



Dave Yost • Auditor of State



**MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER  
MUSKINGUM COUNTY  
JUNE 30, 2016**

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MUSKINGUM COUNTY  
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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Muskingum Valley Educational Service Center, Muskingum County, Ohio (the Educational Service Center), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Educational Service Center's basic financial statements as listed in the Table of Contents.

### ***Management's Responsibility for the Financial Statements***

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

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

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

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Muskingum Valley Educational Service Center, Muskingum County, Ohio, as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

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

*Supplementary and Other Information*

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

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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2017, on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Educational Service Center's internal control over financial reporting and compliance.

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

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

March 2, 2017

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**Muskingum Valley Educational Service Center, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2016*  
*Unaudited*

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The discussion and analysis of the Muskingum Valley Educational Service Center's financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2016. 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 2016 are as follows:

- Net position of governmental activities decreased \$291,642.
- General revenues accounted for \$1,168,446 in revenue or 6 percent of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$19,331,167, or 94 percent of total revenues of \$20,499,613.
- The Educational Service Center had \$20,791,255 in expenses related to governmental activities; all of these expenses were offset by program specific charges for services and grants and contributions.

**Using the Basic Financial Statements**

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

The Statement of Net Position and Statement of Activities provide information about the activities of the whole Educational Service Center, presenting both an aggregate view of the Educational Service Center's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Educational Service Center's most significant funds with all other non-major funds presented in total in one column.

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

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

While this document contains information about the funds used by the Educational Service Center to provide programs and activities for School Districts, the view of the Educational Service Center as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2016?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

**Muskingum Valley Educational Service Center, Ohio**  
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*Unaudited*

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

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

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

***Fund Financial Statements***

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

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

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

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

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*Management's Discussion and Analysis*  
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**The Educational Service Center as a Whole**

Recall that the Statement of Net Position provides the perspective of the Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center's net position for governmental activities for 2016 compared to 2015.

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

	2016	2015	Change
<b>Assets</b>			
Current and Other Assets	\$5,821,114	\$6,172,453	(\$351,339)
Capital Assets	386,714	357,168	29,546
Total Assets	<u>6,207,828</u>	<u>6,529,621</u>	<u>(321,793)</u>
<b>Deferred Outflows of Resources</b>			
Pension	<u>3,867,876</u>	<u>1,947,468</u>	<u>1,920,408</u>
<b>Liabilities</b>			
Other Liabilities	2,391,913	2,494,158	(102,245)
Long-Term Liabilities:			
Due Within One Year	0	5,747	(5,747)
Due In More Than One Year:			
Net Pension Liability	29,690,724	25,163,604	4,527,120
Other Amounts	<u>1,095,754</u>	<u>972,396</u>	<u>123,358</u>
Total Liabilities	<u>33,178,391</u>	<u>28,635,905</u>	<u>4,542,486</u>
<b>Deferred Inflows of Resources</b>			
Pension	<u>1,862,318</u>	<u>4,514,547</u>	<u>(2,652,229)</u>
<b>Net Position</b>			
Net Investment in Capital Assets	386,714	357,168	29,546
Restricted	515,909	480,065	35,844
Unrestricted	<u>(25,867,628)</u>	<u>(25,510,596)</u>	<u>(357,032)</u>
Total Net Position	<u>(\$24,965,005)</u>	<u>(\$24,673,363)</u>	<u>(\$291,642)</u>

The net pension liability (NPL) is the largest single liability reported by the Educational Service Center at June 30, 2016 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27." 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.

**Muskingum Valley Educational Service Center, Ohio**  
*Management's Discussion and Analysis*  
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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.

GASB 68 requires the net pension liability to equal 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.

Total assets decreased \$321,793. The primary items that impacted the change was a decrease in cash of \$515,412 and a decrease in accounts receivable of \$76,975, which are offset by an increase intergovernmental receivables of \$242,228.

**Muskingum Valley Educational Service Center, Ohio**  
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Total liabilities increased \$4,542,486. This was due primarily to the net pension liability increase of \$4,527,120 and an increase in other long term liabilities of \$123,358, offset by small decreases in other liabilities.

Table 2 shows the changes in net position for governmental activities for the fiscal year ended June 30, 2016, and comparisons to fiscal year 2015.

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

<b>Revenues</b>	<u>2016</u>	<u>2015</u>	<u>Change</u>
Program Revenues:			
Charges for Services	\$16,006,339	\$15,975,637	\$30,702
Operating Grants and Contributions	3,324,828	3,806,134	(481,306)
Total Program Revenues	<u>19,331,167</u>	<u>19,781,771</u>	<u>(450,604)</u>
General Revenues:			
Grants and Entitlements	792,112	777,782	14,330
Investment Earnings	17,790	13,971	3,819
Miscellaneous	192,229	194,731	(2,502)
Insurance Recoveries	166,315	0	166,315
Total General Revenues	<u>1,168,446</u>	<u>986,484</u>	<u>181,962</u>
Total Revenues	<u>20,499,613</u>	<u>20,768,255</u>	<u>(268,642)</u>
<b>Program Expenses</b>			
Instruction:			
Regular	631,798	586,491	45,307
Special	7,851,574	7,309,264	542,310
Adult/Continuing	57,654	63,163	(5,509)
Student Intervention Services	905,651	448,284	457,367
Support Services:			
Pupils	4,472,235	4,373,962	98,273
Instructional Staff	3,915,449	4,314,450	(399,001)
Board of Education	35,402	35,965	(563)
Administration	1,542,266	1,160,501	381,765
Fiscal	508,266	587,034	(78,768)
Operation and Maintenance of Plant	167,672	120,653	47,019
Pupil Transportation	24,006	8,359	15,647
Central	591,282	549,232	42,050
Operation of Non-Instructional Services:			
Community Services	73,933	104,978	(31,045)
Extracurricular Activities	14,067	15,119	(1,052)
Total Expenses	<u>20,791,255</u>	<u>19,677,455</u>	<u>1,113,800</u>
Change in Net Position	(291,642)	1,090,800	(1,382,442)
Net Position (Deficit) at Beginning of Year	<u>(24,673,363)</u>	<u>(25,764,163)</u>	<u>(1,090,800)</u>
Net Position (Deficit) at End of Year	<u>(\$24,965,005)</u>	<u>(\$24,673,363)</u>	<u>(\$291,642)</u>

**Muskingum Valley Educational Service Center, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2016*  
*Unaudited*

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

The Educational Service Center's net position decreased \$291,642. Revenues decreased \$268,642 and expenses increased \$1,113,800.

The Educational Service Center expanded its special education programs in fiscal year 2016 to sustain district requests, manage increases in enrollment, and account for additional preschool grant funds. During fiscal year 2016, the Educational Service Center's New Lexington Office sustained a considerable amount of damage due to a severe weather event. While some of the repair costs were offset by insurance, the Educational Service Center elected to make some updates that were not offset by insurance. This increase in expenditures is reflected in administration and operation of plant and maintenance. Another large spending increase is reflected in Student Intervention Services. Several Educational Service Center customers were awarded after school grants and requested the ESC hire the staff for the programs. As of June 30, 2015, Race to the Top programs ended. This resulted in a decrease in instructional support staff expenditures and operating grants and contributions during fiscal year 2016.

