



Dave Yost • Auditor of State



**OHIO VALLEY EDUCATIONAL SERVICE CENTER  
GUERNSEY COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Ohio Valley Educational Service Center  
Guernsey County  
128 East 8<sup>th</sup> Street  
Cambridge, Ohio 43725

To the Governing Board:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Ohio Valley Educational Service Center, Guernsey 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, the major fund, and the aggregate remaining fund information of the Ohio Valley Educational Service Center, Guernsey County, Ohio, as of June 30, 2015, and the respective changes in financial position 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.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 9, 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.



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

May 9, 2016

## Ohio Valley Educational Service Center, Ohio

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2015*

Unaudited

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The discussion and analysis of the Ohio 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:

- In total, net position of governmental activities increased \$576,955 which represents a 5 percent increase from the prior fiscal year ending net position.
- General revenues accounted for \$599,076 in revenue or 7 percent of all revenues. Program specific revenues in the form of charges for services, grants, and contributions accounted for \$8,306,209 or 93 percent of total revenues of \$8,905,285.
- The Educational Service Center had \$8,328,330 in expenses related to governmental activities. Only \$8,306,209 of these expenses was offset by program specific charges for services, grants, and contributions. General revenues of \$599,076 were sufficient to provide for the remainder of these programs.
- The Educational Service Center's major fund is the General Fund. The General Fund had \$8,573,531 in revenues and \$8,306,700 in expenditures. The General Fund's balance increased \$266,831.

### **Using this Annual Financial Report**

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 Educational Service Center 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.

## Ohio Valley Educational Service Center, Ohio

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2015*

Unaudited

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### ***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 year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Educational Service Center's net position and changes in that 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 and support services.

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

#### **Fund Financial Statements**

The analysis of the Educational Service Center's major fund begins on page 9. Fund financial reports provide detailed information about the Educational Service Center's major fund. The Educational Service Center uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's major governmental fund is the General.

***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.

***Fiduciary Funds*** The Educational Service Center's fiduciary funds are private purpose trust funds. All of the Educational Service Center's fiduciary activities are reported in the Statement of Fiduciary Net Position. These activities are separate from the Educational Service Center's governmental and fund financial statements because the Educational Service Center cannot use these assets to finance its operations. Fiduciary funds use the accrual basis of accounting.

# Ohio Valley Educational Service Center, Ohio

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 I provides a summary of the Educational Service Center's net position for 2015 compared to 2014.

**Table 1 - Net Position**

	<u>Governmental Activities</u>		
	<u>2015</u>	<u>2014</u>	<u>Change</u>
<b>Assets</b>			
Current and Other Assets	\$3,067,344	\$2,886,850	\$180,494
Capital Assets	303,258	317,636	(14,378)
Total Assets	<u>3,370,602</u>	<u>3,204,486</u>	<u>166,116</u>
<b>Deferred Outflows of Resources</b>			
Pension	<u>935,834</u>	<u>711,865</u>	<u>223,969</u>
<b>Liabilities</b>			
Other Liabilities	721,541	783,820	(62,279)
Long-Term Liabilities:			
Due Within One Year	111,311	115,150	(3,839)
Net Pension Liability	12,029,814	14,287,005	(2,257,191)
Other Amounts Due in More Than One Year	<u>231,588</u>	<u>260,615</u>	<u>(29,027)</u>
Total Liabilities	<u>13,094,254</u>	<u>15,446,590</u>	<u>(2,352,336)</u>
<b>Deferred Inflows of Resources</b>			
Pension	<u>2,165,466</u>	<u>0</u>	<u>2,165,466</u>
<b>Net Position</b>			
Net Investment in Capital Assets	303,258	317,636	(14,378)
Restricted for Other Purposes	12,653	8,468	4,185
Restricted for Unclaimed Monies	1,379	2,178	(799)
Unrestricted	<u>(11,270,574)</u>	<u>(11,858,521)</u>	<u>587,947</u>
<b>Total Net Position</b>	<u>(\$10,953,284)</u>	<u>(\$11,530,239)</u>	<u>\$576,955</u>

During 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.

## Ohio Valley Educational Service Center, Ohio

### *Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2015*

Unaudited

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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 also had the effect of restating net position at June 30, 2014, from \$2,044,901 to (\$11,530,239).

Total assets increased \$166,116. This is largely attributed to an increase in cash of \$271,706, due to the timing of the receipt of monies for grants and contract services. This increase in cash is offset by decreases in intergovernmental receivable of \$91,919 and capital assets of \$14,378.

Total liabilities decreased \$2,352,336. The main reason for the large decrease is due to a decrease in the net pension liability. The other liabilities decrease is attributed to a decrease in accrued wages payable \$46,292 as a result losing staff to district retirements and hiring in new staff that have less experience and therefore are paid less from the salary schedule.

## Ohio Valley Educational Service Center, Ohio

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2015*

Unaudited

In addition, there was a decrease in other amounts due in more than one year in the amount of \$29,027. This decrease is attributable to the elimination of capital leases and a decrease in compensated absences payable.

