



Dave Yost • Auditor of State

**MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER
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 Governing Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Muskingum Valley Educational Service Center, Muskingum County, Ohio (the Educational Service Center), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Educational Service Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Muskingum Valley Educational Service Center, Muskingum County, Ohio, as of June 30, 2014, 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*, 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 Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – General Fund presents additional analysis and is not a required part of the basic financial statements.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2015, 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, flowing style.

Dave Yost
Auditor of State

Columbus, Ohio

January 29, 2015

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Muskingum Valley Educational Service Center, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

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, 2014. 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 2014 are as follows:

- Net position of governmental activities decreased \$683,978.
- General revenues accounted for \$917,052 in revenue or 5 percent of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$17,519,638, or 95 percent of total revenues of \$18,436,690.
- The Educational Service Center had \$19,120,668 in expenses related to governmental activities; \$17,519,638 of these expenses was offset by program specific charges for services and grants and contributions.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the 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.

Muskingum Valley Educational Service Center, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

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 2014?" 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.

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 and support services.

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

The analysis of the Educational Service Center's major fund begins on page 10. Fund financial reports provide detailed information about the Educational Service Center's major fund. The Educational Service Center uses many funds to account for a 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 fund is the General 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 School District'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.

Muskingum Valley Educational Service Center, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

Fiduciary Funds – The Educational Service Center is the trustee, or fiduciary, for various 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.

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 2014 compared to 2013.

Table 1
Net Position

| | Governmental Activities | | |
|----------------------------------|-------------------------|-------------|-------------|
| | 2014 | 2013 | Change |
| Assets | | | |
| Current and Other Assets | \$5,515,814 | \$6,154,627 | (\$638,813) |
| Capital Assets | 280,601 | 274,658 | 5,943 |
| Total Assets | 5,796,415 | 6,429,285 | (632,870) |
| Liabilities | | | |
| Long-Term Liabilities | 909,565 | 917,405 | (7,840) |
| Other Liabilities | 2,331,231 | 2,272,283 | 58,948 |
| Total Liabilities | 3,240,796 | 3,189,688 | 51,108 |
| Net Position | | | |
| Net Investment in Capital Assets | 280,601 | 274,658 | 5,943 |
| Restricted | 85,904 | 388,255 | (302,351) |
| Unrestricted | 2,189,114 | 2,576,684 | (387,570) |
| Total Net Position | \$2,555,619 | \$3,239,597 | (\$683,978) |

Total assets decreased \$632,870. The primary item that impacted the change was a decrease in intergovernmental receivables of \$1,139,179 due to a decrease in the receivable for the Title VI-B grant and a reduction in the amount that was unpaid from member districts for services provided, which was offset by an increase in cash and cash equivalents in the amount of \$450,591 and an increase in prepaid items of \$26,418.

Total liabilities increased \$51,108. The increase was primarily due to an increase in accrued wages and benefits in the amount of \$188,528, an increase in matured compensated absences payable in the amount of \$41,682, and an increase in intergovernmental payables in the amount of \$15,356. These increases were offset by a decrease to accounts payable of \$186,963.

Muskingum Valley Educational Service Center, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

Table 2 shows the changes in net position for the fiscal year ended June 30, 2014, and comparisons to fiscal year 2013.

Table 2
Changes in Net Position

| | Governmental Activities | | |
|--|-------------------------|--------------------|--------------------|
| | 2014 | 2013 | Change |
| Revenues | | | |
| Program Revenues: | | | |
| Charges for Services | \$14,311,286 | \$13,233,117 | \$1,078,169 |
| Operating Grants and Contributions | 3,208,352 | 4,655,235 | (1,446,883) |
| Total Program Revenues | <u>17,519,638</u> | <u>17,888,352</u> | <u>(368,714)</u> |
| General Revenues: | | | |
| Grants and Entitlements | 730,905 | 845,308 | (114,403) |
| Investment Earnings | 14,702 | 18,159 | (3,457) |
| Miscellaneous | 171,445 | 141,392 | 30,053 |
| Total General Revenues | <u>917,052</u> | <u>1,004,859</u> | <u>(87,807)</u> |
| Total Revenues | <u>18,436,690</u> | <u>18,893,211</u> | <u>(456,521)</u> |
| Program Expenses | | | |
| Instruction: | | | |
| Regular | 572,650 | 827,029 | (254,379) |
| Special | 6,786,347 | 4,785,364 | 2,000,983 |
| Adult/Continuing | 61,511 | 34,640 | 26,871 |
| Intervention | 627,380 | 639,826 | (12,446) |
| Support Services: | | | |
| Pupils | 4,015,179 | 3,758,384 | 256,795 |
| Instructional Staff | 4,560,076 | 5,508,628 | (948,552) |
| Board of Education | 38,658 | 42,588 | (3,930) |
| Administration | 1,328,896 | 1,645,261 | (316,365) |
| Fiscal | 463,054 | 491,112 | (28,058) |
| Operation and Maintenance of Plant | 124,451 | 127,288 | (2,837) |
| Pupil Transportation | 31,224 | 49,793 | (18,569) |
| Central | 366,994 | 396,984 | (29,990) |
| Operation of Non-Instructional Services: | | | |
| Community Services | 119,188 | 133,523 | (14,335) |
| Extracurricular Activities | 25,060 | 15,108 | 9,952 |
| Interest and Fiscal Charges | 0 | 571 | (571) |
| Total Expenses | <u>19,120,668</u> | <u>18,456,099</u> | <u>664,569</u> |
| Change in Net Position | (683,978) | 437,112 | (1,121,090) |
| Net Position Beginning of Year | 3,239,597 | 3,132,468 | 107,129 |
| Prior Period Adjustment | 0 | (329,983) | 329,983 |
| Net Position Beginning of Year | <u>3,239,597</u> | <u>2,802,485</u> | <u>437,112</u> |
| Net Position End of Year | <u>\$2,555,619</u> | <u>\$3,239,597</u> | <u>(\$683,978)</u> |

Muskingum Valley Educational Service Center, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

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 \$683,978. Revenues decreased \$456,521 and expenses increased \$664,569.

