



Mary Taylor, CPA
Auditor of State

**MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER
MUSKINGUM COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major funds, and the aggregate remaining fund information of Muskingum Valley Educational Service Center, Muskingum County, Ohio (the Center), as of and for the year ended June 30, 2006, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

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 funds, and the aggregate remaining fund information of Muskingum Valley Educational Service Center, Muskingum County, Ohio, as of June 30, 2006, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund and the Parent Mentor Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2007, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the Center's basic financial statements. The Schedule of Federal of Awards Receipts and Expenditures is required by 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 basic financial statements. We subjected the Schedule of Federal Awards Receipts and Expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

May 10, 2007

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006**

Unaudited

The discussion and analysis of Muskingum Valley Educational Service Center's financial performance provides an overall review of the Center's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the Center's financial performance as a whole; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the Center's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2006 are as follows:

- ❑ Net assets decreased \$634,376, which represents a 26.6% decrease from 2005.
- ❑ General revenues accounted for \$2,349,757 in revenue or 26% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$6,678,441 or 74% of total revenues of \$9,028,198.
- ❑ The Center had \$9,662,574 in expenses related to governmental activities; only \$6,678,441 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$2,349,757 were not adequate to provide for these programs as net assets decreased by \$634,376.
- ❑ Among major funds, the general fund had \$6,473,229 in revenues and \$7,124,103 in expenditures. The general fund's fund balance decreased \$650,874 to \$1,901,177. This decrease is attributable to the increase in expenditures for support services exceeding the charges for those services. A 26% decrease in the Community Alternative Funding System also contributed to the decrease. The fund balance of the Parent Mentor Fund decreased by \$29,980. The decrease is attributable to delayed receipts of federal funds, which were not received during 2006 to cover the budgeted expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – management's discussion and analysis and the basic financial statements. The basic financial statements include two kinds of statements that present different views of the Center:

These statements are as follows:

1. The Government-Wide Financial Statements – These statements provide both long-term and short-term information about the Center's overall financial status.
2. The Fund Financial Statements – These statements focus on individual parts of the Center, reporting the Center's operations in more detail than the government-wide statements.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Government-wide Statements

The government-wide statements report information about the Center as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Center's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006***

Unaudited

The two government-wide statements report the Center's net assets and how they have changed. Net-assets (the difference between the Center's assets and liabilities) is one way to measure the Center's financial health or position.

Over time, increases or decreases in the Center's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the Center you need to consider additional nonfinancial factors such as student enrollment growth and facility conditions.

The government-wide financial statements of the Center reflect the following category for its activities:

Governmental Activities – Most of the Center's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the Center's most significant funds, not the Center as a whole. Funds are accounting devices that the Center uses to keep track of specific sources of funding and spending for particular purposes.

Governmental Funds – Most of the Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using 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 Center's general government 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 Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Proprietary Funds – The Center uses an internal service fund to report activities that provide services for the Center's other programs and activities. Proprietary funds are reported in the same manner that all activities are reported in the Statement of Net Assets and the Statement of Activities.

Fiduciary Funds – The Center is the trustee, or fiduciary, for various scholarship programs for student scholarship programs. The 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 Center to finance operations. Fiduciary funds use the accrual basis of accounting.

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006*

Unaudited

FINANCIAL ANALYSIS OF THE CENTER AS A WHOLE

The following table provides a comparison of the Center's net assets for 2005 and 2006:

	Governmental Activities	
	2006	2005
Current and other assets	\$3,829,414	\$3,770,022
Capital assets, Net	171,511	157,295
Total assets	4,000,925	3,927,317
Long-term liabilities outstanding	817,102	680,150
Other liabilities	1,430,405	859,373
Total liabilities	2,247,507	1,539,523
Net assets		
Invested in capital assets, net of related debt	171,511	157,205
Restricted	83,369	66,141
Unrestricted	1,498,538	2,164,448
Total net assets	\$1,753,418	\$2,387,794

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MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006**

Unaudited

Changes in Net Assets – The following table shows the changes in net assets for the fiscal year 2006 and 2005:

	Governmental Activities	
	2006	2005
Revenues		
Program revenues:		
Charges for Services and Sales	\$4,529,634	\$4,093,408
Operating Grants and Contributions	2,148,807	1,695,827
General revenues:		
Grants and Entitlements	1,830,751	1,439,957
Other	519,006	134,273
Total revenues	9,028,198	7,363,465
Program Expenses		
Instruction	3,028,459	2,468,089
Support Services:		
Pupils	1,886,891	1,465,656
Instructional Staff	3,012,602	2,413,966
Board of Education	35,314	30,502
Administration	851,317	617,964
Fiscal Services	181,009	187,463
Operation and Maintenance of Plant	9,651	6,688
Pupil Transportation	15,308	10,899
Central	45,986	98,720
Payments to Districts	324,665	264,606
Operation of Non-Instructional Services		
Community Services	251,946	160,193
Extracurricular Activities	19,426	6,298
Total expenses	9,662,574	7,731,044
Total Change in Net Assets	(634,376)	(367,579)
Beginning Net Assets	2,387,794	2,755,373
Ending Net Assets	\$1,753,418	\$2,387,794

Governmental Activities

Net assets of the Center's governmental activities decreased by \$634,376. During fiscal year 2006, the Center was able to increase charges for instructional services, but was unable to increase charges for support services. In addition, the Community Alternative Funding System was discontinued. Therefore, despite the Center's best efforts, net assets decreased.

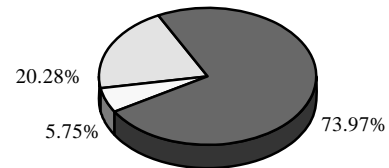
MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006**

Unaudited

Program revenues made up 73.97% of revenues for governmental activities for Muskingum Valley Educational Service Center in fiscal year 2006. The Center's reliance upon these revenues is demonstrated by the following graph:

Revenue Sources	2006	Percent of Total
General Grants	\$1,830,751	20.28%
Program Revenues	6,678,441	73.97%
General Other	519,006	5.75%
Total Revenue	<u>\$9,028,198</u>	<u>100.00%</u>



FINANCIAL ANALYSIS OF THE CENTER'S FUNDS

The Center's governmental funds reported a combined fund balance of \$2,053,788, which is lower than last year's total of \$2,650,317. The schedule below indicates the fund balance and the total change in fund balance by fund type as of June 30, 2006 and 2005.

	Fund Balance June 30, 2006	Fund Balance June 30, 2005	Increase (Decrease)
General	\$1,901,177	\$2,552,051	(\$650,874)
Parent Mentor	(25,148)	4,832	(29,980)
Other Governmental	31,305	93,434	(62,129)
Total	<u>\$1,907,334</u>	<u>\$2,650,317</u>	<u>(\$742,983)</u>

General Fund –The tables that follow assist in illustrating the financial activities and balance of the General Fund:

	2006 Revenues	2005 Revenues	Increase (Decrease)
Tuition	\$2,336,167	\$2,174,693	\$161,474
Charges for Services	1,971,084	1,887,225	83,859
Investment Earnings	115,114	74,483	40,631
Extracurricular Activities	21,830	6,459	15,371
Intergovernmental - State	1,680,402	1,678,681	1,721
Intergovernmental - Federal	283,567	540,677	(257,110)
All Other Revenue	65,065	56,329	8,736
Total	<u>\$6,473,229</u>	<u>\$6,418,547</u>	<u>\$54,682</u>

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006**

Unaudited

General Fund revenues increased in 2006, by less than 1.0% compared to revenues in fiscal year 2005 due to an increase in the charges for tuition/instructional services. This increase was offset by a decrease in available federal funding.