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		Change
	2015	2014	
<b>Revenues</b>			
Program Revenues			
Charges for Services	\$7,963,558	\$7,776,863	\$186,695
Operating Grants and Contributions	342,651	339,088	3,563
Total Program Revenues	<u>8,306,209</u>	<u>8,115,951</u>	<u>190,258</u>
General Revenues			
Grants and Entitlements	579,191	642,544	(63,353)
Investment Earnings	4,093	3,456	637
Gain on Sale of Capital Asset	0	227,682	(227,682)
Miscellaneous	15,792	2,625	13,167
Total General Revenues	<u>599,076</u>	<u>876,307</u>	<u>(277,231)</u>
Total Revenues	<u>8,905,285</u>	<u>8,992,258</u>	<u>(86,973)</u>
<b>Program Expenses</b>			
Instruction			
Regular	264,395	280,504	(16,109)
Special	2,118,391	2,379,148	(260,757)
Special - Intergovernmental	111,188	112,100	(912)
Adult/Continuing	335	52,796	(52,461)
Support Services			
Pupils	1,735,523	1,622,525	112,998
Instructional Staff	2,478,903	2,550,477	(71,574)
Board of Education	22,856	55,087	(32,231)
Administration	1,109,060	1,306,160	(197,100)
Fiscal	324,773	326,072	(1,299)
Operation and Maintenance of Plant	73,907	88,789	(14,882)
Pupil Transportation	6,237	11,685	(5,448)
Central	25,066	38,336	(13,270)
Extracurricular Activities	57,696	55,865	1,831
Interest	0	26	(26)
Total Expenses	<u>8,328,330</u>	<u>8,879,570</u>	<u>(551,240)</u>
<b>Change in Net Position</b>	576,955	112,688	464,267
Net Position Beginning of Year	<u>(11,530,239)</u>	n/a	
Net Position End of Year	<u><u>(\$10,953,284)</u></u>	<u><u>(\$11,530,239)</u></u>	<u><u>576,955</u></u>

**Ohio Valley Educational Service Center, Ohio**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2015  
Unaudited*

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The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$711,865 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 2015 statements report pension expense of \$507,282. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

Total 2015 program expenses under GASB 68	\$8,328,330
Pension expense under GASB 68	(507,282)
2015 contractually required contribution	<u>822,976</u>
Adjusted 2015 program expenses	8,644,024
Total 2014 program expenses under GASB 27	<u>8,879,570</u>
Decrease in program expenses not related to pension	<u><u>(\$235,546)</u></u>

During fiscal year 2015, the Educational Service Center's net position increased \$576,955. During these times of economic difficulties, some districts have turned to the Educational Service Center as a means to save money through consortium services, leading to an increase in charges for services of \$186,695. Overall expenses of the Educational Service Center decreased \$551,240. This is mostly attributed to a large purchase of A+ software that was paid for in fiscal year 2014 on behalf of our districts, elevating the expenses in the previous fiscal year. In addition, as employees in surrounding districts retire, the Educational Service Center has lost employees to fill those vacancies. In turn, those vacancies are being filled with employees with less experience that are therefore paid less, reducing overall wages. The above clearly shows that the Educational Service Center relies heavily on revenues from services that it provides.

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 area. Charges for services are modeled to cover the cost of all services plus an administrative fee. As economic conditions warrant, the Educational Service Center will adjust its expenditures and charges for services to maintain expenditures within its resources.

The Statement of Activities shows the cost of program services and the charges for services, 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 revenue.

## Ohio Valley Educational Service Center, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2015

Unaudited

**Table 3 - Governmental Activities**

	2015	2015	2014	2014
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
<b>Program Expenses</b>				
Instruction:				
Regular	\$264,395	(\$53,896)	\$280,504	(\$86,446)
Special	2,118,391	(645,174)	2,379,148	(690,363)
Special - Intergovernmental	111,188	(487)	112,100	743
Adult/Continuing	335	335	52,796	34,918
Support Services:				
Pupil	1,735,523	549,032	1,622,525	156,906
Instructional Staff	2,478,903	275,930	2,550,477	648,208
Board of Education	22,856	3,683	55,087	41,359
Administration	1,109,060	(381,268)	1,306,160	444,444
Fiscal	324,773	191,907	326,072	98,207
Operation and Maintenance of Plant	73,907	37,579	88,789	57,822
Pupil Transportation	6,237	1,528	11,685	6,577
Central	25,066	8,129	38,336	17,062
Extracurricular Activities	57,696	34,823	55,865	34,156
Interest and Fiscal Charges	0	0	26	26
<b>Totals</b>	<b>\$8,328,330</b>	<b>\$22,121</b>	<b>\$8,879,570</b>	<b>\$763,619</b>

Instruction programs comprise approximately 30 percent of total governmental program expenses, support services comprise approximately 69 percent of total governmental program expenses, and extracurricular activities comprise 1 percent of total governmental program expenses. Of the instruction expenses, approximately 89 percent is for special instruction. Of the support services expenses, approximately 30 percent is for pupils and 43 percent for instructional staff.

### The Educational Service Center's Major Fund

The Education Service Center has one major fund: the General Fund. The Educational Service Center's major fund is accounted for using the modified accrual basis of accounting.

The General Fund had total revenues of \$8,573,531 and expenditures of \$8,306,700. The General Fund had an increase in assets of \$188,874, which was mainly due to an increase in cash of \$273,006. This was offset by decreases in interfund and intergovernmental receivables of \$34,030 and \$50,010, respectively. In addition, liabilities decreased \$55,573. This was attributable mainly to a decrease in accrued wages and benefits of \$47,040. The General Fund had an increase in fund balance in the amount of \$266,831.

### Budgeting Highlights

Under Ohio law, Educational Service Centers are no longer required to prepare a budget. Therefore, at June 30, 2015, a budgetary statement is not presented within the basic financial statements because the Board did not approve estimated revenues or adopt appropriations.

**Ohio Valley Educational Service Center, Ohio**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2015  
Unaudited*

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**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal year 2015, the Educational Service Center had \$303,258 invested in land, buildings, machinery, equipment, furniture, and fixtures. Table 4 shows fiscal year 2015 balances compared to 2014.

**Table 4 - Capital Assets**  
(Net of Depreciation)

	Governmental Activities	
	2015	2014
Land	\$55,434	\$55,434
Buildings	234,581	244,613
Machinery, Equipment, Furniture, and Fixtures	13,243	17,589
Totals	<u>\$303,258</u>	<u>\$317,636</u>

See Note 10 for more information on capital assets.