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

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

	2016 Total Cost of Services	2016 Net Cost of Services	2015 Total Cost of Services	2015 Net Cost of Services
Program Expenses				
Instruction:				
Regular	\$631,798	\$574,302	\$586,491	\$555,061
Special	7,851,574	(4,126,588)	7,309,264	(4,081,155)
Adult/Continuing	57,654	4,147	63,163	(4,762)
Student Intervention Services	905,651	342,960	448,284	79,083
Support Services:				
Pupils	4,472,235	2,680,364	4,373,962	2,292,152
Instructional Staff	3,915,449	1,047,606	4,314,450	589,363
Board of Education	35,402	35,402	35,965	35,965
Administration	1,542,266	1,200,711	1,160,501	935,509
Fiscal	508,266	(338,070)	587,034	(412,949)
Operation and Maintenance of Plant	167,672	95,892	120,653	72,216
Pupil Transportation	24,006	3,215	8,359	4,929
Central	591,282	54,806	549,232	(149,655)
Operation of Non-Instructional Services:				
Community Services	73,933	(111,966)	104,978	(19,904)
Extracurricular Activities	14,067	(2,693)	15,119	(169)
<b>Totals</b>	<b>\$20,791,255</b>	<b>\$1,460,088</b>	<b>\$19,677,455</b>	<b>(\$104,316)</b>

Special instruction programs comprise approximately 38 percent of total governmental program expenses while support services comprise approximately 54 percent of total governmental program expenses. Of the support services expenses, approximately 40 percent is for pupils, 35 percent for instructional staff, and 14 percent for administration.

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

The Educational Service Center's General Fund is accounted for using the modified accrual basis of accounting. The General Fund had total revenues of \$17,080,402 and expenditures of \$17,582,033, which resulted in a decrease in fund balance of \$335,316.

The Educational Service Center's Special Education Fund is accounted for using the modified accrual basis of accounting. The Special Education Fund had total revenues of \$1,147,736 and expenditures of \$1,164,690, which resulted in a decrease in fund balance of \$16,954.

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

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**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal year 2016, the Educational Service Center had \$386,714 invested in land; buildings and improvements; and furniture, fixtures, and equipment. Table 4 shows fiscal year 2016 balances compared to 2015.

**Table 4**  
**Capital Assets at June 30, 2016**  
**(Net of Depreciation)**

	2016	2015
Land	\$21,155	\$21,155
Buildings and Improvements	181,661	140,382
Furniture, Fixtures, and Equipment	183,898	195,631
<b>Totals</b>	<b>\$386,714</b>	<b>\$357,168</b>

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

*Debt*

At June 30, 2016, the Educational Service Center only had compensated absences payable and net pension liability as long-term liabilities. For additional information, see Notes 11 and 15 to the basic financial statements.

*Economic Factors*

The Muskingum Valley Educational Service Center's net position decreased \$291,642. As the preceding information shows, the Educational Service Center relies heavily on contracts with its member school districts in Coshocton, Hocking, Morgan, Muskingum, and Perry Counties. Existing contracts with member districts and carryover balances will fund the Educational Service Center's operations during fiscal year 2017. However, the future financial health of the Educational Service Center presents certain challenges.

General Fund revenue for the Educational Service Center is generated by two primary means: State funding and fees for services. State funding has declined as a percentage of the total revenue budget throughout the course of the Educational Service Center's existence. As a comparison of changes in State funding over time, in fiscal year 1998, State funds accounted for 70 percent of total General Fund revenue. For fiscal year 2016, State funding accounted for only 5% of the General Fund's total revenues. Muskingum Valley Educational Service Center uses its State funding to offset administrative costs. As the State of Ohio continues to reduce Educational Service Center funding, Muskingum Valley Educational Service Center must search for ways to fund its administrative costs by either raising administrative fees charged for services or serving as the fiscal agent for additional programs and grants. During fiscal year 2016, Muskingum Valley Educational Service Center experienced a reduction in revenue sources for certain instructional support service programs. In order to sustain those programs,

**Muskingum Valley Educational Service Center, Ohio**  
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Muskingum Valley Educational Service Center must find other sources to fund the operations of those programs.

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

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

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

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**Muskingum Valley Educational Service Center, Ohio**

*Statement of Net Position*

*June 30, 2016*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$3,755,798
Inventory Held for Resale	60,373
Accrued Interest Receivable	6,619
Accounts Receivable	22,933
Intergovernmental Receivable	1,774,933
Prepaid Items	200,458
Nondepreciable Capital Assets	21,155
Depreciable Capital Assets, Net	<u>365,559</u>
<i>Total Assets</i>	<u>6,207,828</u>
<b>Deferred Outflows of Resources</b>	
Pensions	<u>3,867,876</u>
<b>Liabilities</b>	
Accounts Payable	47,176
Accrued Wages and Benefits Payable	1,901,753
Vacation Benefits Payable	46,004
Matured Compensated Absences Payable	7,527
Intergovernmental Payable	389,453
Long-Term Liabilities:	
Due in More than One Year:	
Net Pension Liability (See Note 11)	29,690,724
Amounts Due in More Than One Year	<u>1,095,754</u>
<i>Total Liabilities</i>	<u>33,178,391</u>
<b>Deferred Inflows of Resources</b>	
Pensions	<u>1,862,318</u>
<b>Net Position</b>	
Net Investment in Capital Assets	386,714
Restricted for:	
Unclaimed Monies	4,222
Other Purposes	511,687
Unrestricted (Deficit)	<u>(25,867,628)</u>
<i>Total Net Position</i>	<u><u>(\$24,965,005)</u></u>

See accompanying notes to the basic financial statements

**Muskingum Valley Educational Service Center, Ohio**

*Statement of Activities*

*For the Fiscal Year Ended June, 30, 2016*

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>				
Instruction:				
Regular	\$631,798	\$28,380	\$29,116	(\$574,302)
Special	7,851,574	11,249,902	728,260	4,126,588
Adult/Continuing	57,654	0	53,507	(4,147)
Student Intervention Services	905,651	401,532	161,159	(342,960)
Support Services:				
Pupils	4,472,235	1,709,976	81,895	(2,680,364)
Instructional Staff	3,915,449	1,421,678	1,446,165	(1,047,606)
Board of Education	35,402	0	0	(35,402)
Administration	1,542,266	99,999	241,556	(1,200,711)
Fiscal	508,266	790,326	56,010	338,070
Operation and Maintenance of Plant	167,672	6,918	64,862	(95,892)
Pupil Transportation	24,006	0	20,791	(3,215)
Central	591,282	145,584	390,892	(54,806)
Operation of Non-Instructional Services:				
Community Services	73,933	135,426	50,473	111,966
Extracurricular Activities	14,067	16,618	142	2,693
<b>Totals</b>	<b>\$20,791,255</b>	<b>\$16,006,339</b>	<b>\$3,324,828</b>	<b>(1,460,088)</b>
<b>General Revenues</b>				
Grants and Entitlements not Restricted to Specific Programs				792,112
Investment Earnings				17,790
Miscellaneous				192,229
Insurance Recoveries				166,315
<i>Total General Revenues</i>				<u>1,168,446</u>
<i>Change in Net Position</i>				(291,642)
<i>Net Position (Deficit) at Beginning of Year</i>				<u>(24,673,363)</u>
<i>Net Position (Deficit) at End of Year</i>				<u><u>(\$24,965,005)</u></u>