During fiscal year 2014, the State of Ohio redirected preschool special education unit funding from educational service centers to school districts. Early childhood funding is now based on a per student, rather than a unit model. This shift in funding resulted in a reduction in state funding for the Educational Service Center.

The Educational Service Center expanded its special education programs in fiscal year 2014 to sustain district requests and increases in enrollment, including an additional Early Childhood Education Expansion grant. The ESC reclassified certain expenditures from the regular instruction category to the special instruction category to be consistent in its accounting for early childhood expenditures in all funds. The ESC also reclassified certain instructional staff support service expenditures as special instruction expenditures for the 2013-2014 school year. These adjustments were made in order to comply with recent updates to the Uniform School Accounting System coding requirements. Expenditures for one-on-one paraprofessionals that were formerly classified as instructional support are now recorded as special instruction.

The Educational Service Center experienced an increase in demand for pupil support services in the areas of school psychology and occupational therapy services. Administrative expenditures decreased, in part, because a special shared services grant ended as of the start of fiscal year 2014.

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 tax revenue and unrestricted entitlements.

Muskingum Valley Educational Service Center, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

Table 3
Governmental Activities

| | 2014 Total Cost of Services | 2014 Net Cost of Services | 2013 Total Cost of Services | 2013 Net Cost of Services |
|--|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| Program Expenses | | | | |
| Instruction: | | | | |
| Regular | \$572,650 | \$540,206 | \$827,029 | \$543,538 |
| Special | 6,786,347 | (3,370,209) | 4,785,364 | (4,139,382) |
| Adult/Continuing | 61,511 | 4,142 | 34,640 | (1,127) |
| Intervention | 627,380 | (480,427) | 639,826 | (249,195) |
| Support Services: | | | | |
| Pupils | 4,015,179 | 3,018,086 | 3,758,384 | 1,920,361 |
| Instructional Staff | 4,560,076 | 865,082 | 5,508,628 | 1,116,563 |
| Board of Education | 38,658 | 38,658 | 42,588 | 42,588 |
| Administration | 1,328,896 | 1,184,876 | 1,645,261 | 1,173,307 |
| Fiscal | 463,054 | (535,169) | 491,112 | (47,553) |
| Operation and Maintenance of Plant | 124,451 | 90,926 | 127,288 | 80,524 |
| Pupil Transportation | 31,224 | 13,872 | 49,793 | 27,636 |
| Central | 366,994 | 164,889 | 396,984 | 78,823 |
| Operation of Non-Instructional Services: | | | | |
| Community Services | 119,188 | 52,750 | 133,523 | 23,009 |
| Extracurricular Activities | 25,060 | 13,348 | 15,108 | (1,916) |
| Interest and Fiscal Charges | 0 | 0 | 571 | 571 |
| Totals | \$19,120,668 | \$1,601,030 | \$18,456,099 | \$567,747 |

Special instruction programs comprise approximately 35 percent of total governmental program expenses while support services comprise approximately 57 percent of total governmental program expenses. Of the support services expenses, approximately 37 percent is for pupils, 42 percent for instructional staff, and 12 percent for administration.

The Educational Service Center's Major Fund

The Educational Service Center's General Fund is accounted for using the modified accrual basis of accounting. The General Fund had total revenues of \$15,729,806 and expenditures of \$15,852,545, which resulted in a decrease in fund balance of \$122,739. As a service organization, the Educational Service Center's primary expense is salaries and benefits.

Muskingum Valley Educational Service Center, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2014, the Educational Service Center had \$280,601 invested in land; buildings and improvements; and furniture, fixtures, and equipment. Table 4 shows fiscal year 2014 balances compared to 2013.

Table 4
Capital Assets at June 30, 2014
(Net of Depreciation)

| | 2014 | 2013 |
|------------------------------------|------------------|------------------|
| Land | \$21,155 | \$21,155 |
| Buildings and Improvements | 146,548 | 152,714 |
| Furniture, Fixtures, and Equipment | 112,898 | 100,789 |
| Totals | \$280,601 | \$274,658 |

See Note 8 for more detailed information of the Educational Service Center's capital assets.

Debt

At June 30, 2014, the Educational Service Center only had compensated absences payable as a long-term liability. For additional information, see Note 14 to the basic financial statements.

Economic Factors

The Muskingum Valley Educational Service Center's net position decreased \$683,978. 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 2015. 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 2014, 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.

Muskingum Valley Educational Service Center, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

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

Contacting the Educational Service Center's Financial Management

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

Muskingum Valley Educational Service Center, Ohio

Statement of Net Position

June 30, 2014

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | \$4,055,903 |
| Inventory Held for Resale | 67,345 |
| Accrued Interest Receivable | 3,693 |
| Prepaid Items | 230,584 |
| Accounts Receivable | 50,104 |
| Intergovernmental Receivable | 1,108,185 |
| Nondepreciable Capital Assets | 21,155 |
| Depreciable Capital Assets, Net | <u>259,446</u> |
| | |
| Total Assets | <u>5,796,415</u> |
| | |
| Liabilities | |
| Accounts Payable | 98,269 |
| Accrued Wages and Benefits Payable | 1,699,773 |
| Matured Compensated Absences Payable | 142,815 |
| Vacation Benefits Payable | 48,605 |
| Intergovernmental Payable | 341,769 |
| Long-Term Liabilities: | |
| Due In More Than One Year | <u>909,565</u> |
| | |
| Total Liabilities | <u>3,240,796</u> |
| | |
| Net Position | |
| Net Investment in Capital Assets | 280,601 |
| Restricted for: | |
| Unclaimed Monies | 4,656 |
| Other Purposes | 81,248 |
| Unrestricted | <u>2,189,114</u> |
| | |
| Total Net Position | <u><u>\$2,555,619</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, 2014