***Debt***

At June 30, 2015, the Educational Service Center had no debt outstanding. See Note 15 for more detailed information of the School District's long-term obligations. The net pension liability under GASB 68 is also reported as a long-term obligation that has been previously disclosed within the management's discussion and analysis.

**Economic Factors**

As the preceding information shows, the Educational Service Center relies heavily on the contracts for services it provides to its local, city, and exempted village school districts. The majority of these services are special education in nature. The services these children are to be provided are mandated by Individual Education Plans (IEPs). The districts are required, by law, to serve these children. The school districts may provide the services through their own personnel, or contract out to have it provided. Many of the served districts rely solely on the Educational Service Center to provide these services. Special education service charges are based upon the actual cost of the service divided by the number of students who will benefit from the service. The financial positions of the school districts and their willingness to continue to contract for special education services with the Educational Service Center will continue to have an impact on the increase or decrease in revenues of the Educational Service Center.

Other significant revenue sources for the Educational Service Center are state foundation payments and grants. Existing contracts with the Educational Service Center's districts, as well as the Educational Service Center's cash balance, will provide the Educational Service Center with the necessary funds to operate during fiscal year 2016. However, potential changes in the funding of educational service centers presents certain challenges and uncertainties for the future. The Board of Education and Administration of the Educational Service Center must maintain careful planning and prudent fiscal management in order to maintain the financial stability of the Educational Service Center.

**Ohio Valley Educational Service Center, Ohio**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2015*

Unaudited

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**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, contact Megan Atkinson, Treasurer at the Ohio Valley Educational Service Center, 128 East 8<sup>th</sup> Street, Cambridge, Ohio 43725. You may also E-mail the Treasurer at [megan.atkinson@omeresanet.net](mailto:megan.atkinson@omeresanet.net).

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**Ohio Valley Educational Service Center, Ohio**

*Statement of Net Position*

*June 30, 2015*

	<u>Governmental Activities</u>
<b>Assets</b>	
<u>Current Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$2,930,118
Accounts Receivable	15,707
Intergovernmental Receivable	110,275
Prepays	11,244
Total Current Assets	<u>3,067,344</u>
<u>Noncurrent Assets:</u>	
Non-Depreciable Capital Assets	55,434
Depreciable Capital Assets, Net	247,824
Total Noncurrent Assets	<u>303,258</u>
Total Assets	<u>3,370,602</u>
<b>Deferred Outflows of Resources</b>	
Pension	<u>935,834</u>
<b>Liabilities</b>	
<u>Current Liabilities:</u>	
Accounts Payable	7,431
Accrued Wages and Benefits Payable	558,075
Intergovernmental Payable	150,789
Matured Compensated Absences Payable	5,246
Total Current Liabilities	<u>721,541</u>
<u>Long-Term Liabilities:</u>	
Due Within One Year	111,311
Net Pension Liability (Note 13)	12,029,814
Other Amounts Due in More Than One Year	231,588
Total Long-Term Liabilities	<u>12,372,713</u>
Total Liabilities	<u>13,094,254</u>
<b>Deferred Inflows of Resources</b>	
Pension	<u>2,165,466</u>
<b>Net Position</b>	
Net Investment in Capital Assets	303,258
Restricted for Other Purposes	12,653
Restricted for Unclaimed Monies	1,379
Unrestricted	<u>(11,270,574)</u>
Total Net Position	<u>(\$10,953,284)</u>

See accompanying notes to the basic financial statements

**Ohio Valley Educational Service Center, Ohio**

*Statement of Activities*

*For the Fiscal Year Ended June 30, 2015*

	Program Revenues		Net Revenue (Expense) and Change in Net Position
Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>			
Instruction:			
Regular	\$264,395	\$252,072	\$66,219
Special	2,118,391	2,680,867	82,698
Special - Intergovernmental	111,188	0	111,675
Adult/Continuing	335	0	0
Support Services:			
Pupils	1,735,523	1,186,491	0
Instructional Staff	2,478,903	2,134,131	68,842
Board of Education	22,856	19,173	0
Administration	1,109,060	1,478,911	11,417
Fiscal	324,773	132,866	0
Operation and Maintenance of Plant	73,907	36,328	0
Pupil Transportation	6,237	4,709	0
Central	25,066	15,137	1,800
Extracurricular Activities	57,696	22,873	0
Total Governmental Activities	<u>\$8,328,330</u>	<u>\$7,963,558</u>	<u>\$342,651</u>
<b>General Revenues</b>			
Grants and Entitlements not Restricted to			
Specific Programs			579,191
Investment Earnings			4,093
Miscellaneous			<u>15,792</u>
Total General Revenues			<u>599,076</u>
Change in Net Position			576,955
Net Position Beginning of Year - Restated (Note 3)			<u>(11,530,239)</u>
Net Position End of Year			<u><u>(\$10,953,284)</u></u>