See accompanying notes to the basic financial statements

**Muskingum Valley Educational Service Center, Ohio**

*Balance Sheet  
Governmental Funds  
June 30, 2016*

	General	Special Education	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$3,503,145	\$0	\$58,654	\$3,561,799
Receivables:				
Accounts	22,933	0	0	22,933
Intergovernmental	815,245	615,009	344,679	1,774,933
Interfund	214,039	0	0	214,039
Accrued Interest	6,619	0	0	6,619
Prepaid Items	199,777	222	459	200,458
Inventory Held for Resale	60,373	0	0	60,373
Restricted Assets				
Equity in Pooled Cash and Cash Equivalents	4,222	0	0	4,222
<b>Total Assets</b>	<b>\$4,826,353</b>	<b>\$615,231</b>	<b>\$403,792</b>	<b>\$5,845,376</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts Payable	\$38,884	\$5,934	\$2,358	\$47,176
Accrued Wages and Benefits Payable	1,670,353	79,808	151,592	1,901,753
Interfund Payable	0	53,288	160,751	214,039
Matured Compensated Absences Payable	7,527	0	0	7,527
Intergovernmental Payable	296,362	56,990	36,101	389,453
<b>Total Liabilities</b>	<b>2,013,126</b>	<b>196,020</b>	<b>350,802</b>	<b>2,559,948</b>
<b>Deferred Inflows of Resources</b>				
Unavailable Revenue	389,320	436,214	78,946	904,480
<b>Fund Balances</b>				
Nonspendable				
Prepaid Items	199,777	222	459	200,458
Unclaimed Monies	4,222	0	0	4,222
Restricted for:				
Capital Improvements	0	0	4,478	4,478
State Grant Expenditures	0	0	2,139	2,139
Federal Grant Expenditures	0	0	4	4
Local Grant Expenditures	0	0	53,345	53,345
Assigned to:				
Purchases on Order	85,915	0	0	85,915
School Support Services	130,230	0	0	130,230
Unassigned (Deficits)	2,003,763	(17,225)	(86,381)	1,900,157
<b>Total Fund Balances</b>	<b>2,423,907</b>	<b>(17,003)</b>	<b>(25,956)</b>	<b>2,380,948</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$4,826,353</b>	<b>\$615,231</b>	<b>\$403,792</b>	<b>\$5,845,376</b>

See accompanying notes to the basic financial statements

**Muskingum Valley Educational Service Center, Ohio**  
*Reconciliation of Total Governmental Fund Balances  
to Net Position of Governmental Activities  
June 30, 2016*

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<b>Total Governmental Fund Balances</b>	<b>\$2,380,948</b>
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*Amounts reported for governmental activities in the statement of net position are different because*

Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds.	386,714
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Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds:

Investment Earnings	6,619	
Tuition and Fees	305,760	
Charges for Services	31,543	
Miscellaneous	45,398	
Grants	515,160	904,480

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	3,867,876	
Deferred Inflows - Pension	(1,862,318)	
Net Pension Liability	(29,690,724)	(27,685,166)

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

189,777

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

Vacation Benefits Payable	(46,004)	
Sick Leave Benefits Payable	(1,095,754)	(1,141,758)

Net Position (Deficit) of Governmental Activities	( <b>\$24,965,005</b> )
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See accompanying notes to the basic financial statements

**Muskingum Valley Educational Service Center, Ohio**  
*Statement of Revenues, Expenditures, and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2016*

	General	Special Education	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Intergovernmental	\$937,853	\$1,147,736	\$1,939,513	\$4,025,102
Investment Earnings	13,449	0	0	13,449
Tuition and Fees	11,230,998	0	0	11,230,998
Charges for Services	4,739,877	0	1,712	4,741,589
Extracurricular	8,878	0	0	8,878
Rent	2,000	0	0	2,000
Gifts and Donations	250	0	1,450	1,700
Miscellaneous	147,097	0	0	147,097
<i>Total Revenues</i>	<u>17,080,402</u>	<u>1,147,736</u>	<u>1,942,675</u>	<u>20,170,813</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	591,316	0	29,432	620,748
Special	7,119,060	0	689,711	7,808,771
Adult/Continuing	0	0	57,402	57,402
Student Intervention Services	749,509	0	157,756	907,265
Support Services:				
Pupils	4,355,605	0	80,166	4,435,771
Instructional Staff	2,481,612	904,061	517,035	3,902,708
Board of Education	35,475	0	0	35,475
Administration	1,340,846	78,886	162,799	1,582,531
Fiscal	455,493	31,749	23,328	510,570
Operation and Maintenance of Plant	112,342	24,310	40,683	177,335
Pupil Transportation	3,230	0	20,776	24,006
Central	298,005	85,965	214,504	598,474
Operation of Non-Instructional Services:				
Community Services	25,630	39,719	9,286	74,635
Extracurricular Activities	13,910	0	157	14,067
<i>Total Expenditures</i>	<u>17,582,033</u>	<u>1,164,690</u>	<u>2,003,035</u>	<u>20,749,758</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(501,631)</u>	<u>(16,954)</u>	<u>(60,360)</u>	<u>(578,945)</u>
<b>Other Financing Sources</b>				
Insurance Recoveries	166,315	0	0	166,315
<i>Total Other Financing Sources (Uses)</i>	<u>166,315</u>	<u>0</u>	<u>0</u>	<u>166,315</u>
<i>Net Change in Fund Balance</i>	(335,316)	(16,954)	(60,360)	(412,630)
<i>Fund Balances (Deficit) at Beginning of Year</i>	<u>2,759,223</u>	<u>(49)</u>	<u>34,404</u>	<u>2,793,578</u>
<i>Fund Balances (Deficit) at End of Year</i>	<u><u>\$2,423,907</u></u>	<u><u>(\$17,003)</u></u>	<u><u>(\$25,956)</u></u>	<u><u>\$2,380,948</u></u>

See accompanying notes to the basic financial statements

**Muskingum Valley Educational Service Center, Ohio**  
*Reconciliation of the Statement of Revenues, Expenditures, and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2016*

**Net Change in Fund Balances - Total Governmental Funds** (\$412,630)

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

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

Capital Asset Additions	120,300	
Depreciation Expense	(84,093)	36,207

Governmental funds report only the disposal of capital assets to the extent proceeds are received from the sale. In the Statement of Activities, a gain or loss is reported for each disposal.