	2006 Expenditures	2005 Expenditures	Increase (Decrease)
Instruction	\$2,395,208	\$2,015,708	\$379,500
Supporting Services:			
Pupils	1,540,575	1,387,084	153,491
Instructional Staff	2,063,410	1,863,384	200,026
Board of Education	35,314	30,502	4,812
Administration	477,405	453,535	23,870
Fiscal Services	180,175	166,746	13,429
Operation & Maintenance of Plant	3,522	569	2,953
Pupil Transportation	14,414	10,324	4,090
Central	42,986	95,720	(52,734)
Payments to Districts	324,665	264,606	60,059
Extracurricular Activities	19,426	6,298	13,128
Capital Outlay	27,003	27,003	0
Total	\$7,124,103	\$6,321,479	\$802,624

The expenditures increased by \$802,624 or 12.7% compared to the prior year mostly due an increase in instruction costs as the result of the expansion of the Center's multiple disabilities and preschool programs.

The Center's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

During the course of fiscal year 2006 the Center amended its General Fund budget several times, none significant.

For the General Fund, final budget revenue was \$6.7 million, slightly above original budget estimates of \$6.6 million. The actual revenues of \$6.5 million were slightly below the budget basis.

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006*

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CAPITAL ASSETS AND LONG-TERM LIABILITIES ADMINISTRATION

Capital Assets

At the end of fiscal 2006 the Center had \$171,511 net of accumulated depreciation invested in buildings and improvements; and machinery and equipment. The following table shows fiscal year 2005 and 2006 balances:

	Governmental Activities		Increase (Decrease)
	2006	2005	
Buildings and Improvements	\$645	\$645	\$0
Machinery and Equipment	798,246	840,847	(42,601)
Less: Accumulated Depreciation	(627,380)	(684,197)	56,817
Totals	<u>\$171,511</u>	<u>\$157,295</u>	<u>\$14,216</u>

The Center reported an increase in machinery and equipment. The increase in machinery and equipment is not attributable to any significant capital asset acquisitions during the year.

Additional information on the Center's capital assets can be found in Note 6.

Long-Term Liabilities

At June 30, 2006, the Center had \$817,102 in compensated absences payable, \$50,185 due within one year. The following table summarizes the Center's long-term obligations outstanding as of June 30, 2006:

	<u>2006</u>	<u>2005</u>
Governmental Activities:		
Compensated Absences Payable	\$817,102	\$680,150

Additional information on the Center's long-term liabilities can be found in Note 8.

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006*

Unaudited

ECONOMIC FACTORS

As the preceding information shows, the Center relies heavily on contracts with local and city school districts in Coshocton, Morgan, and Muskingum counties. Other significant revenue sources for the Center are state foundation payments and grants. Existing contracts with the Center's partner school districts, as well as the Center's cash balance, will provide the Center with the necessary funds to operate during fiscal year 2007. However, the future financial health of the Center presents certain challenges.

The first challenge is the Center's state foundation payments. The Center's state funding has been frozen at \$40.52 per pupil since fiscal year 2000. The Center relies on the \$40.52 per pupil to support fiscal and administrative costs. It does not appear that an increase in this funding source is likely.

The second challenge regards the financial health of the local school districts served by the Center. Several of the local schools are projecting deficits in their five-year health of the districts may preclude them from obtaining additional or existing Center services.

The final challenge is the proposed Ohio Regional Education Delivery System and the implementation of the system by the Ohio Department of Education. Current proposed legislation has this realignment of Ohio regional service providers taking effect July 1, 2007. The Center is unable to determine at this time the financial effect of this legislation.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Center's finances and to show the Center's accountability for the money it receives. If you have questions about this report or need additional financial information contact Christine Wagner, Treasurer of Muskingum Valley Educational Service Center, 205 North 7th St., Zanesville, Ohio 43701.

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Statement of Net Assets June 30, 2006

	Governmental Activities
Assets:	
Cash and Cash Equivalents	\$ 1,792,686
Investments	1,103,106
Receivables:	
Intergovernmental	698,766
Interest	4,529
Prepaid Items	230,327
Restricted Assets:	
Capital Assets, Net	171,511
Total Assets	4,000,925
Liabilities:	
Accounts Payable	213,383
Accrued Wages and Benefits	632,437
Intergovernmental Payable	544,569
Matured Compensated Absences Payable	16,582
Vacation Benefits Payable	23,434
Long Term Liabilities:	
Due Within One Year	50,185
Due in More Than One Year	766,917
Total Liabilities	2,247,507
Net Assets:	
Invested in Capital Assets	171,511
Restricted For:	
Other Purposes	83,369
Unrestricted (Deficit)	1,498,538
Total Net Assets	\$ 1,753,418

See accompanying notes to the basic financial statements

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Statement of Activities For the Fiscal Year Ended June 30, 2006

		Program Revenues		Net (Expense) Revenue and and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction	\$ 3,028,459	\$ 2,495,471	\$ 623,917	\$ 90,929
Support Services:				
Pupils	1,886,891	1,040,228	352,470	(494,193)
Instructional Staff	3,012,602	935,856	577,432	(1,499,314)
Board of Education	35,314	0	1,363	(33,951)
Administration	851,317	15,577	347,368	(488,372)
Fiscal Services	181,009	0	13,376	(167,633)
Operation and Maintenance of Plant	9,651	0	6,357	(3,294)
Pupil Transportation	15,308	0	1,455	(13,853)
Central	45,986	20,672	5,016	(20,298)
Payments to Districts	324,665	0	13,745	(310,920)
Operation of Non-Instructional:				
Community Services	251,946	0	205,488	(46,458)
Extracurricular Activities	19,426	21,830	820	3,224
Total Governmental Activities	9,662,574	4,529,634	2,148,807	(2,984,133)
Totals	\$ 9,662,574	\$ 4,529,634	\$ 2,148,807	(2,984,133)
General Revenues				
				1,830,751
Grants and Entitlements not Restricted to Specific Programs				113,867
Investment Earnings				405,139
Miscellaneous				2,349,757
Total General Revenues				
Change in Net Assets				(634,376)
Net Assets Beginning of Year				2,387,794
Net Assets End of Year				\$ 1,753,418

See accompanying notes to the basic financial statements

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Balance Sheet
Governmental Funds
June 30, 2006