See accompanying notes to the basic financial statements

**Ohio Valley Educational Service Center, Ohio**

*Balance Sheet*

*Governmental Funds*

*June 30, 2015*

	General	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$2,928,171	\$568	\$2,928,739
Accounts Receivable	15,707	0	15,707
Interfund Receivable	45,565	0	45,565
Intergovernmental Receivable	33,030	77,245	110,275
Prepaid Items	10,276	968	11,244
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	1,379	0	1,379
<b>Total Assets</b>	<u>\$3,034,128</u>	<u>\$78,781</u>	<u>\$3,112,909</u>
<b>Liabilities</b>			
Accounts Payable	\$5,415	\$2,016	\$7,431
Accrued Wages and Benefits Payable	538,145	19,930	558,075
Interfund Payable	0	45,565	45,565
Intergovernmental Payable	146,125	4,664	150,789
Matured Compensated Absences Payable	5,246	0	5,246
<b>Total Liabilities</b>	<u>694,931</u>	<u>72,175</u>	<u>767,106</u>
<b>Deferred Inflows of Resources - Unavailable Revenue</b>	<u>28,835</u>	<u>63</u>	<u>28,898</u>
<b>Fund Balances</b>			
Nonspendable	11,655	968	12,623
Restricted	0	11,743	11,743
Assigned	82,545	0	82,545
Unassigned	2,216,162	(6,168)	2,209,994
<b>Total Fund Balances</b>	<u>2,310,362</u>	<u>6,543</u>	<u>2,316,905</u>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<u>\$3,034,128</u>	<u>\$78,781</u>	<u>\$3,112,909</u>

See accompanying notes to the basic financial statements

**Ohio 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>		\$2,316,905
 <i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		303,258
Other long-term assets are not available to pay for current-period expenditures and therefore are reported as deferred inflows of resources - unavailable revenue in the funds:		
Grants	63	
Contract Services	28,835	28,898
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Compensated Absences Payable		(342,899)
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	935,834	
Net Pension Liability	(12,029,814)	
Deferred Inflows - Pension	(2,165,466)	(13,259,446)
Net Position of Governmental Activities		(\$10,953,284)

See accompanying notes to the basic financial statements

**Ohio 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	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Intergovernmental	\$579,191	\$346,845	\$926,036
Interest	4,093	0	4,093
Tuition and Fees	1,749,148	0	1,749,148
Rent	1,650	0	1,650
Gifts and Donations	776	0	776
Contract Services	6,234,951	0	6,234,951
Miscellaneous	3,722	12,070	15,792
Total Revenues	<u>8,573,531</u>	<u>358,915</u>	<u>8,932,446</u>
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	194,746	68,496	263,242
Special	2,169,679	104,503	2,274,182
Adult/Continuing	335	0	335
Support Services:			
Pupils	1,836,891	39,522	1,876,413
Instructional Staff	2,501,277	120,653	2,621,930
Board of Education	19,536	0	19,536
Administration	1,097,420	20,332	1,117,752
Fiscal	325,938	0	325,938
Operation and Maintenance of Plant	73,992	0	73,992
Pupil Transportation	6,237	0	6,237
Central	23,266	1,800	25,066
Extracurricular Activities	57,383	313	57,696
Total Expenditures	<u>8,306,700</u>	<u>355,619</u>	<u>8,662,319</u>
Net Change in Fund Balances	266,831	3,296	270,127
Fund Balances Beginning of Year	<u>2,043,531</u>	<u>3,247</u>	<u>2,046,778</u>
Fund Balances End of Year	<u><u>\$2,310,362</u></u>	<u><u>\$6,543</u></u>	<u><u>\$2,316,905</u></u>

See accompanying notes to the basic financial statements

**Ohio Valley Educational Service Center, Ohio**  
*Reconciliation of the Changes in Fund Balances of Governmental Funds to the Statement of Activities*  
*For the Fiscal Year Ended June 30, 2015*

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<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$270,127</b>
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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 depreciation exceeded capital outlays:

Depreciation Expense	(14,378)	(14,378)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:

Contract Services	(22,191)	
Intergovernmental	(4,970)	
Reimbursements	(193)	(27,354)

Expenses from compensated absences 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.

32,866

Contractually required contributions are reported as expenditures in the governmental funds; however, the Statement of Net Position reports these amounts as deferred outflows.

822,976

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the Statement of Activities.

(507,282)

Change in Net Position of Governmental Activities

**\$576,955**

See accompanying notes to the basic financial statements

**Ohio Valley Educational Service Center, Ohio**

*Statement of Fiduciary Assets and Liabilities*

*Fiduciary Funds*

*June 30, 2015*

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	Private Purpose Trust
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$257,979</u>
<b>Net Assets</b>	
Held in Trust for Scholarships	<u><u>\$257,979</u></u>

See accompanying notes to the basic financial statements

**Ohio Valley Educational Service Center, Ohio**

*Statement of Changes in Fiduciary Net Position*

*Fiduciary Fund*

*For the Fiscal Year Ended June 30, 2015*

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	<u>Private Purpose Trust</u>
<b>Additions</b>	
Interest	\$3,872
<b>Deductions</b>	
Scholarships Awarded	<u>4,836</u>
Change in Net Position	(964)
Net Position Beginning of Year	<u>258,943</u>
Net Position End of Year	<u><u>\$257,979</u></u>

See accompanying notes to the basic financial statements

## Ohio Valley Educational Service Center, Ohio

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

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

The Ohio Valley Educational Service Center, Guernsey County (the “Educational Service Center”), is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Educational Service Center is a combined educational service center as defined by Section 3311.053 of the Ohio Revised Code. The Educational Service Center provides supervisory, special education, administrative, and other services to the Belpre City, Caldwell Exempted Village, Cambridge City, East Guernsey Local, Fort Frye Local, Frontier Local, Marietta City, Noble Local, Rolling Hills Local, Switzerland of Ohio Local, Wolf Creek Local, and Warren Local School Districts. 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 eleven elected members. Members are elected to staggered four year terms. The Educational Service Center has 102 certificated and 126 non-certificated employees that provide services to the school districts.

#### **Reporting Entity**

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the Educational Service Center. For the Ohio Valley Educational Service Center, this includes general operations and student related activities.

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 entitled to or can otherwise access the organization’s resources; 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. No separate governmental units meet the criteria for inclusion as a component unit.