| | Expenses | Program Revenues | | Net (Expense) |
|--|---------------------|----------------------|------------------------------------|-----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Revenue and Changes in Net Assets |
| | | | | Governmental Activities |
| Governmental Activities | | | | |
| Instruction: | | | | |
| Regular | \$572,650 | \$0 | \$32,444 | (\$540,206) |
| Special | 6,786,347 | 9,435,563 | 720,993 | 3,370,209 |
| Adult/Continuing | 61,511 | 0 | 57,369 | (4,142) |
| Intervention | 627,380 | 910,030 | 197,777 | 480,427 |
| Support Services: | | | | |
| Pupils | 4,015,179 | 892,499 | 104,594 | (3,018,086) |
| Instructional Staff | 4,560,076 | 1,984,682 | 1,710,312 | (865,082) |
| Board of Education | 38,658 | 0 | 0 | (38,658) |
| Administration | 1,328,896 | 0 | 144,020 | (1,184,876) |
| Fiscal | 463,054 | 953,580 | 44,643 | 535,169 |
| Operation and Maintenance of Plant | 124,451 | 0 | 33,525 | (90,926) |
| Pupil Transportation | 31,224 | 0 | 17,352 | (13,872) |
| Central | 366,994 | 123,220 | 78,885 | (164,889) |
| Operation of Non-Instructional Services: | | | | |
| Community Services | 119,188 | 0 | 66,438 | (52,750) |
| Extracurricular Activities | 25,060 | 11,712 | 0 | (13,348) |
| Totals | \$19,120,668 | \$14,311,286 | \$3,208,352 | (1,601,030) |

General Revenues

| | |
|---|--------------------|
| Grants and Entitlements not Restricted to Specific Programs | 730,905 |
| Investment Earnings | 14,702 |
| Miscellaneous | 171,445 |
| Total General Revenues | 917,052 |
| Change in Net Position | (683,978) |
| Net Position Beginning of Year | 3,239,597 |
| Net Position End of Year | \$2,555,619 |

See accompanying notes to the basic financial statements

Muskingum Valley Educational Service Center, Ohio

Balance Sheet

Governmental Funds

June 30, 2014

| | General | Other Governmental Funds | Total Governmental Funds |
|--|--------------------|--------------------------------|--------------------------------|
| Assets | | | |
| Equity in Pooled Cash and Cash Equivalents | \$3,787,173 | \$74,297 | \$3,861,470 |
| Accounts Receivable | 50,104 | 0 | 50,104 |
| Inventory Held for Resale | 67,345 | 0 | 67,345 |
| Interfund Receivable | 171,222 | 0 | 171,222 |
| Intergovernmental Receivable | 694,208 | 413,977 | 1,108,185 |
| Prepaid Items | 227,140 | 3,444 | 230,584 |
| Accrued Interest Receivable | 3,693 | 0 | 3,693 |
| Restricted Assets: | | | |
| Equity in Pooled Cash and Cash Equivalents | 4,656 | 0 | 4,656 |
| Total Assets | \$5,005,541 | \$491,718 | \$5,497,259 |
| Liabilities | | | |
| Accounts Payable | \$76,441 | \$21,828 | \$98,269 |
| Accrued Wages and Benefits Payable | 1,495,562 | 204,211 | 1,699,773 |
| Interfund Payable | 0 | 171,222 | 171,222 |
| Matured Compensated Absences Payable | 142,815 | 0 | 142,815 |
| Intergovernmental Payable | 295,669 | 46,100 | 341,769 |
| Total Liabilities | 2,010,487 | 443,361 | 2,453,848 |
| Deferred Inflows of Resources: | | | |
| Unavailable Revenue | 57,379 | 70,412 | 127,791 |
| Fund Balances | | | |
| Nonspendable: | | | |
| Prepaid Items | 227,140 | 3,444 | 230,584 |
| Unclaimed Monies | 4,656 | 0 | 4,656 |
| Restricted for: | | | |
| SchoolNet Professional Development Expenditures | 0 | 118 | 118 |
| Special Education Expenditures | | 2,126 | 2,126 |
| Capital Projects | 0 | 4,478 | 4,478 |
| State Grant Expenditures | 0 | 5,523 | 5,523 |
| Local Grant Expenditures | 0 | 34,932 | 34,932 |
| Committed to: | | | |
| Encumbrances | 39,897 | 0 | 39,897 |
| Assigned to: | | | |
| Encumbrances | 31,304 | 0 | 31,304 |
| Other Purposes | 88,083 | 0 | 88,083 |
| Unassigned | 2,546,595 | (72,676) | 2,473,919 |
| Total Fund Balances (Deficit) | 2,937,675 | (22,055) | 2,915,620 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | \$5,005,541 | \$491,718 | \$5,497,259 |

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, 2014*

| | | |
|--|-----------|-----------------|
| Total Governmental Fund Balances | | \$2,915,620 |
| <i>Amounts reported for governmental activities in the statement of net position are different because of the following:</i> | | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | | 280,601 |
| 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 |
| Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds: | | |
| Investment Earnings | 3,693 | |
| Tuition and Fees | 3,981 | |
| Grants | 70,412 | |
| Charges for Services | 49,705 | 127,791 |
| Some liabilities are not due and payable in the current period and, therefore, not reported in the funds: | | |
| Vacation Benefits Payable | (48,605) | |
| Compensated Absences | (909,565) | |
| Total Long-Term Liabilities | | (958,170) |
| Net Position of Governmental Activities | | \$2,555,619 |