Loss on Disposal of Capital Assets		(6,661)
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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:

Investment Earnings	4,341	
Tuition and Fees	52,388	
Charges for Services	(29,514)	
Miscellaneous	43,682	
Grants	91,588	162,485

Contractually required contributions are reported as expenditures in the governmental funds; however, the statement of net position reports these amounts as deferred outflows 1,763,913

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (1,718,396)

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

Vacation Benefits Payable	1,051	
Sick Leave Benefits Payable	(117,611)	(116,560)

*Change in Net Position of Governmental Activities* (\$291,642)

See accompanying notes to the basic financial statements

**Muskingum Valley Educational Service Center, Ohio**

*Statement of Fund Net Position  
Self-Insurance Internal Service Fund  
June 30, 2016*

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**Current Assets**

Equity in Pooled Cash and Cash Equivalents \$189,777

**Net Position**

Unrestricted \$189,777

See accompanying notes to the basic financial statements

**Muskingum Valley Educational Service Center, Ohio**  
*Statement of Revenues, Expenses, and Changes in Fund Net Position*  
*Self-Insurance Internal Service Fund*  
*For the Fiscal Year Ended June 30, 2016*

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

See accompanying notes to the basic financial statements

**Muskingum Valley Educational Service Center, Ohio**

*Statement of Fiduciary Net Position*

*Fiduciary Funds*

*June 30, 2016*

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	<u>Private Purpose Trust Fund</u>	<u>Investment Trust Fund</u>	<u>Agency Funds</u>
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$28,918	\$220,956	\$0
Cash and Cash Equivalents in Segragated Accounts	<u>0</u>	<u>0</u>	<u>18,118,446</u>
Total Assets	<u>28,918</u>	<u>220,956</u>	<u>\$18,118,446</u>
<b>Liabilities</b>			
Undistributed Monies	0	0	<u>\$18,118,446</u>
<b>Net Position</b>			
Held in Trust for Pool Participants	\$0	\$220,956	
Held in Trust for Scholarships	<u>28,918</u>	<u>0</u>	
Total Net Position	<u>\$28,918</u>	<u>\$220,956</u>	

See accompanying notes to the basic financial statements

**Muskingum Valley Educational Service Center, Ohio**

*Statement of Changes in Fiduciary Net Position*

*Fiduciary Funds*

*For the Fiscal Year Ended June 30, 2016*

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	<u>Private Purpose Trust Fund</u>	<u>Investment Trust Fund</u>
<b>Additions</b>		
Investment Earnings	\$0	\$265
Miscellaneous	0	24,602
	<hr/>	<hr/>
Total Additions	0	24,867
	<hr/>	<hr/>
<b>Deductions</b>		
Distributions to Participants	0	3,087
Payments in Accordance with Trust Agreements	4,200	0
	<hr/>	<hr/>
Total Deductions	4,200	3,087
	<hr/>	<hr/>
Change in Net Position	(4,200)	21,780
Net Position at Beginning of Year	33,118	199,176
	<hr/>	<hr/>
Net Position at End of Year	<u>\$28,918</u>	<u>\$220,956</u>

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016*

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

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

The Muskingum Valley Educational Service Center operates under a locally-elected Board form of government consisting of nine members elected at-large for staggered four year terms. The Educational Service Center has 179 support staff employees and 180 certified personnel that provide services to the school districts.

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

**A. Primary Government**

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

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

**B. Component Units**

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

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2016*

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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. These statements usually distinguish between those activities of the Educational Service Center that are governmental (primarily supported by intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges). The Educational Service Center, however, has no business-type activities.

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

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

**B. Fund Accounting**

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

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016*

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

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

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

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

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

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

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

**C. Measurement Focus**

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

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2016*

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

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

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, in the recording of deferred inflows of resources, and in the presentation of expenses versus expenditures.

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

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

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

**Deferred Outflows/Inflows of Resources** In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Educational Service Center, deferred outflows of resources are reported on the government-wide statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 11.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the Educational Service Center, deferred inflows of resources include pension, and unavailable revenue. These amounts have been recorded as a deferred

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016*

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inflow on both the government-wide statement of net position and governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the Educational Service Center, unavailable revenue includes tuition and fees, investment earnings, charges for services, miscellaneous revenue, and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 11)

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

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

**E. Cash and Cash Equivalents**

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

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

During fiscal year 2016, investments were limited to certificates of deposit. The Educational Service Center reports its nonnegotiable certificates of deposit at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2016 amounted to \$13,449, which includes \$10,998 assigned from other Educational Service Center funds.

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

**F. Receivables and Payables**

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

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016*

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**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2016, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

**H. Inventory**

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

**I. Capital Assets**

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

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

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

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

**J. Compensated Absences**

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

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

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016*

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the funds from which these payments will be paid.

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

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and net pension liability that are paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

**L. Internal Activity**

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

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

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

**M. Restricted Assets**

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

**N. Fund Balance**

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

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

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016*

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

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

**Assigned:** Amounts in the assigned fund balance classification are intended to be used by the Educational Service Center for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board of Education.

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

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

**O. Pensions**

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

**P. Net Position**

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

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

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016*

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**Q. Estimates**

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

**NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLE**

For fiscal year 2016, the Educational Service Center implemented Governmental Accounting Standards Board (GASB) Statement No. 72, "Fair Value Measurement and Application;" GASB Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68;" GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments;" GASB Statement No. 79, "Certain External Investment Pools and Pool Participants;" and GASB Statement No. 82, "Pension Issues an Amendment of GASB Statements No. 67, No. 68 and No. 73."

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes for applying fair value to certain investments and disclosures related to all fair value measurements. These changes were incorporated in the Educational Service Center's fiscal year 2016 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68. The implementation of this GASB pronouncement did not result in any changes to the School District's financial statements.

GASB Statement No. 76 identifies-in the context of the current governmental financial reporting environment-the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles (GAAP) and the framework for selecting those principles. The implementation of this GASB pronouncement did not result in any changes to the Educational Service Center's financial statements.

GASB Statement No. 79 establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. This Statement provides accounting and financial reporting guidance and also establishes additional note disclosure requirements for governments that participate in those pools. The Educational Service Center incorporated the corresponding GASB 79 guidance into their fiscal year 2016 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the Educational Service Center's fiscal year 2016 financial statements; however, there was no effect on beginning net position/fund balance.

**NOTE 4 - FUND DEFICITS**

The following special revenue funds had deficit fund balances as of June 30, 2016:

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2016*

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Special Education	\$17,003
Public School Preschool	66,332
Alternative Education Grant	177
EHA Preschool Handicap	1,975
Miscellaneous Federal Grants	17,438

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

**NOTE 5 - DEPOSITS AND INVESTMENTS**

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debenture, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016*

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5. Bonds and other obligations of the State of Ohio, and with certain limitation bonds and other obligations of political subdivisions of the State of Ohio;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met; and
8. Written repurchase agreements in the securities described in (1) or (2) provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Educational Service Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year-end, \$12,688,015 of the Educational Service Center's bank balance of \$23,056,239 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirement could potentially subject the Educational Service Center to a successful claim by the FDIC.

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

**NOTE 6 - STATE FUNDING**

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

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

The Educational Service Center also receives funding from the State Department of Education in the amount of \$33.00 times the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all local school districts within the Educational Service

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2016*

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

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

**NOTE 7 - INTERFUND ACTIVITY**

Interfund balances at June 30, 2016, represent \$214,039 due to the General Fund from Special Revenue Funds for cash deficits.