	General	Parent Mentor Fund	Other Governmental Funds	Total Governmental Funds
Assets:				
Cash and Cash Equivalents	\$ 1,340,152	\$ 24,275	\$ 172,787	\$ 1,537,214
Investments	1,103,106	0	0	1,103,106
Receivables:				
Intergovernmental	446,745	150,349	98,722	695,816
Interest	4,529	0	0	4,529
Interfund Loan Receivable	85,973	0	0	85,973
Prepaid Items	230,327	0	0	230,327
Total Assets	\$ 3,210,832	\$ 174,624	\$ 271,509	\$ 3,656,965
Liabilities:				
Accounts Payable	\$ 72,338	\$ 35,127	\$ 105,454	\$ 212,919
Accrued Wages and Benefits	582,034	5,076	18,564	605,674
Intergovernmental Payable	482,029	9,220	30,213	521,462
Interfund Loans Payable	0	0	85,973	85,973
Deferred Revenue	156,672	150,349	0	307,021
Matured Compensated Absences Payable	16,582	0	0	16,582
Total Liabilities	1,309,655	199,772	240,204	1,749,631
Fund Balances:				
Reserved for Encumbrances	132,481	78,181	44,226	254,888
Reserved for Prepaid Items	230,327	0	0	230,327
Unreserved, Undesignated in:				
General Fund	1,538,369	0	0	1,538,369
Special Revenue Funds	0	(103,329)	(12,921)	(116,250)
Total Fund Balances	1,901,177	(25,148)	31,305	1,907,334
Total Liabilities and Fund Balances	\$ 3,210,832	\$ 174,624	\$ 271,509	\$ 3,656,965

See accompanying notes to the basic financial statements

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Reconciliation Of Total Governmental Fund Balances To Net Assets Of Governmental Activities June 30,2006

Total Governmental Fund Balances	\$ 1,907,334
<i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital assets used in governmental activities are not resources and therefore are not reported in the funds.	171,511
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.	307,021
The internal service fund is used by management to charge the costs of services provided to individual funds of the Center, or to other governments. The assets and liabilities of the internal service fund is included in governmental activities in the statement of net assets.	207,520
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(839,968)</u>
<i>Net Assets of Governmental Funds</i>	<u><u>\$1,753,418</u></u>
See accompanying notes to the basic financial statements	

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Fiscal Year Ended June 30, 2006

	General	Parent Mentor Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Local Sources:				
Tuition	\$ 2,336,167	\$ 0	\$ 0	\$ 2,336,167
Charges for Services	1,971,084	0	0	1,971,084
Investment Earnings	115,114	0	0	115,114
Extracurricular Activities	21,830	0	0	21,830
Class Materials and Fees	0	0	0	0
Intermediate Sources	0	0	58,867	58,867
Intergovernmental - State	1,680,402	0	1,194,969	2,875,371
Intergovernmental - Federal	283,567	317,276	356,495	957,338
All Other Revenue	65,065	0	0	65,065
Total Revenue	6,473,229	317,276	1,610,331	8,400,836
Expenditures:				
Current:				
Instruction	2,395,208	38,156	558,398	2,991,762
Supporting Services:				
Pupils	1,540,575	137,747	145,575	1,823,897
Instructional Staff	2,063,410	122,748	430,192	2,616,350
Board of Education	35,314	0	0	35,314
Administration	477,405	48,605	270,215	796,225
Fiscal Services	180,175	0	6,111	186,286
Operation & Maintenance of Plant	3,522	0	6,129	9,651
Pupil Transportation	14,414	0	894	15,308
Central	42,986	0	3,000	45,986
Payments to Districts	324,665	0	0	324,665
Operation of Non-Instructional:				
Community Services	0	0	251,946	251,946
Extracurricular Activities	19,426	0	0	19,426
Capital Outlay	27,003	0	0	27,003
Total Expenditures	7,124,103	347,256	1,672,460	9,143,819
Net Change in Fund Balance	(650,874)	(29,980)	(62,129)	(742,983)
Fund Balances at Beginning of Year	2,552,051	4,832	93,434	2,650,317
Fund Balances End of Year	\$ 1,901,177	\$ (25,148)	\$ 31,305	\$ 1,907,334

See accompanying notes to the basic financial statements

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

***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 30,2006***

Net Change in Fund Balances - Total Governmental Funds	\$ (742,983)
<i>Amounts reported for governmental activities in the statement of activities are different because</i>	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	21,678
Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the loss on the disposal of capital assets net of proceeds received.	(7,462)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	300,556
Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.	(137,426)
The internal service fund is used by management to charge the costs of services to individual funds or other governments and is reported in the statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net expense of the internal service fund is allocated among the governmental activities.	<u>(68,739)</u>
<i>Change in Net Assets of Governmental Activities</i>	<u><u>\$ (634,376)</u></u>

See accompanying notes to the basic financial statements

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Fiscal Year Ended June 30, 2006**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:				
Local Sources:				
Tuition	\$ 2,688,773	\$ 2,688,773	\$ 2,442,924	\$ (245,849)
Charges for Services	1,912,121	1,992,121	1,871,021	(121,100)
Investment Earnings	92,000	92,000	103,899	11,899
Extracurricular Activities	5,500	5,500	21,830	16,330
Intergovernmental - State	1,787,000	1,787,000	1,680,402	(106,598)
Intergovernmental - Federal	92,443	92,443	352,246	259,803
All Other Revenues	50,650	50,650	26,433	(24,217)
Total Revenues	<u>6,628,487</u>	<u>6,708,487</u>	<u>6,498,755</u>	<u>(209,732)</u>
Expenditures:				
Current:				
Instruction	2,369,200	2,369,200	2,288,733	80,467
Support Services:				
Pupils	1,561,914	1,561,913	1,467,920	93,993
Instructional Staff	2,089,956	2,089,955	2,018,388	71,567
Board of Education	35,292	35,292	33,654	1,638
Administration	516,320	516,320	456,124	60,196
Fiscal Services	170,766	170,766	171,747	(981)
Operation and Maintenance of Plant	700	700	2,157	(1,457)
Pupil Transportation	19,616	19,616	25,267	(5,651)
Central	49,666	49,666	84,075	(34,409)
Extracurricular Activities	5,852	5,852	20,011	(14,159)
Total Expenditures	<u>6,819,282</u>	<u>6,819,280</u>	<u>6,568,076</u>	<u>251,204</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(190,795)	(110,793)	(69,321)	41,472
Other Financing Sources (Uses):				
Advances In	0	0	19,381	19,381
Advances Out	0	0	(85,973)	(85,973)
Refund of Prior Year's Receipts	(341,615)	(341,615)	(324,665)	16,950
Total Other Financing Sources (Uses):	<u>(341,615)</u>	<u>(341,615)</u>	<u>(391,257)</u>	<u>(49,642)</u>
Net Change in Fund Balance	(532,410)	(452,408)	(460,578)	(8,170)
Fund Balance at Beginning of Year	2,580,720	2,580,720	2,580,720	0
Prior Year Encumbrances	119,943	119,943	119,943	0
Fund Balance at End of Year	<u>\$ 2,168,253</u>	<u>\$ 2,248,255</u>	<u>\$ 2,240,085</u>	<u>\$ (8,170)</u>