The Educational Service Center is associated with the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA), the Coalition of Rural and Appalachian Schools (CORAS), and the Ohio Coalition of Equity and Adequacy of School Funding which are defined as jointly governed organizations; and the Ohio SchoolComp: A Program of OSBA and OASBO Worker’s Compensation Group Rating Plan, and the Ohio School Plan (OSP), which are defined as group insurance purchasing pools. Additional information concerning these organizations is presented in Notes 16 and 17 to the basic financial statements.

## Ohio Valley Educational Service Center, Ohio

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

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### 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, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. The statements usually distinguish between those activities of the Educational Service Center that are governmental in nature and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The Educational Service Center does not have any business-type funds.

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, contributions, and interest that are restricted to meeting the operational or capital requirements of 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. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

## Ohio Valley Educational Service Center, Ohio

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

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### **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. The funds of the Educational Service Center fall within two categories: governmental and fiduciary.

#### Governmental Funds

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

General Fund - The General Fund is the operating fund of the Educational Service Center and is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the ESC for any purpose, provided it is expenses and transferred according to the general laws of Ohio

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

#### Fiduciary Fund Types

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. Trust funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Educational Service Center's own programs. The Educational Service Center's private purpose trust fund accounts for a college scholarship program.

### **C. Measurement Focus**

#### Government-wide Financial Statements

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

#### 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.

## Ohio Valley Educational Service Center, Ohio

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

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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 accounted for using a flow of 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. Proprietary and fiduciary funds also use 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, the recording of deferred inflow 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. "Measurable" means the amount of the transaction can be determined, and "available" means that the resources are collectible 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 sixty 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. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Educational Service Center must provide local resources to be used for a specified 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, grants and contract services are considered to be both measurable and available at year end.

#### **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, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the 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 13.

## Ohio Valley Educational Service Center, Ohio

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

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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 as an inflow of resources (revenue) until that time. For the Educational Service Center, deferred inflows of resources include pension and unavailable revenue. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the Educational Service Center, unavailable revenue includes intergovernmental grants and various charges for services. 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 13)

### Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

### E. Budgetary Data

No budgetary information is presented because the Board did not approve estimated revenues or adopt appropriations. Under Ohio law, Educational Service Centers are no longer required to prepare a budget.

### F. Cash and Cash Equivalents

To improve cash management, cash received by the Educational Service Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the Educational Service Center's records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

At fiscal year-end 2015, the Educational Service Center had no investments.

Following Ohio statutes, the Governing Board 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 \$4,093, which includes \$329 assigned from other Educational Service Center funds.

### G. 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.

**Ohio Valley Educational Service Center, Ohio**

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

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

**I. Capital Assets**

All of the Educational Service Center’s capital assets are general capital assets resulting from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. 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 thousand dollars. 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>	<b>Governmental Activities Estimated Lives</b>
Buildings and Improvements	10-40 Years
Machinery, Equipment, Furniture and Fixtures	5-30 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 eligible 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 qualifying service credit. 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 and retirements. These amounts are recorded in the account “matured compensated absences payable” in the funds from which these payments will be paid.

## Ohio Valley Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

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### **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 and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current year.

### **L. 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 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. It also includes the long-term amount of loans and notes receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

**Restricted:** The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers. Fund balance is reported as restricted when constraints placed on the use of the 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 or enabling legislation (Educational Service Center Board of Education resolutions).

Enabling legislation authorizes the Educational Service Center to assess, charge, or otherwise mandate payment of resources (from external resources providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the Educational Service Center can be compelled by an external party such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

**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 balances 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.

## Ohio Valley Educational Service Center, Ohio

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

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**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. These amounts are assigned by the Educational Service Center Board of Education. In the General Fund, assigned amounts represent intended uses established by the Educational Service Center Board of Education or by State statute. State statute authorizes the Educational Service Center's Treasurer to assign fund balance for purchases on order provided such amounts have been lawfully appropriated.

**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 deficit balances.

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.

### **M. Net Position**

Net position represents the difference between assets and liabilities. Net assets invested 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 and regulations of other governments.

Net position restricted for other purposes include local, state and federal grants restricted to expenditures 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 position is available.

### **N. 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 eternally imposed by creditors, contributors, grantors, or laws of other governments or imposed by law through constitutional provisions.

### **O. Pensions**

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, 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.

## **Ohio Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

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### **P. Interfund Balances/Interfund Activity**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables”. These amounts are eliminated on the statement of net position. 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 goods and services provided and used are not eliminated on the government wide financial statements.

Transfers among governmental activities are eliminated on the statement of activities.

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.

### **Q. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the Educational Service Center, these revenues are charges for services for the self-insurance program. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activities of the fund. Revenues and expenses not meeting this definition are reported as non-operating.

### **R. 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.

### **S. Flow-Through Grants**

The Educational Service Center is the primary recipient of grants which are passed through or spent on behalf of the local, exempted village, and city school districts. When the Educational Service Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures/expenses. For fiscal year 2015, this included the Early Childhood Special Education Grant Special Revenue Fund.