	<u>Receivable</u>	<u>Payable</u>
General Fund	<u>\$214,039</u>	<u>\$0</u>
Special Revenue Funds:		
Public Preschool	0	38,624
Alternative School Grant	0	6,481
Miscellaneous State Grants	0	57,342
ABLE	0	4,672
Special Education	0	53,288
Preschool Handicap Grant	0	10,757
Miscellaneous Federal Grants	<u>0</u>	<u>42,875</u>
Total Special Revenue Funds	<u>0</u>	<u>214,039</u>
Total All Funds	<u><u>\$214,039</u></u>	<u><u>\$214,039</u></u>

**NOTE 8 - RECEIVABLES**

Receivables at June 30, 2016, consisted of accounts receivable (charges for services, excess costs), interfund, accrued interest, and intergovernmental grants. All receivables are considered collectible in full due to the stable condition of State programs and the current fiscal year guarantee of federal funds. All receivables are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2016*

	<u>Amounts</u>
Tuition	\$459,295
Program Costs	355,950
Early Childhood Education Grant	117,481
Alternative Education Challenge Grant	8,495
State Grants	84,179
IDEA B Grant	615,009
ABLE Grant	8,274
Early Childhood Special Education Grant	6,672
Early Childhood Special Education Discretionary Grant	9,195
Federal Grants	56,628
21st Century Grant	<u>53,755</u>
Total	<u><u>\$1,774,933</u></u>

**NOTE 9 - CAPITAL ASSETS**

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

	<u>Balance</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2016</u>
<u>Nondepreciable Capital Assets</u>				
Land	<u>\$21,155</u>	<u>\$0</u>	<u>\$0</u>	<u>\$21,155</u>
<u>Depreciable Capital Assets</u>				
Land Improvements	0	10,359	0	10,359
Buildings and Improvements	285,154	38,360	0	323,514
Furniture, Fixtures, and Equipment	<u>1,172,628</u>	<u>71,581</u>	<u>(113,617)</u>	<u>1,130,592</u>
Total at Historical Cost	<u>1,457,782</u>	<u>120,300</u>	<u>(113,617)</u>	<u>1,464,465</u>
Less Accumulated Depreciation				
Land Improvements	0	(371)	0	(371)
Buildings and Improvements	(144,772)	(7,069)	0	(151,841)
Furniture, Fixtures, and Equipment	<u>(976,997)</u>	<u>(76,653)</u>	<u>106,956</u>	<u>(946,694)</u>
Total Accumulated Depreciation	<u>(1,121,769)</u>	<u>(84,093) *</u>	<u>106,956</u>	<u>(1,098,906)</u>
Depreciable Capital Assets, Net of Accumulated Depreciation	<u>336,013</u>	<u>36,207</u>	<u>(6,661)</u>	<u>365,559</u>
Governmental Activities Capital Assets, Net	<u><u>\$357,168</u></u>	<u><u>\$36,207</u></u>	<u><u>(\$6,661)</u></u>	<u><u>\$386,714</u></u>

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2016*

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

Instruction:	
Regular	\$5,821
Special	15,539
Student Intervention Services	2,623
Support Services:	
Pupils	457
Instructional Staff	15,991
Administration	42,587
Fiscal	454
Operation and Maintenance	361
Central	260
	<hr/>
Total Depreciation Expense	<u>\$84,093</u>

**NOTE 10 - RISK MANAGEMENT**

The Educational Service Center is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2016, the Educational Service Center participated with other school districts in the Schools of Ohio Risk Sharing Authority (SORSA), a public entity insurance purchasing pool. Each individual school district enters into an agreement with SORSA and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The Educational Service Center pays this annual premium to SORSA. (See Note 17)

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

<u>Building and Contents (deductible waived)</u>	
Building	\$2,281,618
Personal Property	100,000
Valuable Paper and Records	1,000,000
Accounts Receivable	1,000,000
Extra Expense	2,000,000
Business Income	2,000,000
<u>Earthquake (\$50,000 deductible)</u>	2,000,000
<u>Crime Insurance (deductible waived)</u>	
Employee Theft	100,000
Forgery or Alteration	100,000
Computer Fraud	100,000
<u>Inland Marine (deductible waived)</u>	
Electronic Data Processing Media and Data Reproduction	1,250,000
<u>Fleet Insurance (deductible waived)</u>	
Automobile Liability (per occurrence)	15,000,000
Uninsured Motorists (per occurrence)	1,000,000
<u>General Liability (deductible waived)</u>	
Per Occurrence	15,000,000
Aggregate Limit	17,000,000

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2016*

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Legal Liability for General Liability (deductible waived)

Errors and Omissions

Per Occurrence 15,000,000

Aggregate Limit 15,000,000

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

For fiscal year 2016, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control, and actuarial services to the GRP.

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

**NOTE 11 - DEFINED BENEFIT PENSION PLANS**

**A. Net Pension Liability**

*Net Pension Liability*

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

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

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

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016*

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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.

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

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

Age and service requirements for retirement are as follows:

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

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

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

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

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

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2016*

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The Educational Service Center's contractually required contribution to SERS was \$559,472 for fiscal year 2016. Of this amount, \$69,713 is reported as an intergovernmental payable.

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

Plan Description – 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 is 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 year 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, 11 percent of the 12 percent member rate goes to the DC Plan and 1 percent goes to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

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

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least

**Muskingum Valley Educational Service Center, Ohio**

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ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. Effective July 1, 2016, the statutory maximum employee contribution rate was increased one percent to 14 percent. 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 2016 contribution rates were equal to the statutory maximum rates.

The Educational Service Center's contractually required contribution to STRS was \$1,204,441 for fiscal year 2016. Of this amount, \$157,247 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, 2015, 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>	
Proportion of the Net Pension Liability			
Prior Measurement Date	0.1225670%	0.07795173%	
Proportion of the Net Pension Liability			
Current Measurement Date	0.1233564%	0.08196196%	
Change in Proportionate Share	<u>0.0007894%</u>	<u>0.00401023%</u>	
			<u>Total</u>
Proportionate Share of the Net			
Pension Liability	\$7,038,836	\$22,651,888	\$29,690,724
Pension Expense	\$458,522	\$1,259,874	\$1,718,396

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

**Muskingum Valley Educational Service Center, Ohio**

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For the Fiscal Year Ended June 30, 2016*

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$113,339	\$1,032,640	\$1,145,979
Changes in proportionate Share and difference between Educational Service Center contributions and proportionate share of contributions	38,689	919,295	957,984
Educational Service Center contributions subsequent to the measurement date	<u>559,472</u>	<u>1,204,441</u>	<u>1,763,913</u>
Total Deferred Outflows of Resources	<u>\$711,500</u>	<u>\$3,156,376</u>	<u>\$3,867,876</u>
<b>Deferred Inflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	<u>\$233,219</u>	<u>\$1,629,099</u>	<u>\$1,862,318</u>
Total Deferred Inflows of Resources	<u>\$233,219</u>	<u>\$1,629,099</u>	<u>\$1,862,318</u>

\$1,763,913 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2017	(\$72,333)	(\$137,809)	(\$210,142)
2018	(72,333)	(137,809)	(210,142)
2109	(72,870)	(137,809)	(210,679)
2020	<u>136,345</u>	<u>736,263</u>	<u>872,608</u>
Total	<u>(\$81,191)</u>	<u>\$322,836</u>	<u>\$241,645</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.

