82,850	0
Regional Specialist Grant	2015		102,234	120,590
Regional FIP Grant	2015		104,978	119,463
Assessment Literacy Grant	2015		109,414	115,028
Early Literacy and Reading Readiness	2015		0	15,588
Total ARRA - Race to the Top, Recovery Act			<u>461,071</u>	<u>423,158</u>
ARRA - Race to the Top - Early Learning Challenge	2015	84.412	<u>21,058</u>	<u>21,058</u>
Total U.S. Department of Education			<u>2,093,706</u>	<u>2,012,904</u>
<b>Total Federal Awards Receipts and Expenditures</b>			<b><u><u>\$2,093,706</u></u></b>	<b><u><u>\$2,012,904</u></u></b>

*The Notes to the Schedule of Federal Awards Receipts and Expenditures is an integral part of the Schedule.*

**MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER  
MUSKINGUM COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - NON-FEDERAL CASH RECEIPTS**

The following programs received non-federal monies which were commingled with federal monies and included as federal disbursements when expended:

<b>Federal Program</b>	<b>CFDA No.</b>	<b>Amount</b>
Adult Education – Basic Grants to States	84.002	\$28,992



# 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

Muskingum Valley Educational Service Center  
Muskingum County  
205 North Seventh Street  
Zanesville, Ohio 43701

To the Board of Education:

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 Muskingum Valley Educational Service Center, Muskingum County, Ohio (the Educational Service Center), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Educational Service Center's basic financial statements and have issued our report thereon dated March 15, 2016. We noted the Educational Service Center adopted Governmental Accounting Standards Board Statement (GASB) No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the Educational Service 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 Educational Service 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 Educational Service 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 Educational Service 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 Educational Service Center's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Educational Service Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

**Dave Yost**  
Auditor of State  
Columbus, Ohio

March 15, 2016



# 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 OMB CIRCULAR A-133

Muskingum Valley Educational Service Center  
Muskingum County  
205 North Seventh Street  
Zanesville, Ohio 43701

To the Board of Education:

### ***Report on Compliance for the Major Federal Program***

We have audited the Muskingum Valley Educational Service Center's, Muskingum County, Ohio (the Educational Service Center), compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the Educational Service Center's major federal program for the year ended June 30, 2015. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the Educational Service Center's major federal program.

### ***Management's Responsibility***

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

### ***Auditor's Responsibility***

Our responsibility is to opine on the Educational Service Center's compliance for the Educational Service 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the Educational Service 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 Educational Service Center's major program. However, our audit does not provide a legal determination of the Educational Service Center's compliance.

### ***Opinion on the Major Federal Program***

In our opinion, the Educational Service Center 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, 2015.

***Report on Internal Control Over Compliance***

The Educational Service 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 Educational Service Center's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Educational Service 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 OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

March 15, 2016

**MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2015**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	No
<i>(d)(1)(vii)</i>	Major Program (list): <ul style="list-style-type: none"> <li>• Special Education Cluster – CFDA Nos. 84.027 and 84.173</li> </ul>	
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None.

**3. FINDINGS FOR FEDERAL AWARDS**

None.

**This page intentionally left blank.**



# Dave Yost • Auditor of State

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

MUSKINGUM 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 29, 2016