See accompanying notes to the basic financial statements

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
Special Revenue Fund - Parent Mentor Fund
For the Fiscal Year Ended June 30, 2006**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Local Sources:				
Intergovernmental - Federal	\$ 425,000	\$ 425,000	\$ 317,276	\$ (107,724)
Total Revenues	425,000	425,000	317,276	(107,724)
Expenditures:				
Current:				
Instruction	11,200	11,700	11,408	292
Support Services:				
Pupils	151,182	150,682	137,639	13,043
Instructional Staff	181,886	193,584	192,703	881
Administration	87,885	76,188	71,717	4,471
Total Expenditures	432,153	432,154	413,467	18,687
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	(7,153)	(7,154)	(96,191)	(89,037)
Fund Balance at Beginning of Year				
Prior Year Encumbrances	566	566	566	0
Fund Balance at End of Year	\$ 4	\$ 3	\$ (89,034)	\$ (89,037)

See accompanying notes to the basic financial statements

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Statement of Net Assets *Proprietary Funds* *June 30, 2006*

	Governmental Activities - Internal Service Funds
Assets:	
<i>Current Assets:</i>	
Cash and Cash Equivalents	\$ 255,472
Receivables:	
Intergovernmental	2,950
<i>Total Current Assets</i>	<u>258,422</u>
Total Assets	<u>258,422</u>
Liabilities:	
<i>Current Liabilities:</i>	
Accounts Payable	464
Accrued Wages and Benefits	26,763
Intergovernmental Payable	23,107
<i>Total Current Liabilities</i>	<u>50,334</u>
<i>Long Term Liabilities:</i>	
Compensated Absences Payable	568
<i>Total Long Term Liabilities</i>	<u>568</u>
Total Liabilities	<u>50,902</u>
Net Assets:	
Unrestricted	<u>207,520</u>
Total Net Assets	<u>\$ 207,520</u>

See accompanying notes to the basic financial statements

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

***Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2006***

	Governmental Activities - Internal Service Funds
Operating Revenues:	
Tuition and Fees	\$ 4,350
Charges for Services	329,918
Total Operating Revenues	334,268
Operating Expenses:	
Salaries and Wages	214,947
Fringe Benefits	78,344
Contractual Services	81,963
Supplies and Materials	27,753
Total Operating Expenses	403,007
Operating Income (Loss)	(68,739)
Net Assets Beginning of Year	276,259
Net Assets End of Year	\$ 207,520

See accompanying notes to the basic financial statements

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2006

	Governmental Activities - Internal Service Funds
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Charges for Services	\$331,468
Cash Payments for Goods and Services	(109,676)
Cash Payments to Employees for Services and Benefits	(259,926)
Net Cash Used by Operating Activities	<u>(38,134)</u>
Net Decrease in Cash and Cash Equivalents	(38,134)
Cash and Cash Equivalents at Beginning of Year	293,606
Cash and Cash Equivalents at End of Year	<u><u>\$255,472</u></u>
<u>Reconciliation of Operating Loss to Net Cash</u>	
<u>Used by Operating Activities:</u>	
Operating Loss	(\$68,739)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Changes in Assets and Liabilities:	
Increase in Intergovernmental Receivable	(2,800)
Increase in Accounts Payable	193
Increase in Accrued Wages and Benefits	15,917
Increase in Intergovernmental Payables	17,456
Decrease in Vacation Benefits Payable	(161)
Total Adjustments	<u>30,605</u>
Net Cash Used by Operating Activities	<u><u>(\$38,134)</u></u>

See accompanying notes to the basic financial statements

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Statement of Net Assets
Fiduciary Funds
June 30, 2006

	Private Purpose Trust		Agency
	Special Trust Fund	Investment Trust Fund	
Assets:			
Cash and Cash Equivalents	\$ 137,531	\$ 352,476	\$ 658,918
Receivables:			
Intergovernmental	3,000	0	0
Total Assets	<u>140,531</u>	<u>352,476</u>	<u>658,918</u>
Liabilities:			
Accounts Payable	2,700	4,755	0
Due to Others	0	0	658,918
Total Liabilities	<u>2,700</u>	<u>4,755</u>	<u>658,918</u>
Net Assets:			
Held in Trust for Scholarships	137,831	0	0
Trust Pool Participants	0	347,721	0
Total Net Assets	<u>\$ 137,831</u>	<u>\$ 347,721</u>	<u>\$ 0</u>

See accompanying notes to the basic financial statements

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Statement of Changes in Net Assets
Fiduciary Funds
For the Year Ended June 30, 2006

	Private Purpose Trust	
	Special Trust Fund	Investment Trust Fund
Additions:		
Contributions:		
Private Donations	\$ 12,457	\$ 62,181
Total Contributions	<u>12,457</u>	<u>62,181</u>
Investment Earnings:		
Interest	<u>0</u>	<u>17,931</u>
Total Investment Earnings	<u>0</u>	<u>17,931</u>
Total Additions	<u>12,457</u>	<u>80,112</u>
Deductions:		
Administrative Expenses	<u>8,600</u>	<u>0</u>
Total Deductions	<u>8,600</u>	<u>0</u>
Change in Net Assets	3,857	80,112
Net Assets at Beginning of Year	<u>133,974</u>	<u>267,609</u>
Net Assets End of Year	<u>\$ 137,831</u>	<u>\$ 347,721</u>

See accompanying notes to the basic financial statements

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Muskingum Valley Educational Service Center (the Center) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Center is a local district as defined by Section 3311.05 of the Ohio Revised Code. The Center operates under an elected Board of Education of seven members and serves students and educators in Coshocton, Morgan and Muskingum Counties.

The accompanying basic financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, "*The Financial Reporting Entity*," in that the financial statements include all organizations, activities, functions and component units for which the Center (the reporting entity) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either the Center's ability to impose its will over the organization or the possibility that the organization will provide a financial benefit to, or impose a financial burden on, the Center. There were no potential component units that met the criteria imposed by GASB Statement No. 14 to be included in the Center's reporting entity. Based on the foregoing, the reporting entity of the Center includes the following services: services to families and children, professional development and teacher support, technical assistance, curriculum services and operational support.

The ESC participates in 3 jointly governed organizations and 3 insurance purchasing pools. These organizations are the Ohio Mid-Eastern Regional Education Service Agency, Coalition of Rural and Appalachian Schools, the East Central Ohio Special Education Regional Resource Center, the Ohio School Boards Association Workers' Compensation Group Rating Plan, the Schools of Ohio Risk Sharing Authority, and the Ohio School Benefits Cooperative. These organizations are presented in Notes 10 and 11 to the basic financial statements.

The accounting policies and financial reporting practices of the Center conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of its significant accounting policies.

B. Basis of Presentation - Fund Accounting

The accounting system is organized and operated on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. The various funds are summarized by type in the basic financial statements.

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

The following fund types are used by the Center:

Governmental Funds - These are funds through which most governmental functions typically are financed. The acquisition, use and balances of the Center's expendable financial resources and the related current liabilities (except those accounted for in the proprietary funds) are accounted for through governmental funds. The measurement focus is upon determination of "financial flow" (sources, uses and balances of financial resources). The following is the Center's only major governmental fund:

General Fund - This fund is the general operating fund of the Center and is used to account for all financial resources except those accounted for in another fund. The general fund balance is available to the Center for any purpose provided it is expended or transferred according to the general laws of Ohio.

Parent Mentor Fund - This fund is used to account for monies set aside to aid parents with disabled children.

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

Proprietary Funds - The proprietary funds are accounted for on a "economic resources" measurement focus. This measurement focus provides that all assets and all liabilities associated with the operation of the proprietary funds are included on the balance sheet. The proprietary fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in retained earnings (net total assets).