**Muskingum Valley Educational Service Center, Ohio**

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

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

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 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 an arithmetic weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalanced uncorrelated asset classes.

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

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

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2016*

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***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%)
Educational Service Center's proportionate share of the net pension liability	\$9,760,336	\$7,038,836	\$4,747,108

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

**Actuarial Assumptions - STRS**

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

Inflation	2.75 percent
Projected salary increases	12.25 percent at age 20 to 2.75 percent at age 70
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 commences 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 no set back from age 90 and above.

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

STRS' investment consultant develops best estimates for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

**Muskingum Valley Educational Service Center, Ohio**

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*For the Fiscal Year Ended June 30, 2016*

<u>Asset Class</u>	<u>Target Allocation</u>	<u>10 Year Expected Nominal 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
<b>Total</b>	<b>100.00 %</b>	

\* 10 year annualized geometric nominal returns include the real rate of return and inflation of 2.5 percent.

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

**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%)
Educational Service Center's proportionate share of the net pension liability	\$31,465,182	\$22,651,888	\$15,198,935

**B. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System / State Teachers Retirement System. As of June 30, 2016, four members of the Board of Education elected Social Security. The Board's liability is 6.2 percent of wages paid.

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2016*

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**NOTE 12 - POST-EMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, no allocation 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 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the Educational Service Center's surcharge obligation was \$65,010.

The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014, were \$0, \$30,829, and \$36,970, respectively. The full amount has been contributed for fiscal years 2016, 2015, and 2014.

**B. State Teachers Retirement System**

Plan Description - The State Teachers Retirement System of Ohio (STRS Ohio) administers a cost-sharing multiple-employer defined benefit Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. 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 Ohio 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 discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. Nearly all health

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2016*

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care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For the fiscal years ended June 30, 2016 and June 30, 2015, STRS Ohio did not allocate any employer contributions to post-employment health care. For the fiscal year ended June 30, 2014, one percent of covered payroll was allocated to post-employment health care. The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014, were \$0, \$0 and \$82,019, respectively. The full amount has been contributed for 2016, 2015, and 2014.

**NOTE 13 - EMPLOYEE BENEFITS**

**A. Compensated Absences**

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

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

**B. Insurance Benefits**

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

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

**NOTE 14 - OPERATING LEASE**

The Educational Service Center is obligated under an operating lease to Muskingum County for the rental of office space for a period of twenty years. The Educational Service Center paid to the County half of the lease obligation (\$400,000), in December of 1996. The operating lease does not give rise to property rights or lease obligations, and therefore the results of the lease agreement are not reflected in the Educational Service Center's financial statements. The following is a schedule by years of future minimum rental payments required under the operating lease that have remaining noncancelable lease terms in excess of one year as of June 30, 2016:

Fiscal Year Ending June 30,	Total
2017	\$23,010

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2016*

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**NOTE 15 - LONG-TERM OBLIGATIONS**

The changes in the Educational Service Center's long-term obligations during fiscal year 2016 were as follows:

	<u>Outstanding 6/30/2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Outstanding 6/30/2016</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>					
Net Pension Liability:					
STRS	\$18,960,558	\$3,691,330	\$0	\$22,651,888	\$0
SERS	6,203,046	835,790	0	7,038,836	0
Total Net Pension Liability	<u>25,163,604</u>	<u>4,527,120</u>	<u>0</u>	<u>29,690,724</u>	<u>0</u>
Sick Leave Benefits Payable	<u>978,143</u>	<u>130,885</u>	<u>13,274</u>	<u>1,095,754</u>	<u>0</u>
Total Governmental Activities Long Term Liabilities	<u>\$26,141,747</u>	<u>\$4,658,005</u>	<u>\$13,274</u>	<u>\$30,786,478</u>	<u>\$0</u>

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

**NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS**

**A. Ohio Mid-Eastern Regional Educational Service Agency Information Technology Center  
Regional Council of Governments**

The Educational Service Center is a participant in the Ohio Mid-Eastern Regional Educational Service Agency Information Technology Center Regional Council of Governments (OME-RESA). OME-RESA was created as a separate regional council of governments pursuant to State statutes. OME-RESA operates under the direction of a board comprised of a representative from each participating school district. The board exercised total control over the operations of OME-RESA including budgeting, appropriating, contracting, and designing management. Each participant's control is limited to its representation on the board. OMERESA provides information technology and internet access to member districts, as well as cooperative purchasing programs.

During fiscal year 2016, the amount paid to OME-RESA from the Educational Service Center was \$14,697 for cooperative purchasing, technology, internet access, financial accounting services, and educational management information. The Jefferson County Educational Service Center serves as the fiscal agent. To obtain financial information write to Ohio Mid-Eastern Regional Educational Service Agency, Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio 43952.

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

The Coalition of Rural and Appalachian Schools is a jointly governed organization composed of 136 Educational Service Centers and other educational institutions in the 35-county region of Ohio designated as Appalachia. The Coalition is operated by a Board which is composed of seventeen members. One elected and one appointed from each of the seven regions into which the 35 Appalachian counties are divided; and three from Ohio University College of Education. The Council provides various in-service training programs for Educational Service Center administrative personnel; gathers data regarding the level of education provided to children in the region; cooperates with other professional groups to assess

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016*

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and develop programs designed to meet the needs of member districts; and provides staff development programs for Educational Service Center personnel. The Educational Service Center membership fees were \$325 during fiscal year 2016. The financial information for the Coalition can be obtained from the Executive Director, at McCracken Hall, Ohio University, Athens, Ohio 45701.

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

The Ohio Coalition for Equity and Adequacy of School Funding is a regional council of governments established in January 1991. The purpose of the Coalition is to bring about greater equity and adequacy of public school funding in Ohio. The Coalition is governed by a steering committee consisting of representatives from the membership group. The steering committee consists of not more than 78 representatives, who are Superintendents of Boards of Education that are Coalition members, plus an additional 12 representatives may be appointed by the Chairperson. The Center's membership fee was \$1,000 for fiscal year 2016. The Center serves as the fiscal agent of the Coalition and financial activity of the Coalition is reported as an investment trust fund as discussed in Note 20.

**NOTE 17 - INSURANCE PURCHASING POOLS**

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

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

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

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

**C. Ohio School Benefits Cooperative**

The Educational Service Center participates in the Ohio School Benefits Cooperative, a claims servicing and group purchasing pool composed of fifteen members. The Ohio School Benefits Cooperative (OSBC) is created and organized pursuant to and as authorized by Section 9.833 of the Ohio Revised Code. OSBC is governed by a nine member Board of Directors, all of whom must be Educational Service Center and/or educational service center administrators. The Muskingum Valley Educational Service Center serves as the fiscal agent for OSBC. OSBC is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to maximize benefits and/or reduce costs of medical, prescription drug, vision, dental, life, and/or other group insurance coverages for their employees and the eligible dependents, and designated beneficiaries of such employees, and propose to have certain other eligible Educational Service Center or groups of Educational Service Centers join them for the same purposes. Participants pay a \$500 membership fee to OSBC. OSBC offers two options to participants.