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, 2014

| | General | Other Governmental Funds | Total Governmental Funds |
|--|--------------------|--------------------------------|--------------------------------|
| Revenues | | | |
| Intergovernmental | \$942,862 | \$3,352,868 | \$4,295,730 |
| Investment Earnings | 14,172 | 0 | 14,172 |
| Charges for Services | 5,046,596 | 2,000 | 5,048,596 |
| Tuition and Fees | 9,543,019 | 0 | 9,543,019 |
| Extracurricular Activities | 11,712 | 0 | 11,712 |
| Contributions and Donations | 0 | 750 | 750 |
| Miscellaneous | 171,445 | 0 | 171,445 |
| Total Revenues | 15,729,806 | 3,355,618 | 19,085,424 |
| Expenditures | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 553,471 | 33,590 | 587,061 |
| Special | 6,197,593 | 491,227 | 6,688,820 |
| Adult/Continuing | 0 | 57,450 | 57,450 |
| Intervention | 428,632 | 205,967 | 634,599 |
| Support Services: | | | |
| Pupils | 3,943,431 | 107,201 | 4,050,632 |
| Instructional Staff | 2,664,561 | 1,945,213 | 4,609,774 |
| Board of Education | 38,658 | 0 | 38,658 |
| Administration | 1,188,463 | 152,713 | 1,341,176 |
| Fiscal | 406,323 | 52,851 | 459,174 |
| Operation and Maintenance of Plant | 84,720 | 38,551 | 123,271 |
| Pupil Transportation | 13,512 | 17,712 | 31,224 |
| Central | 268,159 | 99,729 | 367,888 |
| Operation of Non-Instructional Services: | | | |
| Community Service | 39,962 | 79,357 | 119,319 |
| Extracurricular Activities | 25,060 | 0 | 25,060 |
| Total Expenditures | 15,852,545 | 3,281,561 | 19,134,106 |
| Excess of Revenues Over (Under) Expenditures | (122,739) | 74,057 | (48,682) |
| Fund Balances (Deficit) Beginning of Year | 3,060,414 | (96,112) | 2,964,302 |
| Fund Balances (Deficit) End of Year | <u>\$2,937,675</u> | <u>(\$22,055)</u> | <u>\$2,915,620</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, 2014*

Net Change in Fund Balances - Total Governmental Funds (\$48,682)

*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 in the current period:

| | | |
|-------------------------|-----------------|-------|
| Capital Asset Additions | 70,460 | |
| Depreciation Expense | <u>(64,517)</u> | 5,943 |

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

| | | |
|----------------------|------------------|-----------|
| Investment Earnings | 530 | |
| Tuition and Fees | (114,327) | |
| Grants | (359,223) | |
| Charges for Services | <u>(175,714)</u> | (648,734) |

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 | (345) | |
| Compensated Absences Payable | <u>7,840</u> | <u>7,495</u> |

Change in Net Position of Governmental Activities (\$683,978)

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, 2014

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, 2014

| | |
|---------------------------------------|-------------------------|
| <i>Net Position Beginning of Year</i> | <u>\$189,777</u> |
| <i>Net Position 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 Net Position
Fiduciary Funds
June 30, 2014

| | Private Purpose Trust Fund | Investment Trust Fund | Agency Funds |
|--|-------------------------------|--------------------------|--------------|
| Assets | | | |
| Equity in Pooled Cash and Cash Equivalents | \$41,218 | \$262,992 | \$0 |
| Cash and Cash Equivalents in Segregated Accounts | 0 | 0 | 12,539,872 |
| Total Assets | 41,218 | 262,992 | \$12,539,872 |
| Liabilities | | | |
| Due to Others | 0 | 0 | \$12,539,872 |
| Net Position | | | |
| Held in Trust for Scholarships | 41,218 | 0 | |
| Trust Pool Participants | 0 | 262,992 | |
| Total Net Position | \$41,218 | \$262,992 | |

See accompanying notes to the basic financial statements

Muskingum Valley Educational Service Center, Ohio
Statement of Changes in Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2014

| | <u>Private Purpose Trust Fund</u> | <u>Investment Trust Fund</u> |
|--|---|----------------------------------|
| Additions | | |
| Gifts and Contributions | \$250 | \$0 |
| Investment Earnings | 0 | 540 |
| Total Additions | <u>250</u> | <u>540</u> |
| Deductions | | |
| Distributions to Participants | 0 | 4,749 |
| Capital Transactions | 0 | 41,215 |
| Payments in Accordance with Trust Agreements | 5,400 | 0 |
| Total Deductions | <u>5,400</u> | <u>45,964</u> |
| Change in Net Position | (5,150) | (45,424) |
| Net Position Beginning of Year | <u>46,368</u> | <u>308,416</u> |
| Net Position End of Year | <u><u>\$41,218</u></u> | <u><u>\$262,992</u></u> |

See accompanying notes to the basic financial statements

Muskingum Valley Educational Service Center, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014*

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 157 support staff employees and 163 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, 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 15 and 16.

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, 2014*

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 fund is 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, 2014*

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 fund:

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.

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, 2014*

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.

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 modified 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, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. The Educational Service Center did not have any deferred outflows as of June 30, 2014.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Educational Service Center, deferred inflows of resources include unavailable revenue. Unavailable revenue is reported only on the governmental funds balance sheet and represents receivables which will not be collected within the available period. For the Educational Service Center, unavailable revenue includes

Muskingum Valley Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

tuition and fees, charges for services, investment earnings, and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

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 segregated bank accounts for monies held separate from the Educational Service Center’s central bank accounts. These accounts maintain monies received in the Educational Service Center’s capacity as fiscal agent for the Ohio School Benefits Cooperative. These interest bearing depository accounts are presented on the financial statements as “Cash and Cash Equivalents in Segregated Accounts” since they are not deposited into the Educational Service Center treasury.

During fiscal year 2014, investments were limited to certificates of deposit, and United States Treasury Notes. The Educational Service Center reports its United States Treasury Notes at fair value, and 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 2014 amounted to \$14,172, which includes \$10,287 assigned from other Educational Service Center funds.

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

F. Receivables and Payables

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2014, 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.

Muskingum Valley Educational Service Center, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014*

H. Inventory

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

I. Capital Assets

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

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

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

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

J. Compensated Absences

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

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

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

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

Muskingum Valley Educational Service Center, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014*

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 contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

L. Internal Activity

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

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

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

M. Restricted Assets

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

N. Fund Balance

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

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

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

Muskingum Valley Educational Service Center, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014*

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 or an Educational Service Center official delegated that authority by resolution or by State Statute.