Internal Service Fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the Center or to other governments on a cost-reimbursement basis.

The Center's Telecommunity Appalachian Project internal service fund accounts for distance learning activities for students, teachers, and administrators. The project is funded by membership dues and program charges to participating districts.

The Center's Rotary Fund for Local School Districts internal service fund accounts for proficiency remediation services provided to participating schools. Fees are based on the costs necessary to run the program.

The Muskingum County Christmas Concert Rotary internal service fund accounts for the expenses necessary to sponsor an annual Christmas Concert featuring the choirs of the local schools in Muskingum County. Revenues for the concert are generated by ticket sales.

The Rotary Workstudy Fund accounts for the annual "Explore Ohio" field trip program for the Center's Workstudy students.

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

The Summer Camp Gifted Program accounts for learning opportunities specifically targeted to students identified as gifted.

Fiduciary Funds

Trust and Agency Funds – These funds are used to account for assets held by the Center in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds and are therefore not available to support the Center’s own programs. The 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 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 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 Center acts as the fiscal agent.

C. Basis of Presentation – Financial Statements

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid “doubling up” revenues and expenses. The statements distinguish between those activities of the Center that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus, which differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the 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 and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Center, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Center.

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements (Continued)

Fund Financial Statements – Fund financial statements report detailed information about the Center. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

Fiduciary funds are reported using the economic resources measurement focus.

D. Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses reported in the financial statements. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The modified accrual basis of accounting is followed by the governmental funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the Center is considered to be 60 days after fiscal year end. 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. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt which is recognized when due.

Revenue considered susceptible to accrual at year-end includes tuition, grants and entitlements, student fees, and interest on investments.

Non-exchange transactions, in which the Center receives value without directly giving equal value in return, include grants, entitlements and donations. On an accrual basis, revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Center must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Center on a reimbursement basis.

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. On governmental fund financial statements, receivables that will not be collected within the available period have been reported as deferred revenue.

The accrual basis of accounting is utilized for reporting purposes by the proprietary funds. Revenues are recognized when they are earned and expenses are recognized when incurred.

Pursuant to GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting," the Center follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

E. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable.

The Center legally 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 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.

1. Appropriations

The annual appropriation resolution is legally enacted by the Center at the fund level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Center may pass a temporary appropriation measure to meet the ordinary expenditures of the 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 Center. The 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.

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

2. 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.

3. Budgetary Basis of Accounting

The Center's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on a cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting. Encumbrances are recorded as the equivalent of expenditures (budgetary basis) as opposed to reservations of fund balance (GAAP 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	Parent Mentor Fund
GAAP Basis (as reported)	(\$650,874)	(\$29,980)
Increase (Decrease):		
Accrued Revenues at June 30, 2006, received during FY 2007	(389,075)	(2,325)
Accrued Revenues at June 30, 2005, received during FY 2006	348,009	0
Accrued Expenditures at June 30, 2006, paid during FY 2007	1,152,983	49,423
Accrued Expenditures at June 30, 2005, paid during FY 2006	(798,140)	0
FY 2005 Prepaids for FY 2006	301,519	0
FY 2006 Prepaids for FY 2007	(230,327)	0
Encumbrances Outstanding	(194,673)	(113,309)
Budget Basis	<u>(\$460,578)</u>	<u>(\$96,191)</u>

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits and amounts in STAROhio.

Except for a portion of General Fund Monies, the Center pools its cash for investment and resource management purposes. Each fund's equity in pooled cash and investments represents the balance on hand as if each fund maintained its own cash and investment account.

G. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," the Center reports its United States Treasury Notes at fair value, and reports its nonnegotiable certificates of deposit at cost. These amounts are specifically identifiable to the General Fund and are presented as "Investments" on the Center's financial Statements.

The Center had invested funds in the State Treasury Asset Reserve of Ohio during 2006. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2006. These amounts are presented as "Cash and Cash Equivalents" on the Center's Financial Statements.

H. Capital Assets and Depreciation

The accounting and reporting treatment applied to capital assets is determined by their ultimate use:

1. Property, Plant, and Equipment – Governmental Activities

Governmental activities capital assets are those not directly related to the business type funds. These generally are acquired or constructed for governmental activities and are recorded as expenditures in the governmental funds and are capitalized at cost (or estimated historical cost for assets not purchased in recent years). These assets are reported in the Governmental Activities column of the Government-wide Statements of Net Assets, but they are not reported in the Fund Financial Statements. The Center follows the policy of not capitalizing assets with a cost less than \$500.

Contributed capital assets are recorded at fair market value at the date received. The Center does not possess any infrastructure. Capital asset values were initially determined by identifying historical costs where such information was available. In cases where information supporting original costs was not obtainable, estimated historical costs were developed. For certain capital assets, the estimates were arrived at by indexing estimated current costs back to the estimated year of acquisition.

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets and Depreciation (Continued)

2. Depreciation

All capital assets are depreciated, excluding land and construction in progress. Depreciation has been provided using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives (in years)</u>
Buildings and Improvements	10-30
Machinery and Equipment	3-15

I. Long-Term Obligations

Long-term liabilities are being repaid from the following funds:

<u>Obligation</u>	<u>Fund</u>
Compensated Absences	General Fund

J. Compensated Absences

All compensated absences liabilities are reported on the government-wide financial statements. The Center's liabilities for compensated absences consist of vacation benefits payable, long-term liabilities due in one year, long-term liabilities due in more than one year and matured compensated absences payable.

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 Center will compensate the employees for the benefits through paid time off or some other means. Employees with one (1) year but less than five (5) years of service in the Center as of July 1 are entitled to an annual vacation of twelve (12) days. Employees with five (5) years but less than twenty (20) years of service in the Center as of July 1 are entitled to an annual vacation of eighteen (18) days. Employees with twenty (20) or more years of service in the Center as of July 1 are entitled to an annual vacation of twenty (20) days. Vacation benefits are credited each July 1st following each year of employment and must be taken by June 30th of the fiscal year credited. Payment in lieu of vacation is permitted, up to a maximum of three (3) days. The Center's liability for these vacation benefits is recorded as "vacation benefits payable", rather than as "long-term liabilities", as the balances earned by employees must be used within a year.

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Compensated Absences (Continued)

The Center's exception to the vacation policy concerns the superintendent's contract. The contract entitles the superintendent to be entitled to twenty-five (25) vacation days with each year and to be permitted to accrue forty (40) days of unused vacation. The Center's liability for the superintendent's accrual of unused vacation benefits (40 days) is recorded as "long-term liabilities due in more than one year" since the average maturity of this vacation benefit is greater than one year. The Center's liability for the superintendent's normal annual allocation of vacation benefits (25 days) is recorded as "vacation benefits payable" rather than as "long-term liabilities", as the balance must be used within a year.