### **NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF NET POSITION**

For fiscal year 2015, the Educational Service Center implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, “Accounting and Financial Reporting for Pensions” and GASB Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.” GASB 68 established 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 the net position as reported at June 30, 2014:

**Ohio Valley Educational Service Center, Ohio**

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

Net Position June 30, 2014	\$2,044,901
Adjustments:	
Net Pension Liability	(14,287,005)
Deferred Outflow - Payments Subsequent to Measurement Date	711,865
Restated Net Position June 30, 2014	<u><u>(\$11,530,239)</u></u>

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

**NOTE 4 – FUND BALANCES**

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned 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 constraints placed on the fund balance for the General Fund and all other governmental funds are presented as follows:

Fund Balances	General Fund	Other Governmental Funds	Total
Nonspendable:			
Prepays	\$10,276	\$968	\$11,244
Unclaimed Monies	1,379	0	1,379
Total Nonspendable	<u>11,655</u>	<u>968</u>	<u>12,623</u>
Restricted for:			
Misc Local Funds Expenditures	0	568	568
State Grant Funds Expenditures	0	11,175	11,175
Total Restricted	<u>0</u>	<u>11,743</u>	<u>11,743</u>
Assigned to:			
Other Purposes	82,545	0	82,545
Total Assigned	<u>82,545</u>	<u>0</u>	<u>82,545</u>
Unassigned:	<u>2,216,162</u>	<u>(6,168)</u>	<u>2,209,994</u>
Total Fund Balances	<u><u>\$2,310,362</u></u>	<u><u>\$6,543</u></u>	<u><u>\$2,316,905</u></u>

**NOTE 5 – ACCOUNTABILITY**

The Miscellaneous State Grants and Homeless Grant Special Revenue Funds had deficit balances in the amount of \$6,003 and \$44, respectfully, at June 30, 2015. The deficit was 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 6 - DEPOSITS AND INVESTMENTS**

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

## Ohio Valley Educational Service Center, Ohio

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

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Active deposits are public deposits necessary to meet current demands on the Educational Service Center 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 that 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.

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 can be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security 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 other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations describe 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.

## Ohio Valley Educational Service Center, Ohio

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

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**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 possession of an outside party. At year end, \$3,225,896 of the Educational Service Center's bank balance of \$3,475,896 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the Federal Deposit Insurance Corporation.

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 shall be at least one hundred five percent of the deposits being secured.

**Investments** As of June 30, 2015, the Educational Service Center had no investments.

### **NOTE 7 - STATE AND LOCAL SCHOOL DISTRICT FUNDING**

The Educational Service Center, under state law, provides supervisory services to school districts within its territory. Each local, 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, city, and exempted village 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 the local and client school districts agree to the services and the apportionment of the costs to all of the local and client school districts.

The Educational Service Center also receives funding from the State Department of Education. This amount is based on a per pupil amount of \$35 applied to the number of students from the previous fiscal year. The payment is based on 76.65% of the calculated amount to stay within state appropriations. 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 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 8 - RECEIVABLES**

Receivables at June 30, 2015, consisted of contract services, grants and refunds. All receivables are considered collectible in full and will be received within one year. A summary of the principal items of intergovernmental receivables follows:

## Ohio Valley Educational Service Center, Ohio

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

	Amount
<b>Governmental Activities:</b>	
Early Childhood Expansion Grant	\$19,414
Alternative Education Challenge Grant	19,731
Parent Mentor Grant	13,533
Homeless Grant	5,204
Early Childhood Special Education Grant	19,363
Contract Services	33,030
Total Intergovernmental Receivable	\$110,275

### NOTE 9 – INTERFUND ACTIVITY

Interfund balances at June 30, 2015, consist of the following individual fund receivables and payables:

	Interfund Receivable	Interfund Payable
Major Funds:		
General Fund	\$45,565	\$0
Other Nonmajor Governmental Funds:		
Total Other Nonmajor Governmental Funds	0	45,565
Total All Funds	\$45,565	\$45,565

These interfund balances were the result of negative cash advances made in accordance with the application of generally accepted accounting principles.

### NOTE 10 - CAPITAL ASSETS

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

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015
<b>Nondepreciable Capital Assets</b>				
Land	\$55,434	\$0	\$0	\$55,434
Total Nondepreciable Assets	55,434	0	0	55,434
<b>Depreciable Capital Assets</b>				
Buildings	313,510	0	0	313,510
Machinery, Equipment, Furniture and Fixtures	32,734	0	0	32,734
Total Capital Assets Being Depreciated	346,244	0	0	346,244
Less Accumulated Depreciation:				
Buildings	(68,897)	(10,032)	0	(78,929)
Machinery, Equipment, Furniture and Fixtures	(15,145)	(4,346)	0	(19,491)
Total Accumulated Depreciation	(84,042)	(14,378) *	0	(98,420)
Total Capital Assets Being Depreciated, Net	262,202	(14,378)	0	247,824
Governmental Activities Capital Assets, Net	\$317,636	(\$14,378)	\$0	\$303,258

## Ohio 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	\$1,399
Special	333
Support Services:	
Pupils	332
Instructional Staff	2,387
Board of Education	3,656
Administration	5,274
Fiscal	997
Total Governmental Depreciation	<u>\$14,378</u>

### NOTE 11 - RISK MANAGEMENT

#### A. Insurance

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2015, the Educational Service Center joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP 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 the OSP. (See Note 17)

During fiscal year 2015, the Educational Service Center purchased the following coverage:

#### Ohio School Plan

Fleet Insurance:	
Liability (any one accident)	\$1,000,000
Educational General Liability:	
General Aggregate Limit	3,000,000
Employee Benefits Liability:	
Aggregate Limit (\$2,500 deductible)	3,000,000
Employers' Liability:	
Bodily Injury (any one accident)	1,000,000
Educational Legal Liability:	
Errors and Omissions Aggregate Limit (\$2,500 deductible)	3,000,000
Employment Practices Injury Aggregate Limit (\$2,500 deductible)	3,000,000
Declaratory, Equitable, and Injunctive Relief	
Defense Aggregate (\$2,500 deductible)	100,000
Violence Coverage:	
Plan Aggregate Limit	1,000,000
Building	2,933,335

Settled claims have not exceeded their commercial coverage in any of the past three years.

#### B. Workers' Compensation Group Rating Plan

For fiscal year 2015, the Educational Service Center participated in the Ohio SchoolComp: A Program of OSBA and OABSO 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.