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. 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.

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.

P. Estimates

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

Muskingum Valley Educational Service Center, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014*

NOTE 3 – FUND DEFICITS

The following special revenue funds had deficit fund balances as of June 30, 2014:

| | | |
|------------------------------|--|----------|
| Public School Preschool | | \$30,657 |
| Alternative Education Grant | | 2,668 |
| EHA Preschool Handicap | | 8,710 |
| ABLE | | 2,226 |
| Teach Ohio | | 11,424 |
| 21st Century | | 8,903 |
| Center of Practice | | 4,536 |
| Miscellaneous Federal Grants | | 3,552 |
| | | |

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 4 - 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 bills, bonds, notes, or any other obligation or security issued by the United States Treasury or any obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

Muskingum Valley Educational Service Center, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014*

3. Written repurchase agreements in the securities listed above;
4. Bonds and obligations of the State of Ohio;
5. Time certificates of deposits or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and,
8. Commercial paper and bankers acceptances if training requirements have been met.

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

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Educational Service Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$15,347,754 of the Educational Service Center's bank balance of \$17,376,970 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.

Investments

As of June 30, 2014, the Educational Service Center had the following investments:

| | Fair Value | Maturity | Rating | Rating Agency |
|----------------|------------------|------------|--------|------------------|
| Treasury Notes | <u>\$199,529</u> | 11/30/2014 | Aaa | Moody's |

Interest Rate Risk

The Educational Service Center's investment policy addresses interest rate risk to the extent that it allows the Treasurer to withdraw funds from approved public depositories or sell negotiable instruments prior to maturity. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Educational Service Center, and that an investment must be purchased with the expectation that it will be held to maturity.

Muskingum Valley Educational Service Center, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014*

Credit Risk

The credit ratings for the Educational Service Center's securities are listed above. The Educational Service Center has no investment policy that would further limit its investment choices.

Custodial Credit Risk

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

NOTE 5 - STATE FUNDING

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

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

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

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

Muskingum Valley Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

NOTE 6 - INTERFUND ACTIVITY

Interfund balances at June 30, 2014, arise from the provision of cash flow resources from the General Fund until the receipt of grant monies by the Special Revenue Funds for \$2,460, and \$168,762 due to the General Fund from Special Revenue Funds for cash deficits.

| | <u>Receivable</u> | <u>Payable</u> |
|--------------------------------|-------------------------|-------------------------|
| General Fund | <u>\$171,222</u> | <u>\$0</u> |
| Other Governmental Funds: | | |
| Public Preschool | 0 | 29,329 |
| Alternative Education Grant | 0 | 1,500 |
| Miscellaneous State Grants | 0 | 490 |
| ABLE | 0 | 171 |
| Teach Ohio Grant | 0 | 91,961 |
| Preschool Handicap Grant | 0 | 8,571 |
| Center of Practice Grant | 0 | 3,572 |
| 21st Century Grant | 0 | 22,718 |
| Miscellaneous Federal Grants | <u>0</u> | <u>12,910</u> |
| Total Other Governmental Funds | <u>0</u> | <u>171,222</u> |
| Total All Funds | <u><u>\$171,222</u></u> | <u><u>\$171,222</u></u> |

NOTE 7 - RECEIVABLES

Receivables at June 30, 2014, consisted of accounts receivable (charges for services, excess costs), interfund, accrued interest, and intergovernmental grants. All receivables are considered collectible in full due to the stable condition of State programs and the current fiscal year guarantee of federal funds. All receivables are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

| | <u>Amounts</u> |
|---|---------------------------|
| Tuition | \$426,964 |
| Program Costs | 267,244 |
| Early Childhood Education Grant | 72,377 |
| Alternative Education Challenge Grant | 4,817 |
| State Grants | 26,990 |
| IDEA B Grant | 80,017 |
| ABLE Grant | 2,784 |
| Early Childhood Special Education Grant | 3,823 |
| Early Childhood Special Education Discretionary Grant | 8,244 |
| Race to the Top Grant | 143,397 |
| Ohio Teacher Evaluation System Grant | 4,140 |
| Federal Grants | 17,969 |
| 21st Century Grant | <u>49,419</u> |
| Total | <u><u>\$1,108,185</u></u> |

Muskingum Valley Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

| | <u>Balance</u> <u>June 30, 2013</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>June 30, 2014</u> |
|--|--|-------------------|------------------|--|
| <u>Nondepreciable Capital Assets</u> | | | | |
| Land | <u>\$21,155</u> | <u>\$0</u> | <u>\$0</u> | <u>\$21,155</u> |
| <u>Depreciable Capital Assets</u> | | | | |
| Buildings and Improvements | 285,154 | 0 | 0 | 285,154 |
| Furniture, Fixtures, and Equipment | <u>1,065,758</u> | <u>70,460</u> | <u>(40,738)</u> | <u>1,095,480</u> |
| Total at Historical Cost | <u>1,350,912</u> | <u>70,460</u> | <u>(40,738)</u> | <u>1,380,634</u> |
| Less Accumulated Depreciation | | | | |
| Buildings and Improvements | (132,440) | (6,166) | 0 | (138,606) |
| Furniture, Fixtures, and Equipment | <u>(964,969)</u> | <u>(58,351)</u> | <u>40,738</u> | <u>(982,582)</u> |
| Total Accumulated Depreciation | <u>(1,097,409)</u> | <u>(64,517) *</u> | <u>40,738</u> | <u>(1,121,188)</u> |
| Depreciable Capital Assets, Net of Accumulated Depreciation | <u>253,503</u> | <u>5,943</u> | <u>0</u> | <u>259,446</u> |
| Governmental Activities Capital Assets, Net | <u>\$274,658</u> | <u>\$5,943</u> | <u>\$0</u> | <u>\$280,601</u> |

* Depreciation expense was charged to governmental functions as follows:

| | |
|----------------------------|-----------------|
| Instruction: | |
| Regular | \$1,464 |
| Special | 4,129 |
| Intervention | 981 |
| Support Services: | |
| Pupils | 305 |
| Instructional Staff | 22,872 |
| Administration | 34,161 |
| Fiscal | <u>605</u> |
| Total Depreciation Expense | <u>\$64,517</u> |

NOTE 9 - 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 2014, 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 16)

Muskingum Valley Educational Service Center, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014*

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

| | |
|--|-------------|
| <u>Building and Contents (deductible waived)</u> | |
| Building | \$2,132,841 |
| 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 |
| <u>Educational Legal Liability for General Liability (deductible waived)</u> | |
| 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 2014, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 16). 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.