Participants may enroll in the joint insurance purchasing program for medical, prescription drug, vision dental and/or life insurance. A second option is available for self-insured participants that provides for

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2016*

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the purchase of stop loss insurance coverage through OSBC's third party administrator. The OSBC's business and affairs are conducted by a nine member Board of Directors consisting of Educational Service Center superintendents elected by the members of the OSBC. Medical Mutual/Antares is the Administrator of the OSBC. On October 1, 2006, the Educational Service Center elected to participate in the joint insurance purchasing program for medical, prescription drug, and dental coverage.

**NOTE 18 - CONTINGENCIES**

**A. Grants**

The Educational Service Center received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2016.

**B. Litigation**

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

**NOTE 19 - SIGNIFICANT COMMITMENTS**

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

<u>Governmental Funds</u>	
General Fund	\$130,872
Special Education Fund	86,115
Other Nonmajor Governmental Funds	<u>113,294</u>
Total All Funds	<u><u>\$330,281</u></u>

**NOTE 20 - INVESTMENT TRUST FUND**

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

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Statement of Net Position  
June 30, 2016

**Assets:**

Equity in Pooled Cash and Cash Equivalents	\$4,005,672
Accrued Interest Receivable	6,619
<b>Total Assets</b>	<b>\$4,012,291</b>

**Net Position Held in Trust for Pool Participants:**

Internal Portion	\$3,791,335
External Portion	220,956
<b>Total Net Position Held in Trust for Pool Participants</b>	<b>\$4,012,291</b>

Statement of Changes in Net Position  
For the Fiscal Year Ended June 30, 2016

**Additions:**

Interest Income	\$18,055
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**Deductions:**

Net Increase in Assets Resulting from Operations	18,055
Distributions paid to Participants	(13,714)
Capital Transactions	(497,832)
<b>Total Deductions</b>	<b>(511,546)</b>
Total Decrease in Net Position	(493,491)
<b>Net Position at Beginning of Year</b>	<b>4,505,782</b>
<b>Net Position at End of Year</b>	<b>\$4,012,291</b>

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Educational Service Center's Investment Trust will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year-end, \$3,051,463 of the Educational Service Center's Investment Trust bank balance of \$4,742,687 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirement could potentially subject the Educational Service Center to a successful claim by the FDIC.

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

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

	2016	2015	2014
Educational Service Center's Proportion of the Net Pension Liability	0.123356%	0.122567%	0.122567%
Educational Service Center's Proportionate Share of the Net Pension Liability	\$7,038,836	\$6,203,046	\$7,288,666
Educational Service Center's Covered-Employee Payroll	\$3,759,621	\$3,592,633	\$3,093,411
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	187.22%	172.66%	235.62%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.52%

(1) Information prior to 2014 is not available.

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

**Muskingum Valley Educational Service Center, 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 Three Fiscal Years (1)*

	2016	2015	2014
Educational Service Center's Proportion of the Net Pension Liability	0.08196196%	0.07795173%	0.07795173%
Educational Service Center's Proportionate Share of the Net Pension Liability	\$22,651,888	\$18,960,558	\$22,585,693
Educational Service Center's Covered-Employee Payroll	\$8,690,129	\$8,127,986	\$7,579,840
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	260.66%	233.27%	297.97%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	74.70%	69.30%

(1) Information prior to 2014 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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**Muskingum Valley Educational Service Center, Ohio**  
*Required Supplementary Information*  
*Schedule of the Educational Service Center Contributions*  
*School Employees Retirement System of Ohio*  
*Last Ten Fiscal Years*

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$559,472	\$495,518	\$497,939	\$428,128
Contributions in Relation to the Contractually Required Contribution	<u>(559,472)</u>	<u>(495,518)</u>	<u>(497,939)</u>	<u>(428,128)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Educational Service Center Covered-Employee Payroll	\$3,996,229	\$3,759,621	\$3,592,633	\$3,093,411
Contributions as a Percentage of Covered-Employee Payroll	14.00%	13.18%	13.86%	13.84%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$312,685	\$206,740	\$208,027	\$144,538	\$126,475	\$118,841
<u>(312,685)</u>	<u>(206,740)</u>	<u>(208,027)</u>	<u>(144,538)</u>	<u>(126,475)</u>	<u>(118,841)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$2,324,796	\$1,644,709	\$1,536,387	\$1,468,879	\$1,287,935	\$1,112,740
13.45%	12.57%	13.54%	9.84%	9.82%	10.68%

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$1,204,441	\$1,216,618	\$1,056,638	\$985,379
Contributions in Relation to the Contractually Required Contribution	<u>(1,204,441)</u>	<u>(1,216,618)</u>	<u>(1,056,638)</u>	<u>(985,379)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Educational Service Center Covered-Employee Payroll	\$8,603,150	\$8,690,129	\$8,127,986	\$7,579,840
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	13.00%	13.00%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$792,671	\$608,551	\$623,506	\$612,634	\$487,866	\$456,453
<u>(792,671)</u>	<u>(608,551)</u>	<u>(623,506)</u>	<u>(612,634)</u>	<u>(487,866)</u>	<u>(456,453)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$6,097,466	\$4,681,163	\$4,796,203	\$4,712,572	\$3,752,817	\$3,511,179
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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## **Supplemental Information**

**Muskingum Valley Educational Service Center, Ohio**  
*Schedule of Revenues, Expenditures, and Changes*  
*in Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2016*

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>Revenues</b>				
Intergovernmental	\$821,138	\$821,138	\$937,853	\$116,715
Investment Earnings	15,000	15,000	13,449	(1,551)
Tuition and Fees	12,112,361	12,112,361	11,351,202	(761,159)
Charges for Services	4,640,319	4,666,729	4,705,539	38,810
Extracurricular Activities	4,000	4,000	8,878	4,878
Rent	2,500	2,500	2,000	(500)
Gifts and Donations	115	115	250	135
Miscellaneous	46,410	46,410	100,983	54,573
<b>Total Revenues</b>	<b>17,641,843</b>	<b>17,668,253</b>	<b>17,120,154</b>	<b>(548,099)</b>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	763,080	763,080	576,230	186,850
Special	7,456,567	7,563,505	7,122,422	441,083
Student Intervention Services	1,084,992	1,084,992	706,201	378,791
Support Services:				
Pupils	4,105,317	4,105,317	4,408,232	(302,915)
Instructional Staff	2,644,925	2,645,925	2,625,067	20,858
Board of Education	44,740	44,740	35,928	8,812
Administration	1,395,559	1,436,842	1,394,174	42,668
Fiscal	461,324	461,324	460,800	524
Operation and Maintenance of Plant	178,457	178,457	113,183	65,274
Pupil Transportation	2,500	2,500	3,996	(1,496)
Central	315,592	315,592	318,304	(2,712)
Operation of Non-Instructional Services:				
Community Services	0	0	28,645	(28,645)
Extracurricular Activities	4,010	4,010	9,630	(5,620)
<b>Total Expenditures</b>	<b>18,457,063</b>	<b>18,606,284</b>	<b>17,802,812</b>	<b>803,472</b>
Excess of Revenues Under Expenditures	(815,220)	(938,031)	(682,658)	255,373
<b>Other Financing Sources (Uses)</b>				
Insurance Recoveries	180,000	180,000	166,315	(13,685)
Refund of Prior Year Expenditures	835,372	835,372	22,514	(812,858)
Refund of Prior Year Receipts	(110)	(110)	0	110
Other Financing Uses	(25,000)	(25,000)	0	25,000
<b>Total Other Financing Sources and Uses</b>	<b>990,262</b>	<b>990,262</b>	<b>188,829</b>	<b>(801,433)</b>
Net Change in Fund Balances	175,042	52,231	(493,829)	(546,060)
Fund Balance at Beginning of Year	3,816,252	3,816,252	3,816,252	0
Prior Year Encumbrances Appropriated	136,530	136,530	136,530	0
<b>Fund Balance at End of Year</b>	<b>\$4,127,824</b>	<b>\$4,005,013</b>	<b>\$3,458,953</b>	<b>(\$546,060)</b>