In accordance with GASB Statement No. 16, "Accounting for Compensated Absences," 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 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. The Center records a liability for accumulated unused sick leave for employees after five years of current service with the Center. Employees may earn 15 days of sick leave per year up to a maximum of one hundred and eighty (180) days for employees working one hundred eighty-two (182) days to one hundred ninety-one (191) days, one hundred ninety-two (192) days for employees working one hundred ninety-two days (192) to two hundred-one (201) days, and two hundred-two (202) days for employees working two hundred-two (202) days. The maximum sick leave accumulation for all employees shall be two hundred and two (202) days. Upon retirement, employees will receive a maximum of forty (40) days for employees working one hundred and eighty-two (182) to one hundred ninety-one (191) days and forty-five (45) days for those working one hundred ninety-two (192) days or more.

Additional compensation, to recognize extended service as a career professional, may be awarded by the Board equal to one (1) day's per diem at the current base salary at the time of retirement for every year of service to the organization.

The Center's liability for the portion of sick leave and extended service benefits which have an average maturity greater than one year are recorded as "long-term liabilities" and are reported in two components, the amount due within one year and the amount due in more than one year. The Center has estimated \$50,185 of the total long-term liability to be due within one year based on historical trends and budgeted amounts.

The only compensated absence liability recognized on both government-wide financial statements and the governmental fund financial statements, are those liabilities and expenditures that represent payments which come due (mature) upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" on the government-wide financial statements and on the governmental fund financial statements in the fund(s) from which these payments will be made. The liability consists of vacation, sick and extended service benefits.

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt 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 assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Center or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

L. Pensions

The provision for pension costs are recorded when the related payroll is accrued and the obligation is incurred. Pension liabilities expected to be paid from current available financial resources are recorded as a fund liability.

M. Interfund Activity

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

N. Reservations of Fund Balance

Reserves indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. Fund balances are reserved for prepaid items and encumbered amounts which have not been accrued at year end.

O. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred.

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Intergovernmental Revenues (Continued)

The Center currently participates in several State and Federal programs, categorized as follows:

Entitlements

General Fund

State Foundation Program

Non-Reimbursable Grants

Special Revenue Funds

Educational Management Information Systems

Public School Preschool

Data Communications

School Net

Alternative Education/Schools Challenge

Tech Equity

Parent Mentor

Title I ESEA School Support Team Program

Preschool Grant for Children with Disabilities

Grants and entitlements amounted to approximately 45% of the Center's operating revenue during the 2006 fiscal year.

NOTE 2 - COMPLIANCE AND ACCOUNTABILITY

Fund Deficits - The fund deficits at June 30, 2006 of \$25,148 in the Parent Mentor Grant Fund, and \$9,883 in the EHA Preschool Handicap Grant Fund, (special revenue funds) arose from the recognition of expenditures on the modified accrual basis of accounting which are greater than expenditures recognized on the budgetary basis of accounting. Deficits did not exist under the cash basis of accounting.

NOTE 3 - DEPOSITS AND INVESTMENTS

Statutes require the classification of funds held by the Center into three categories. Category 1 consists of "active" funds - those funds required to be kept in a "cash" or "near cash" status for immediate use by the Center. Such funds must be maintained either as cash in the Center Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of "inactive" funds - those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing not later than the end of the current period of designation of depositories.

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

Category 3 consists of “interim” funds - those funds which are not needed for immediate use but, which will be needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
- 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;
- Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and
- The State Treasury Asset Reserve of Ohio (STAR Ohio).
- Commercial paper and bankers acceptances if training requirements have been met.

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

The Center has a formal adopted investment policy with the objective being safety if the portfolio’s principal value and liquidity.

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006**

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

A. Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned. Protection of Center cash and deposits is provided by the federal deposit insurance corporation as well as qualified securities pledged by the institution holding the assets. Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the Center places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

Custodial credit risk for deposits is the risk that in the event of bank failure, the Center will not be able to recover deposits or collateral securities that are in possession of an outside party. At year end the carrying amount of the Center's deposits was \$2,722,636 and the bank balance was \$3,106,099. Federal depository insurance covered \$200,000 of the bank balance and \$2,906,099 was uninsured. Of the remaining uninsured bank balance, the Center was exposed to custodial risk as follows:

	<u>Balance</u>
Uninsured and collateralized with securities held by the pledging institution's trust department not in the District's name	<u>\$2,906,099</u>
Total Balance	<u><u>\$2,906,099</u></u>

Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Center to a successful claim by FDIC.

The 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 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.

Investment earnings of \$42,437 earned by other funds were credited to the General Fund as required by state statute.

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

B. Investments

The Center's investments at June 30, 2006 were as follows:

	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Investment Maturities (in Years)</u>	
			<u>less than 1</u>	<u>1-3</u>
STAR Ohio	\$323,098	AAAm ¹	\$323,098	\$0
US Treasury Notes	998,983	*	499,450	499,533
Total Investments	<u>\$1,322,081</u>		<u>\$822,548</u>	<u>\$499,533</u>

¹ Standard & Poor's

* Guaranteed by the U.S. Government

Interest Rate Risk – The Center's investment policy addresses interest rate risk to the extent that it prohibits the Treasurer from investing in securities which have a remaining term to final maturity of more than five (5) years. 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 Center, and that an investment must be purchased with the expectation that it will be held to maturity.

Credit Risk – The United States Treasury Notes are guaranteed by the U.S. Government. STAR Ohio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market mutual fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. The Center's investment policy does not limit its investment choices other than to permit only those investments specifically authorized by State statute.

Concentration of Credit Risk – The Center places no limit on the amount the Center may invest in one issuer.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2006 consisted of interest and intergovernmental receivables.

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006**

NOTE 5 - INTERFUND BALANCES

Individual interfund balances at June 30, 2006, are as follows:

	Interfund Loans Receivable	Interfund Loans Payable
General Fund	\$85,973	\$0
Nonmajor Governmental Funds		
Other Grants Fund	0	85,973
Total Nonmajor Governmental Funds	0	85,973
Totals	\$85,973	\$85,973

NOTE 6 - CAPITAL ASSETS

A. Governmental Activities Capital Assets

Summary by category of changes in governmental activities capital assets at June 30, 2006:

Historical Cost:

Class	June 30, 2005	Additions	Deletions	June 30, 2006
<i>Capital assets being depreciated:</i>				
Buildings and Improvements	\$645	\$0	\$0	\$645
Machinery and Equipment	840,847	113,189	(155,790)	798,246
Total Cost	\$841,492	\$113,189	(\$155,790)	\$798,891

Accumulated Depreciation:

Class	June 30, 2005	Additions	Deletions	June 30, 2006
Buildings and Improvements	(\$404)	(\$64)	\$0	(\$468)
Machinery and Equipment	(683,793)	(91,447)	148,328	(626,912)
Total Depreciation	(\$684,197)	(\$91,511) *	\$148,328	(\$627,380)
<i>Net Value:</i>	\$157,295			\$171,511

* Depreciation expenses were charges to governmental functions as follows:

Instruction	\$12,787
Support Services:	
Pupils	6,409
Instructional Staff	42,676
Administration	28,914
Fiscal Services	725
Total Depreciation Expense	\$91,511

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 7 - DEFINED BENEFIT PENSION PLANS

All of the District's full-time employees participate in one of two separate retirement systems which are cost-sharing, multiple-employer defined benefit pension plans.

A. School Employees Retirement System of Ohio (SERS of Ohio)

All non-certified employees of the District, with minor exceptions, performing duties that do not require a certificate issued by the Ohio Department of Education are eligible to participate in the School Employees Retirement System of Ohio, a cost-sharing, multiple-employer public employee retirement system.