Muskingum Valley Educational Service Center, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014*

NOTE 10 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description – The Educational Service Center participates in the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. 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 and required supplementary information. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

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, 2014, the allocation to pension and death benefits was 13.10 percent. The remaining 0.90 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care funds. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2014, 2013, and 2012, were \$452,405, \$411,712 and \$306,281, respectively. For fiscal year 2014, 88.09 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012.

B. State Teachers Retirement System

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

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

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For the Fiscal Year Ended June 30, 2014*

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

Funding Policy - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 11 percent for members and 14 percent for employers. The statutory maximum employee contribution rate was increased one percent July 1, 2013, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2014, plan members were required to contribute 11 percent of their annual covered salary. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The Educational Service Center's required contributions to STRS Ohio for the DB Plan and for the defined benefit portion of the Combined Plan were \$1,036,165 and \$19,808 for the fiscal year ended June 30, 2014, \$972,279 and \$17,470 for the fiscal year ended June 30, 2013, and \$775,269 and \$10,010 for the fiscal year ended June 30, 2012. For fiscal year 2014, 90.60 percent has been contributed for the DB plan and 90.49 percent has been contributed for the Combined Plan, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012.

Contributions made to STRS Ohio for the DC Plan for fiscal year 2014 were \$14,520 made by the Educational Service Center and \$11,408 made by the plan members. In addition, member contributions of \$15,563 were made for fiscal year 2014 for the defined contribution portion of the Combined Plan.

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2014, four members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages.

NOTE 11 - POST-EMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description – The Educational Service Center participates in two cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligation to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care

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*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014*

Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2014, 0.14 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for fiscal year 2014, this amount was \$20,250. During fiscal year 2014, the School District paid \$54,506 in surcharge.

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.

The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2014, 2013, and 2012, were \$10,648, \$13,964, and \$24,280, respectively. For fiscal year 2014, 39.28 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2014, this actuarially required allocation was 0.76 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2014, 2013, and 2012, were \$26,322, \$23,137, and \$18,075 respectively. For fiscal year 2014, 88.12 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012.

B. State Teachers Retirement System

Plan Description – The Educational Service Center participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) 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 or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2014, STRS Ohio allocated employer contributions equal to one percent of covered payroll to post-employment health care. The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2014, 2013, and 2012, were \$82,019, \$77,068, and \$61,290 respectively. For fiscal year 2014, 87.94 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012. The STRS Board voted to discontinue the current one percent allocation to the health care fund effective July 1, 2014.

NOTE 12 - 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.

Muskingum Valley Educational Service Center, Ohio

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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 13 - 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, 2014:

| Fiscal Year Ending June 30, | Total |
|--------------------------------|-------------------------|
| 2015 | \$46,020 |
| 2016 | 46,020 |
| 2017 | 23,010 |
| Total minimum lease payments | <u><u>\$115,050</u></u> |

NOTE 14 - LONG-TERM OBLIGATIONS

The changes in the Educational Service Center's long-term obligations during fiscal year 2014 were as follows:

| | Outstanding 6/30/2013 | Additions | Deletions | Outstanding 6/30/2014 | Due Within One Year |
|----------------------|--------------------------|------------------|------------------|--------------------------|------------------------|
| Compensated Absences | <u>\$917,405</u> | <u>\$221,481</u> | <u>\$229,321</u> | <u>\$909,565</u> | <u>\$0</u> |

Compensated absences will be paid from the General Fund.

Muskingum Valley Educational Service Center, Ohio

Notes to the Basic Financial Statements

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NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS

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

OME-RESA was created as a regional council of governments pursuant to State statutes. OME-RESA has 11 participating counties consisting of Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Muskingum, Noble and Tuscarawas Counties. OME-RESA is governed by a governing board which is selected by member districts. OME-RESA possesses its own budgeting and taxing authority. The Center's payments to OME-RESA for computer services for fiscal year 2014 were \$17,433. To obtain financial information write to the Ohio Mid-Eastern Regional Education Service Agency, Attn: Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio 43952.

B. Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools is a jointly governed organization composed of 136 Educational Service Centers and other educational institutions in the 35-county region of Ohio designated as Appalachia. The Coalition is operated by a Board which is composed of seventeen members. One elected and one appointed from each of the seven regions into which the 35 Appalachian counties are divided; and three from Ohio University College of Education. The Council provides various in-service training programs for Educational Service Center administrative personnel; gathers data regarding the level of education provided to children in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for Educational Service Center personnel. The Educational Service Center membership fees were \$325 during fiscal year 2014. 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 2014. 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 19.

NOTE 16 - 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

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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 35 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 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 17 - 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, 2014.