## Ohio Valley Educational Service Center, Ohio

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

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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.

### **NOTE 12 - EMPLOYEE BENEFITS**

#### **A. Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from board policies and State laws. Eligible classified employees earn twenty days of vacation per year, depending upon length of service. Administrators earn twenty days of vacation per year. Teachers do not earn vacation time. The liability for vacation benefits is recorded as long-term liabilities.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. All employees can accumulate sick leave days up to a maximum of 240 days. Upon retirement, payment is made for twenty-five percent of the employees' accumulated sick leave with a maximum payment being limited to 45 days.

#### **B. Other Employee Benefits**

The Educational Service Center provides term life insurance and accidental death and dismemberment insurance through Anthem in the amount of \$30,000 for all of its full time employees.

#### **C. Medical/Surgical, Dental, Vision, and Prescription Drug Insurances**

Medical, dental, vision, and prescription drug insurance is offered through Anthem Blue Cross Blue Shield and is fully insured. The Educational Service Center pays for 80 percent of single, family, employee plus spouse or employee plus child coverage premiums for this insurance.

### **NOTE 13 - DEFINED BENEFIT PENSION PLANS**

#### ***Net Pension Liability***

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

The net pension liability represents the 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 Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

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 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.

**A. School Employees Retirement System**

Plan Description - The 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.

## Ohio Valley Educational Service Center, Ohio

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

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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.

The Educational Service Center's contractually required contribution to SERS was \$249,367 for fiscal year 2015. Of this amount \$18,338 is reported as an intergovernmental payable.

### **B. State Teachers Retirement System**

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

## Ohio Valley Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

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

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

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 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 \$573,609 for fiscal year 2015. Of this amount, \$50,089 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	\$2,647,278	\$9,382,536	\$12,029,814
Proportion of the Net Pension Liability	0.052308%	0.03857402%	
Pension Expense	\$150,375	\$356,907	\$507,282

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:

**Ohio Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$22,531	\$90,327	\$112,858
School District contributions subsequent to the measurement date	<u>249,367</u>	<u>573,609</u>	<u>822,976</u>
Total Deferred Outflows of Resources	<u><u>\$271,898</u></u>	<u><u>\$663,936</u></u>	<u><u>\$935,834</u></u>
<b>Deferred Inflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	<u>\$429,661</u>	<u>\$1,735,805</u>	<u>\$2,165,466</u>

\$822,976 reported as deferred outflows of resources related to pension resulting from 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:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2016	(\$101,725)	(\$411,369)	(\$513,094)
2017	(101,725)	(411,369)	(513,094)
2018	(101,725)	(411,369)	(513,094)
2019	<u>(101,955)</u>	<u>(411,371)</u>	<u>(513,326)</u>
Total	<u><u>(\$407,130)</u></u>	<u><u>(\$1,645,478)</u></u>	<u><u>(\$2,052,608)</u></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.

## Ohio Valley Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

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 premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

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

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

**Ohio Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

***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%)
School District's proportionate share of the net pension liability	\$3,776,879	\$2,647,278	\$1,697,186

***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 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>	

**Ohio Valley Educational Service Center, Ohio**

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

**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:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$13,432,124	\$9,382,536	\$5,957,948

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2015, the two board members of the Educational Service Center elected Social Security. The contribution rate is 6.2 percent of wages.

**NOTE 14 - POSTEMPLOYMENT BENEFITS**

**A. School Employee Retirement System**

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.

## Ohio Valley Educational Service Center, Ohio

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

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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 \$27,504.

The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$15,515, \$4,026 and \$6,272, respectively; 94.2 percent has been contributed for fiscal year 2015 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.

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 School District's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$0, 38,889 and \$40,833 respectively. The full amount has been contributed for fiscal years 2014 and 2013.

### **NOTE 15 - LONG-TERM OBLIGATIONS**

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

**Ohio Valley Educational Service Center, Ohio**

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

	Outstanding 06/30/14	Additions	Deductions	Outstanding 06/30/15	Amount Due Within One Year
<b>Governmental Activities</b>					
Net Pension Liability:					
STRS	\$11,176,416	\$0	\$1,793,880	\$9,382,536	\$0
SERS	3,110,589	0	463,311	2,647,278	0
Total Net Pension Liability	<u>14,287,005</u>	<u>0</u>	<u>2,257,191</u>	<u>12,029,814</u>	<u>0</u>
Compensated Absences	<u>375,765</u>	<u>110,365</u>	<u>143,231</u>	<u>342,899</u>	<u>111,311</u>
Total Governmental Long-Term Liabilities	<u>\$14,662,770</u>	<u>\$110,365</u>	<u>\$2,400,422</u>	<u>\$12,372,713</u>	<u>\$111,311</u>

Compensated absences will be paid from the General Fund. For additional information related to the net pension liability, see Note 13.

**NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS**

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

OME-RESA is a governmental joint venture among eleven counties. The counties OME-RESA serves are: Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Jefferson, Muskingum, Noble, Monroe and Tuscarawas. Each of these governments supports OME-RESA and shares in a percentage of the equity based on the resources provided. OME-RESA is governed by a board of directors consisting of the superintendents of the member school districts. The degree of control exercised by a participating district is limited to its representation on the Board. The continued existence of OME-RESA is not dependent on the Educational Service Center's continued participation and no equity interest exists. The Educational Service Center's payment for computer services to OME-RESA in fiscal year 2015 was \$9,346. To obtain financial information write to the Ohio Mid-Eastern Regional Educational Service Agency, Treasurer, at 2230 Sunset Blvd. Suite 2, Steubenville, Ohio 43952.