The SERS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. The SERS of Ohio issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for the SERS of Ohio. Interested parties may obtain a copy by making a written request to SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

The Ohio Revised Code provides statutory authority for District and employee contributions of 14% and 10% respectively. The contribution rates are determined actuarially, and are established and may be amended, up to statutory amounts, by the School Employees Retirement Board (Retirement Board) within the rates allowed by State statute. The required employer contribution rate is allocated to basic retirement benefits and health care by the Retirement Board. At June 30, 2005, (latest information available) 10.57% was allocated to fund the pension benefit and 3.43% to fund health care. The District's contributions to the SERS of Ohio for the years ending June 30, 2006, 2005, and 2004 were \$154,485, \$144,768, and \$156,381, respectively, which were equal to the required contributions for each year.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status. The portion of the 2005 employer contribution rate (latest information available) that was used to fund health care for the year 2005 was 3.43%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between minimum pay and the member's pay, prorated for partial service credit. For fiscal year 2006, the minimum pay has been established as \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. The amount contributed to fund health care benefits, including the surcharge amounted to \$37,848.

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 7 - DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employees Retirement System of Ohio (SERS of Ohio)

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ended June 30, 2005 were \$178,221,113. The target level for the health care reserve is 150% of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168% of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs. The number of participants eligible to receive benefits is 58,123.

B. State Teachers Retirement System of Ohio (STRS of Ohio)

All certified employees of the District are eligible to participate in the State Teachers Retirement System of Ohio, a cost-sharing, multiple-employer public employee retirement system.

The STRS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and survivor benefits based on eligible service credit to plan members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. The STRS of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the STRS of Ohio. Interested parties may obtain a copy by making a written request to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, or by calling (614) 227-4090 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 times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% 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 Combined Plan offers features of both the DC Plan and the DB 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. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years 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 dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006**

NOTE 7 - DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System of Ohio (STRS of Ohio) (Continued)

The Ohio Revised Code provides statutory authority for District and employee contributions of 14% and 10%, respectively. The contribution requirements of plan members and the District are established and may be amended by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. At June 30, 2005, (latest information available) 13% was allocated to fund the pension benefit and 1% to fund health care. The District's contributions to the STRS of Ohio for the years ending June 30, 2006, 2005, and 2004 were \$450,495, \$440,731, and \$447,853, respectively, which were equal to the required contributions for each year.

STRS provides postemployment health care benefits to retirees who participated in the DB or Combined Plans and their dependents. Coverage includes hospitalization, physician fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Revised Code, the State Teachers Retirement Board has discretionary authority over how much, if any, of the health care cost will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, health care benefits are not guaranteed.

Benefits are funded on a pay-as-you-go basis through an allocation of employer contributions to the Health Care Stabilization Fund. For the fiscal year ended June 30, 2005, (latest information available) the board allocated employer contributions are equal to 1% of covered payroll to the Health Care Stabilization Fund, which amounted to \$32,178 for the District. The balance of the Health Care Stabilization Fund was \$3.3 billion at June 30, 2005. For the fiscal year ended June 30, 2005, the net health care costs paid by STRS were \$254,780,000. There were 115,395 eligible benefit recipients.

NOTE 8 - GENERAL LONG-TERM OBLIGATIONS

Long-term obligations of the Center at June 30, 2006 were as follows:

	Balance <u>June 30, 2005</u>	Issued	(Retired)	Balance <u>June 30, 2006</u>	Amount Due <u>Within one Year</u>
General Long-Term Obligations:					
Compensated Absences	\$680,150	\$153,152	(\$16,200)	\$817,102	\$50,185
Total General Long-Term Obligations	<u>\$680,150</u>	<u>\$153,152</u>	<u>(\$16,200)</u>	<u>\$817,102</u>	<u>\$50,185</u>

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 9 – OPERATING LEASE

The Center is obligated under an operating lease to Muskingum County for the rental of office space for a period of twenty years. The Center paid to the County half of the lease obligation (\$400,000) in December of 1996. The next scheduled payment is due in January of 2008. 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 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, 2006:

Fiscal Year Ending June 30,	Amounts
2008	\$19,640
2009	42,960
2010	42,960
2011	42,960
2012	44,460
2013-2017	207,020
Total Minimum Payments	<u>\$400,000</u>

NOTE 10 – JOINTLY GOVERNED ORGANIZATIONS

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. To obtain financial information write to the Ohio Mid-Eastern Regional Education Service Agency, Attn: Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio 43952.

Coalition of Rural and Appalachian Schools - The Coalition of Rural and Appalachian Schools is a jointly governed organization composed of over 130 school districts and other educational institutions in the 29-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 29 Appalachian counties are divided; and three from Ohio University College of Education. The Council provides various in-service training programs for school district administrative personnel; gathers data regarding the level of education provided to children in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel.

The Council is not dependent on the continued participation of the Center and the Center does not maintain an equity interest in or financial responsibility for the Council. The Center's membership and seminar fees were \$330 for fiscal year 2006. During fiscal year 2006, the Center paid an additional \$300 for 2007 membership fees.

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 10 – JOINTLY GOVERNED ORGANIZATIONS (Continued)

East Central Ohio Special Education Regional Resource Center - The Center participates in the East Central Ohio Special Education Regional Resource Center (ECO SERRC), a jointly governed organization. The organization selects its own board, adopts its own budget, and receives direct federal and state grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding, and improving special education programs and services for children with disabilities and their parents. The ECO SERRC is governed by a board composed of superintendents of member school districts in east central Ohio, parents of children with disabilities, representatives of chartered non-public schools, representatives of county boards of MR/DD, and representatives of universities. The degree of control exercised by any participating school district is limited to its representation on the Board. There is no financial commitment made by the districts involved in ECO SERRC. ECO SERRC is not dependent upon the continued participation of the Center and the Center does not maintain an equity interest in or financial responsibility for ECO SERRC. During fiscal year 2006, the Center did not make any significant contributions to Tuscarawas-Carroll-Harrison Educational Service Center for ECO SERRC services. Financial information can be obtained by contacting Julie A. Lynch, Treasurer at the Tuscarawas-Carroll-Harrison Education Service Center, 172 North Broadway, New Philadelphia, Ohio 44663.

NOTE 11 – INSURANCE PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan – The 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 the coordinator of the program. Each year the participating school districts pay an enrollment fee to the GRP to cover the cost of administering the program.

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. Sixty-six school districts, educational service centers and joint vocational school districts participate in the SORSA. SORSA is governed by a body elected by members. Members agree to jointly participate in coverages of losses and pay all contributions necessary for the specified insurance coverages provided by SORSA. These coverages include comprehensive general liability, automobile liability, certain property insurance and public officials errors and omissions liability insurance.

Ohio School Benefits Cooperative - The ESC participates in and serves as fiscal agent for the Ohio School Benefits Cooperative, a claims servicing and group purchasing pool comprised of fifteen school districts as of November 1, 2006. The Ohio School Benefits Cooperative (OSBC) was created and organized pursuant to and as authorized by Section 9.833 of the Ohio Revised Code. OSBC is governed by a nine member Board of Directors, all of whom must be school district and/or educational service center administrators. OSBC is an unincorporated, non-profit association of its members which was created for the purpose of enabling members of the OSBC to maximize benefits and/or reduce costs of medical, prescription drug, vision, dental, life and/or other group insurance coverage for their employees, and the eligible dependents and designated beneficiaries of such employees.