B. Litigation

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

Muskingum Valley Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

NOTE 18 - 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 | \$138,465 |
| Other Nonmajor Governmental Funds | <u>117,708</u> |
| Total All Funds | <u><u>\$256,173</u></u> |

NOTE 19 – INVESTMENT TRUST FUND

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

| Statement of Net Position | |
|--|---------------------------|
| June 30, 2014 | |
| <i>Assets:</i> | |
| Equity in Pooled Cash and Cash Equivalents | \$4,360,113 |
| Accrued Interest Receivable | 3,693 |
| <i>Total Assets</i> | <u>\$4,363,806</u> |
| <i>Net Position Held in Trust for Pool Participants:</i> | |
| Internal Portion | \$4,100,814 |
| External Portion | 262,992 |
| <i>Total Net Position Held in Trust for Pool Participants</i> | <u>\$4,363,806</u> |
| Statement of Changes in Net Position | |
| For the Fiscal Year Ended June 30, 2014 | |
| <i>Additions:</i> | |
| Interest Income | \$15,242 |
| <i>Deductions:</i> | |
| Operating Deductions | 0 |
| Net Increase in Assets Resulting from Operations | 15,242 |
| Distributions paid to Participants | (14,712) |
| Capital Transactions | 400,017 |
| Total Increase in Net Position | 400,547 |
| <i>Net Position Beginning of Year</i> | <u>3,963,259</u> |
| <i>Net Position End of Year</i> | <u>\$4,363,806</u> |

Muskingum Valley Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

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, \$3,408,780 of the Educational Service Center's Investment Trust bank balance of \$4,684,302 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.

Investments

As of June 30, 2014, the Educational Service Center's Investment Trust had the following investments:

| | Fair Value | Maturity | Rating | Rating Agency |
|----------------|------------------|------------|--------|------------------|
| Treasury Notes | <u>\$199,529</u> | 11/30/2014 | Aaa | Moody's |

Interest Rate Risk

The Educational Service Center's investment policy addresses interest rate risk to the extent that it allows the Treasurer to withdraw funds from approved public depositories or sell negotiable instruments prior to maturity. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Educational Service Center, and that an investment must be purchased with the expectation that it will be held to maturity.

Credit Risk

The credit ratings for the Educational Service Center's securities are listed above. The Educational Service Center has no investment policy that would further limit its investment choices.

Supplemental Information

| Muskingum Valley Educational Service Center, Ohio | | | | |
|---|---------------------|---------------------|---------------------|----------------------------------|
| <i>Schedule of Revenues, Expenditures, and Changes</i> | | | | |
| <i>in Fund Balance - Budget (Non-GAAP Basis) and Actual</i> | | | | |
| <i>General Fund</i> | | | | |
| <i>For the Fiscal Year Ended June 30, 2014</i> | | | | |
| | | | | |
| | Original Budget | Final Budget | Actual | Variance with Final Budget |
| Revenues | | | | |
| Intergovernmental | \$ 1,005,570 | \$ 1,005,570 | \$ 942,862 | \$ (62,708) |
| Investment Earnings | 15,115 | 15,115 | 14,172 | (943) |
| Charges for Services | 5,694,333 | 5,694,333 | 5,339,229 | (355,104) |
| Tuition and Fees | 9,870,531 | 9,870,531 | 9,254,995 | (615,536) |
| Extracurricular Activities | 12,491 | 12,491 | 11,712 | (779) |
| Miscellaneous | 171,507 | 171,507 | 160,817 | (10,690) |
| Total Revenues | 16,769,547 | 16,769,547 | 15,723,787 | (1,045,760) |
| Expenditures | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 555,757 | 555,757 | 530,654 | 25,103 |
| Special | 6,250,455 | 6,250,455 | 5,968,126 | 282,329 |
| Intervention | 449,559 | 449,559 | 429,253 | 20,306 |
| Support Services: | | | | |
| Pupils | 4,038,872 | 4,038,872 | 3,856,439 | 182,433 |
| Instructional Staff | 2,881,605 | 2,881,605 | 2,751,445 | 130,160 |
| Board of Education | 35,954 | 35,954 | 34,330 | 1,624 |
| Administration | 1,270,579 | 1,270,579 | 1,213,188 | 57,391 |
| Fiscal | 435,342 | 435,342 | 415,678 | 19,664 |
| Operation and Maintenance of Plant | 71,326 | 71,326 | 68,104 | 3,222 |
| Pupil Transportation | 25,438 | 25,438 | 24,289 | 1,149 |
| Central | 291,056 | 291,056 | 277,909 | 13,147 |
| Community Service | 39,748 | 39,748 | 37,953 | 1,795 |
| Extracurricular Activities | 12,846 | 12,846 | 12,266 | 580 |
| Total Expenditures | 16,358,537 | 16,358,537 | 15,619,634 | 738,903 |
| Excess of Revenues Over (Under) Expenditures | 411,010 | 411,010 | 104,153 | (306,857) |
| Fund Balance at Beginning of Year | 3,439,554 | 3,439,554 | 3,439,554 | 0 |
| Prior Year Encumbrances Appropriated | 183,250 | 183,250 | 183,250 | 0 |
| Fund Balance at End of Year | \$ 4,033,814 | \$ 4,033,814 | \$ 3,726,957 | \$ (306,857) |
| See accompanying notes to the supplemental information | | | | |

Muskingum Valley Educational Service Center, Ohio

*Notes to the Supplemental Information
For the Fiscal Year Ended June 30, 2014*

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, 2014*

4. Reclassification of excess of expenditures over revenues into financial statement fund types represents the perspective difference between GAAP basis statements and budget basis statements due to the combining of additional funds (Public School Support – 018 Fund) on a GAAP basis but not including them on the budget basis.