**B. Coalition of Rural and Appalachian Schools (CORAS)**

The Coalition of Rural and Appalachian Schools is a jointly governed organization composed of over 136 school districts 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 school district 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 Educational Service Center personnel. The Council is not dependent on the continued participation of the Educational Service Center and the Educational Service Center does not maintain an equity interest in or financial responsibility for the Council. The School District's membership fee was \$325 for fiscal year 2015. The financial information for the Coalition can be obtained from the Executive Director, at McCracken Hall, Ohio University, Athens, Ohio 45701.

## **Ohio Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

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

The Ohio Coalition of Equity and Adequacy of School Funding is organized as 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 representative from the membership group. The steering committee consists of not more than 78 representatives, who are Superintendents of Board of Education that are Coalition members, plus an additional 12 representatives may be appointed by the Chairperson. The continued existence of the Coalition is not dependent on the Educational Service Center's continued participation and no equity interest exists. During fiscal year 2015, the Educational Service Center paid \$882 to the Coalition. Financial information can be obtained by contacting the Coalition's fiscal agent, Muskingum Valley Educational Service Center, 205 North Seventh Street, Zanesville, Ohio 43701-3709.

### **NOTE 17 - INSURANCE PURCHASING POOLS**

#### **A. Ohio SchoolComp: A Program of OSBA and OASBO Workers' Compensation Group Rating Plan (GRP)**

The Educational Service Center participates in the Ohio SchoolComp: A Program of OSBA & OASBO Workers' Compensation Group Rating Program (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 Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program. The Educational Service Center's enrollment fee for fiscal year 2015 was \$780.

#### **B. Ohio School Plan (OSP)**

The Educational Service Center participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP 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 provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of directors consisting of school district superintendents and treasurers, as well as the president of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

### **NOTE 18 - CONTINGENCIES**

#### **A. Grants**

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the Educational Service Center at June 30, 2014, if applicable, cannot be determined at this time.

**Ohio Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

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**B. Litigation**

The Educational Service Center is currently not party to any litigation.

**NOTE 19 – SIGNIFICANT COMMITMENTS**

Encumbrances are commitments related 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 year end, the amount of encumbrances expected to be honored upon performance by the vendor in the next fiscal year were as follows:

Governmental Funds:	
General Fund	<u>\$          6,696</u>

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

	2014	2013
Educational Service Center's Proportion of the Net Pension Liability	0.052308%	0.052308%
Educational Service Center's Proportionate Share of the Net Pension Liability	\$2,647,278	\$3,110,589
Educational Service Center's Covered-Employee Payroll	\$1,490,300	\$1,681,565
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	177.63%	184.98%
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 Educational Service Center's measurement date which is the prior fiscal year end.

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

	2014	2013
Educational Service Center's Proportion of the Net Pension Liability	0.03857402%	0.03857402%
Educational Service Center's Proportionate Share of the Net Pension Liability	\$9,382,536	\$11,176,416
Educational Service Center's Covered-Employee Payroll	\$3,886,993	\$4,083,292
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	241.38%	273.71%
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 Educational Service Center's measurement date which is the prior fiscal year end.

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**Ohio Valley Educational Service Center of Guernsey County, Ohio**

*Required Supplementary Information*

*Schedule of the Educational Service 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	\$249,367	\$206,556	\$232,729	\$219,236
Contributions in Relation to the Contractually Required Contribution	<u>(249,367)</u>	<u>(206,556)</u>	<u>(232,729)</u>	<u>(219,236)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Educational Service Center Covered-Employee Payroll	\$1,892,014	\$1,490,300	\$1,681,565	\$1,630,008
Contributions as a Percentage of Covered-Employee Payroll	13.18%	13.86%	13.84%	13.45%

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$210,742	\$233,364	\$181,389	\$180,514	\$180,078	\$171,267
<u>(210,742)</u>	<u>(233,364)</u>	<u>(181,389)</u>	<u>(180,514)</u>	<u>(180,078)</u>	<u>(171,267)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$1,676,545	\$1,723,513	\$1,843,388	\$1,838,231	\$1,686,124	\$1,618,781
12.57%	13.54%	9.84%	9.82%	10.68%	10.58%

**Ohio Valley Educational Service Center of Guernsey County, Ohio**  
*Required Supplementary Information*  
*Schedule of the Educational Service Center Contributions*  
*State Teachers Retirement System of Ohio*  
*Last Ten Fiscal Years*

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$573,609	\$505,309	\$530,828
Contributions in Relation to the Contractually Required Contribution	<u>(573,609)</u>	<u>(505,309)</u>	<u>(530,828)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Educational Service Center Covered-Employee Payroll	\$4,097,207	\$3,886,993	\$4,083,292
Contributions as a Percentage of Covered-Employee Payroll	14.00%	13.00%	13.00%

(1) At the end of fiscal year 2009, State funding for the Early Learning Initiative program ended and the Educational Service Center had to cut positions.

2012	2011	(1) 2010	2009	2008	2007	2006
\$503,750	\$508,470	\$523,007	\$590,731	\$586,994	\$561,308	\$519,416
(503,750)	(508,470)	(523,007)	(590,731)	(586,994)	(561,308)	(519,416)
\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$3,875,000	\$3,911,308	\$4,023,131	\$4,544,085	\$4,515,338	\$4,317,754	\$3,995,508
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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# Dave Yost • Auditor of State

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

Ohio Valley Educational Service Center  
Guernsey County  
128 East 8<sup>th</sup> Street  
Cambridge, Ohio 43725

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Ohio Valley Educational Service Center, Guernsey 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 May 9, 2016, wherein we noted 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*.

### ***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 opinion 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

May 9, 2016



# Dave Yost • Auditor of State

OHIO VALLEY EDUCATIONAL SERVICE CENTER

GUERNSEY 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  
JUNE 2, 2016