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 11 – INSURANCE PURCHASING POOL (Continued)

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 school district superintendents and treasurers elected by the members of the OSBC. Medical Mutual/Antares is the administrator of the OSBC. On October 1, 2006, the ESC elected to participate in the fully funded purchasing program for medical, prescription drug, dental, and vision coverage.

NOTE 12 - RISK MANAGEMENT

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and injuries to employees. During fiscal year 2006 the Center contracted with one insurance provider for various insurance coverages, as follows:

Insurance Provider	Coverage	Deductible
Schools of Ohio Risk Sharing Authority	Property	\$1,000
Schools of Ohio Risk Sharing Authority	Crime Coverage (includes Employee Dishonesty)	\$1,000
Schools of Ohio Risk Sharing Authority	General Liability	\$0
Schools of Ohio Risk Sharing Authority	Educator's Legal Liability	\$5,000
Schools of Ohio Risk Sharing Authority	Automobile Physical Damage	\$1,000
Schools of Ohio Risk Sharing Authority	Automobile Liability	\$0

There has been no significant reduction in insurance coverages from coverages in the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

For fiscal year 2006, the Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the 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. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 13 - CONTINGENCIES

A. Grants

The Center receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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 Center at June 30, 2006.

B. Litigation

The Center is currently not party to any litigation.

NOTE 14 – STATE FUNDING

The Center is funded by the State Department of Education for the cost of part (A) of their budget. This funding is provided from State resources.

Part (B) of the budget is provided by the school districts to which the Center provides services and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the school district's served by the Center by \$40.52. This amount is provided from State resources.

If additional funding is needed for the Center, and if a majority of the Boards of Education of the school districts served by the Center approve, the cost of part (B) of the budget can be increased. The portion that is in excess of the original funding calculation is shared by all of the school districts served by the Center through additional reductions in their resources provided by the State Foundation Program. The State Board of Education initiates and supervises the procedure under which the school district's approve or disapprove the additional apportionment.

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 15 – INVESTMENT TRUST FUND

Effective June 25, 2004 the Center began to serve as a fiscal agent for the Ohio Coalition of Equity and Adequacy of School Funding (the Coalition), a legally separate entity. The Center pooled the moneys of the Coalition with its own for investment purposes at fair value, along with the pro rata share of the interest that it earns. 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 and of the interest that it earns. Condensed financial information for the investment pool follows:

Statement of Net Assets June 30, 2006

<i>Assets:</i>	
Equity Pooled in Cash and Cash Equivalents	\$2,941,611
Total Assets:	<u>\$2,941,611</u>
<i>Net Assets Held in Trust for Pool Participants:</i>	
Internal Portion	\$2,580,635
External Portion	360,976
Total Net Assets Held in Trust for Pool Participants	<u>\$2,941,611</u>

Statement of Changes in Net Assets For the Fiscal Year Ended June 30, 2006

<i>Additions:</i>	
Interest Income	<u>\$102,412</u>
<i>Deductions:</i>	
Operating Deductions	<u>0</u>
Net Increase in Assets Resulting from Operations	102,412
Capital Transactions	<u>314,643</u>
Total Increase in Net Assets	417,055
Net Assets - Beginning of Year	<u>2,524,556</u>
Net Assets - End of Year	<u>\$2,941,611</u>

The Center has investments in U.S. Treasury Notes and a certificate of deposit, which are not pooled for investment purposes and are excluded from the investment trust fund. The investments are captioned on the Center's financial statements as "Investments". Cash and cash equivalents reported for the investment trust funds are the same as total cash and cash equivalents on the Center's financial statements.

**MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER
MUSKINGUM COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program Title	Federal CFDA Number	Pass-Through Entity Number	Receipts	Disbursements
UNITED STATES DEPARTMENT OF EDUCATION				
<i>Passed-Through Ohio Department of Education:</i>				
Special Education Cluster:				
Special Education - Grants to States	84.027	125252-6BPM-2005	\$2,500	\$9,657
		125252-6BPM-2006	15,830	15,199
		125252-6BII-2006	<u>298,949</u>	<u>275,304</u>
Total Special Education - Grants to States			317,279	300,160
Special Education Preschool Grant	84.173	125252-PGS1-2005	6,593	8,006
		125252-PGS1-2006	<u>84,291</u>	<u>76,289</u>
Total Special Education Preschool Grant			90,884	84,295
Total Special Education Cluster			<u>408,163</u>	<u>384,455</u>
Safe and Drug Free Schools and Communities - National Programs	84.184	125252-T4S1-2005	<u>11,755</u>	<u>11,755</u>
Total United States Department of Education			419,918	396,210
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES				
<i>Passed Through Ohio Department of Job and Family Services and Muskingum County Department of Job and Family Services</i>				
Temporary Assistance to Needy Families	93.558	N/A	171,253	269,899
<i>Passed Through Department of Mental Retardation and Developmental Disabilities:</i>				
State Children's Insurance Program	93.767	N/A	8,860	8,860
Medical Assistance Program	93.778	N/A	<u>313,386</u>	<u>313,386</u>
Total United States Department of Health and Human Services			<u>493,499</u>	<u>592,145</u>
Total Federal Awards Receipts and Expenditures			<u>\$913,417</u>	<u>\$988,355</u>

The accompanying Notes to the Schedule of Federal Awards Receipts and Expenditures are an integral part of this Schedule.

**MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER
MUSKINGUM COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
JUNE 30, 2006**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – MATCHING REQUIREMENTS

Certain federal programs require the Center to contribute non-federal funds (matching funds) to support the federally-funded programs. The Center has complied with the matching requirements. The expenditure of non-federal funds is not included on the Schedule.



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the major funds, and the aggregate remaining fund information of Muskingum Valley Educational Service Center, Muskingum County, Ohio (the Center), as of and for the year ended June 30, 2006, which collectively comprise the Center's basic financial statements and have issued our report thereon dated May 10, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the basic financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Center's basic 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, providing an opinion 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*.

Muskingum Valley Educational Service Center
Muskingum County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the audit committee, management, the Board of Education, and federal awarding agencies and pass-through entities. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

May 10, 2007



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

To the Board of Education:

Compliance

We have audited the compliance of Muskingum Valley Educational Service Center, Muskingum County, Ohio (the Center), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended June 30, 2006. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the Center's major federal programs. The Center's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Center's compliance with those requirements.

In our opinion, the Muskingum Valley Educational Service Center, Muskingum County, Ohio, complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The Center's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Center's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We intend this report solely for the information and use of the audit committee, management, the Board of Education, and federal awarding agencies and pass-through entities. It is not intended for anyone other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

May 10, 2007

**MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Special Education – Grants to State, CFDA #84.027; Special Education Preschool Grants, CFDA #84.173; Medical Assistance Program, CFDA # 93.778
(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.



Mary Taylor, CPA
Auditor of State

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

MUSKINGUM COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 31, 2007**