5. Prepaid items 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 for the General Fund:

| Net Change in Fund Balance | | |
|---|------------------|--|
| | General | |
| | Fund | |
| GAAP Basis | (\$122,739) | |
| Net Adjustment for: | | |
| Revenue Accruals | 85,322 | |
| Expenditure Accruals | 278,761 | |
| Prepaid Items: | | |
| Beginning of Fiscal Year | 186,549 | |
| End of Fiscal Year | (227,140) | |
| To reclassify excess of expenditures over revenues into financial statement fund types | 41,313 | |
| Encumbrances | (137,913) | |
| | | |
| Budget Basis | <u>\$104,153</u> | |

**MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER
MUSKINGUM COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

| FEDERAL GRANTOR/ Pass Through Grantor Program Title | Grant Year | Federal CFDA Number | Receipts | Disbursements |
|--|---------------|---------------------------|---------------------------|---------------------------|
| <u>U.S. DEPARTMENT OF EDUCATION</u> | | | | |
| <i>Direct Funding:</i> | | | | |
| Fund for the Improvement of Education-Teaching American History Grants | 2013 | 84.215X | \$137,821 | \$135,132 |
| | 2014 | | 22,065 | 22,065 |
| Total Fund for the Improvement of Education-Teaching American History Grants | | | <u>159,886</u> | <u>157,197</u> |
| <i>Passed Through Ohio Department of Education:</i> | | | | |
| Adult Education - Basic Grants to States | 2013 | 84.002 | 3,687 | 2,474 |
| | 2014 | | 64,115 | 64,290 |
| Total Adult Education - Basic Grants to States | | | <u>67,802</u> | <u>66,764</u> |
| <i>Special Education Cluster:</i> | | | | |
| Special Education Grants to States | 2013 | 84.027 | 272,708 | 134,061 |
| | 2014 | | 1,058,420 | 1,024,387 |
| Total Special Education Grants to States | | | <u>1,331,128</u> | <u>1,158,448</u> |
| Special Education Preschool Grants | 2013 | 84.173 | 15,414 | 7,702 |
| | 2014 | | 86,897 | 95,469 |
| Total Special Education Preschool Grants | | | <u>102,311</u> | <u>103,171</u> |
| Total Special Education Cluster | | | <u>1,433,439</u> | <u>1,261,619</u> |
| Twenty - First Century Community Learning Centers | 2013 | 84.287 | 71,016 | 58,176 |
| | 2014 | | 345,801 | 368,645 |
| Total Twenty - First Century Community Learning Centers | | | <u>416,817</u> | <u>426,821</u> |
| Special Education - State Personnel Development | 2013 | 84.323 | (24,558) | (21,854) |
| | 2014 | | 46,303 | 59,065 |
| Total Special Education - State Personnel Development | | | <u>21,745</u> | <u>37,211</u> |
| Improving Teacher Quality State Grants | 2013 | 84.367 | 7,009 | 3,557 |
| | 2014 | | 6,376 | 8,988 |
| Total Improving Teacher Quality State Grants | | | <u>13,385</u> | <u>12,545</u> |
| <i>ARRA - Race to the Top (RtT), Recovery Act:</i> | | | | |
| ARRA - RtT - Teach Ohio Carryover | 2013 | 84.395 | 1,801 | 0 |
| ARRA - RtT - Ohio Principal Evaluation | 2013 | | 542 | 0 |
| ARRA - RtT - Regional Specialist Grant | 2013 | | 20,521 | 15,401 |
| ARRA - RtT - Formative Instruction | 2013 | | 17,555 | 13,080 |
| ARRA - RtT - Student Growth Measures | 2013 | | 12,942 | 12,093 |
| ARRA - RtT - Regional Specialist Grant | 2014 | | 101,123 | 102,808 |
| ARRA - RtT - Regional FIP Grant | 2014 | | 104,334 | 107,344 |
| ARRA - RtT - Student Growth Measure | 2014 | | 102,365 | 103,979 |
| ARRA - RtT - Assessment Literacy Grant | 2014 | | 109,674 | 112,256 |
| ARRA - RtT - eTPES Training Grant | 2014 | | 17,342 | 17,559 |
| ARRA - RtT - Teach Ohio Grant | 2013 | | 71,645 | 28,066 |
| ARRA - RtT - Teach Ohio Grant | 2014 | | 142,235 | 225,085 |
| Total ARRA - Race to the Top, Recovery Act | | | <u>702,079</u> | <u>737,671</u> |
| Total U.S. Department of Education | | | <u>2,815,153</u> | <u>2,699,828</u> |
| Total Federal Awards Receipts and Expenditures | | | <u>\$2,815,153</u> | <u>\$2,699,828</u> |

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

**MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER
MUSKINGUM COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2014**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – REFUNDS AND CORRECTIONS

The accompanying federal schedule includes negative receipts and expenditures for the Special Education – State Personnel Development grant. Negative expenditures were posted to correct expenditures incorrectly posted to the grant during fiscal year 2013 and negative receipts represent grant monies returned to the grantor agency. The effect of these negative transactions on the federal schedule are as follows:

| Federal Program | CFDA No. | Grant Year | Negative Receipt Amount | Negative Expenditure Amount |
|-----------------------------------|-----------------|-------------------|--------------------------------|------------------------------------|
| State Personnel Development Grant | 84.323 | 2013 | \$24,558 | \$21,854 |

NOTE C - NON-FEDERAL CASH RECEIPTS

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

| Federal Program | CFDA No. | Amount |
|--|-----------------|---------------|
| Adult Education – Basic Grants to States | 84.002 | \$24,015 |



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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 Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Muskingum Valley Educational Service Center, Muskingum County, Ohio (the Educational Service Center), as of and for the year ended June 30, 2014, 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 January 29, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Dave Yost
Auditor of State

Columbus, Ohio

January 29, 2015



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

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

To the Governing Board:

Report on Compliance for the Major Federal Program

We have audited the Muskingum Valley Educational Service Center's, Muskingum County, Ohio (the Educational Service Center), compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the Educational Service Center's major federal program for the year ended June 30, 2014. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the Educational Service Center's major federal program.

Management's Responsibility

The Educational Service Center's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the Educational Service Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on the Major Federal Program

In our opinion, the Muskingum Valley Educational Service Center, Muskingum County, 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, 2014.

Report on Internal Control Over Compliance

The Educational Service Center's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the Educational Service Center's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Educational Service Center's internal control over compliance.

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

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

This report only describes the scope of our internal control compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

January 29, 2015

**MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2014**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None.

3. FINDINGS FOR FEDERAL AWARDS

None.

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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
FEBRUARY 19, 2015**