**Muskingum Valley Educational Service Center, Ohio**  
*Schedule of Revenues, Expenditures, and Changes*  
*in Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*Special Education Special Revenue Fund*  
*For the Fiscal Year Ended June 30, 2016*

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>Revenues</b>				
Intergovernmental	\$1,301,780	\$1,664,365	\$1,044,415	(\$619,950)
<b>Expenditures</b>				
Current:				
Support Services:				
Instructional Staff	1,015,972	1,248,457	947,443	301,014
Administration	80,400	77,000	72,249	4,751
Fiscal	45,271	45,271	43,585	1,686
Operation and Maintenance of Plant	45,000	45,000	24,310	20,690
Central	102,890	252,890	107,996	144,894
Operation of Non-Instructional Services:				
Community Services	65,611	49,111	41,599	7,512
Total Expenditures	1,355,144	1,717,729	1,237,182	480,547
Net Change in Fund Balances	(53,364)	(53,364)	(192,767)	(139,403)
Fund Balance (Deficit) at Beginning of Year	9,447	9,447	9,447	0
Prior Year Encumbrances Appropriated	43,917	43,917	43,917	0
Fund Balance (Deficit) at End of Year	\$0	\$0	(\$139,403)	(\$139,403)

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Supplemental Information  
For the Fiscal Year Ended June 30, 2016*

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**NOTE 1 - BUDGETARY PROCESS**

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

**A. Appropriations**

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

**B. Lapsing of Appropriations**

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

**C. Budgetary Basis of Accounting**

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

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

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

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Supplemental Information  
For the Fiscal Year Ended June 30, 2016*

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

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

	General Fund	Special Education Fund
	<u>          </u>	<u>          </u>
GAAP Basis	(\$335,316)	(\$16,954)
Net Adjustment for:		
Revenue Accruals	152,537	(103,321)
Expenditure Accruals	(350,781)	12,978
Prepaid Items:		
Beginning of Fiscal Year	204,394	867
End of Fiscal Year	(199,777)	(222)
To reclassify excess of expenditures over revenues over expenditures into financial statement fund types	(48,564)	0
Negative Cash Advances to Other Funds	214,039	0
Encumbrances	<u>(130,361)</u>	<u>(86,115)</u>
Budget Basis	<u><u>(\$493,829)</u></u>	<u><u>(\$192,767)</u></u>

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**MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER  
MUSKINGUM COUNTY**

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

<b>FEDERAL GRANTOR/ Pass Through Grantor Program/Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass Through Entity Identifying Number</b>	<b>Passed Through to Subrecipients</b>	<b>Total Federal Receipts</b>	<b>Total Federal Expenditures</b>
<b>U.S. DEPARTMENT OF EDUCATION</b>					
<i>Passed Through Ohio Department of Education:</i>					
Adult Education - Basic Grants to States	84.002	2015	\$0	\$2,297	\$2,917
		2016	0	72,258	76,936
Total Adult Education - Basic Grants to States			0	74,555	79,853
Special Education Cluster:					
Special Education Grants to States	84.027	2015	0	89,839	143,201
		2016	0	954,576	1,007,869
Total Special Education Grants to States			0	1,044,415	1,151,070
Special Education Preschool Grants	84.173	2015	0	8,543	9,390
		2016	0	95,522	106,278
Total Special Education Preschool Grants			0	104,065	115,668
Total Special Education Cluster			0	1,148,480	1,266,738
Twenty - First Century Community Learning Centers	84.287	2015	0	12,338	7,635
		2016	0	243,855	281,894
Total Twenty - First Century Community Learning Centers			0	256,193	289,529
Special Education - State Personnel Development	84.323	2015	0	34,605	16,469
		2016	0	75,359	79,113
Total Special Education - State Personnel Development			0	109,964	95,582
Improving Teacher Quality State Grants	84.367	2015	0	3,202	226
ARRA - Race to the Top Incentive Grants, Recovery Act					
Regional Specialist Grant	84.395	2015	0	18,356	0
Regional FIP Grant		2015	0	14,485	0
Assessment Literacy Grant		2015	0	5,614	0
Early Literacy and Reading Readiness		2015	0	15,588	0
Total ARRA - Race to the Top, Recovery Act			0	54,043	0
ARRA - Race to the Top - Early Learning Challenge	84.412	2015	0	797	797
		2016	0	7,000	8,062
Total ARRA - Race to the Top - Early Learning Challenge			0	7,797	8,859
Total U.S. Department of Education			0	1,654,234	1,740,787
<b>Total Receipts and Expenditures of Federal Awards</b>			<b>\$0</b>	<b>\$1,654,234</b>	<b>\$1,740,787</b>

*The accompanying notes are an integral part of this schedule.*

**MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER  
MUSKINGUM COUNTY**

**NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS  
2 CFR PART 200.510(b)(6)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**NOTE A – BASIS OF PRESENTATION**

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

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE C - MATCHING REQUIREMENTS**

Certain Federal programs require the Educational Service Center to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Educational Service Center has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

**NOTE D – NON-FEDERAL CASH RECEIPTS**

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

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount</u>
Adult Education - Basic Grants to States	84.002	\$29,279



# Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Muskingum Valley Educational Service Center, Muskingum County, Ohio (the Educational Service Center), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Educational Service Center's basic financial statements and have issued our report thereon dated March 2, 2017.

### ***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 initial "D".

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

March 2, 2017



# Dave Yost • Auditor of State

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

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

To the Board of Education:

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

We have audited the Muskingum Valley Educational Service Center's, Muskingum County, Ohio (the Educational Service Center), compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the Educational Service Center's major federal program for the year ended June 30, 2016. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the Educational Service Center's major federal program.

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

The Educational Service Center's management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

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

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

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

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

In our opinion, the Educational Service Center complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2016.

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

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

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

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

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



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

March 2, 2017

**MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER  
MUSKINGUM COUNTY**

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

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

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material weaknesses in internal control reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under 2 CFR Part 200.516(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list): <ul style="list-style-type: none"> <li>• Special Education Cluster – CFDA #'s 84.027 &amp; 84.173</li> </ul>	
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee under 2 CFR Part 200.520?	Yes

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

None

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None

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# Dave Yost • Auditor of State

**MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER**

**MUSKINGUM COUNTY**

## **CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 14, 2017**