MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER
MUSKINGUM COUNTY

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2007

Mary Taylor, CPA
Auditor of State

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER
MUSKINGUM COUNTY

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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, each major fund, and the aggregate remaining fund information of the Muskingum Valley Educational Service Center, Muskingum County, Ohio (the Center), as of and for the year ended June 30, 2007, 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, each major fund, and the aggregate remaining fund information of the Muskingum Valley Educational Service Center, Muskingum County, Ohio, as of June 30, 2007, and the respective changes in financial position and where applicable, cash flows, thereof 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 April 17, 2008, 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.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board 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 Schedules of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual provide additional information and are not a required part of the basic financial statements. The Schedule of Federal 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 Schedules of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual and 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 17, 2008

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007 ***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, 2007. 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 2007 are as follows:

- Net assets increased $173,382, which represents a 8.1% increase from 2006.
- General revenues accounted for $2,088,285 in revenue or 20.3% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for $8,170,825 or 79.7% of total revenues of $10,259,110.
- The Center had $10,085,728 in expenses related to governmental activities; only $8,170,825 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of $2,088,285 were adequate to provide for these programs as net assets increased by $173,382.
- Among major funds, the General Fund had $7,421,560 in revenues and $7,152,389 in expenditures. The General Fund's fund balance increased $269,171 to $2,521,142. This increase is attributable to the increase in charges for support services. The fund balances of the Tech Equity Grant Fund and the Parent Mentor Fund decreased by $40,121 and $90,666 respectively. The decrease is attributable to delayed receipts of federal funds, which were not received during 2007 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.

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.

FINANCIAL ANALYSIS OF THE CENTER AS A WHOLE

The following table provides a comparison of the Center's net assets for 2007 and 2006:

	Governmental Activities	
	2007	2006
Current and other assets	$4,238,799	$3,829,414
Capital assets, Net	172,831	171,511
Total assets	4,411,630	4,000,925
Long-term liabilities outstanding	867,104	817,102
Other liabilities	1,221,988	1,034,667
Total liabilities	2,089,092	1,851,769
Net assets		
Invested in capital assets, net of related debt	172,831	171,511
Restricted	139,348	110,633
Unrestricted	2,010,359	1,867,012
Total net assets	$2,322,538	$2,149,156

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Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007 ***Unaudited***

Changes in Net Assets – The following table shows the changes in net assets for the fiscal year 2007 and 2006:

	Governmental Activities	
	2007	2006
Revenues		
Program revenues:		
Charges for Services and Sales	$5,546,931	$4,529,634
Operating Grants and Contributions	2,623,894	2,148,807
General revenues:		
Grants and Entitlements	1,648,177	1,830,751
Other	440,108	519,006
Total revenues	10,259,110	9,028,198
Program Expenses		
Instruction	2,998,834	2,905,694
Support Services:		
Pupils	1,842,566	1,783,341
Instructional Staff	3,881,752	2,874,265
Board of Education	31,461	34,552
Administration	778,178	828,432
Fiscal Services	248,099	173,570
Operation and Maintenance of Plant	7,488	9,651
Pupil Transportation	9,487	15,308
Central	64,957	45,986
Payments to Districts	160,000	324,665
Operation of Non-Instructional Services		
Community Services	46,075	251,946
Extracurricular Activities	16,831	19,426
Total expenses	10,085,728	9,266,836
Total Change in Net Assets	173,382	(238,638)
Beginning Net Assets	2,149,156	2,387,794
Ending Net Assets	$2,322,538	$2,149,156

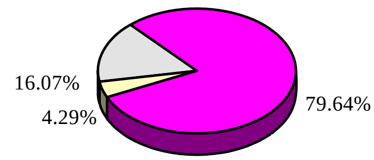
Governmental Activities

Net assets of the Center's governmental activities increased by $173,382. During fiscal year 2007, the Center was able to increase revenues by adding fiscal agent responsibilities and increasing charges and administrative fees, while curtailing costs, in turn increasing net assets.

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007 ***Unaudited***

Program revenues made up 79.64% of revenues for governmental activities for Muskingum Valley Educational Service Center in fiscal year 2007. The Center's reliance upon these revenues is demonstrated by the following graph:

Revenue Sources	2007	Percent of Total
General Grants	$1,648,177	16.07%
Program Revenues	8,170,825	79.64%
General Other	440,108	4.29%
Total Revenue	$10,259,110	100.00%



FINANCIAL ANALYSIS OF THE CENTER'S FUNDS

The Center's governmental funds reported a combined fund balance of $2,488,969, which is higher than last year's total of $2,285,391. The schedule below indicates the fund balance and the total change in fund balance by fund type as of June 30, 2007 and 2006.

	Fund Balance June 30, 2007	Fund Balance June 30, 2006	Increase (Decrease)
General	$2,521,142	$2,251,971	$269,171
Tech Equity Grant	($10,175)	$29,946	(40,121)
Parent Mentor	(108,759)	(18,093)	(90,666)
Other Governmental	86,761	21,567	65,194
Total	$2,488,969	$2,285,391	$203,578

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

	2007 Revenues	2006 Revenues	Increase (Decrease)
Tuition	$3,036,409	$2,336,167	$700,242
Charges for Services	2,413,578	1,971,084	442,494
Investment Earnings	145,171	115,114	30,057
Extracurricular Activities	15,050	21,830	(6,780)
Intergovernmental - State	1,650,177	1,680,402	(30,225)
Intergovernmental - Federal	37,184	283,567	(246,383)
All Other Revenue	123,991	65,065	58,926
Total	$7,421,560	$6,473,229	$948,331

General Fund revenues increased in 2007, by 12.8% compared to revenues in fiscal year 2006 due to an increase in the charges for tuition/instructional services. This larger increase was offset by a decrease in available federal funding.

	2007 Expenditures	2006 Expenditures	Increase (Decrease)
Instruction	$2,537,493	$2,395,208	$142,285
Supporting Services:			
Pupils	1,605,518	1,540,575	64,943
Instructional Staff	2,032,556	2,063,410	(30,854)
Board of Education	31,461	35,314	(3,853)
Administration	494,732	477,405	17,327
Fiscal Services	199,564	180,175	19,389
Operation & Maintenance of Plant	940	3,522	(2,582)
Pupil Transportation	8,871	14,414	(5,543)
Central	61,957	42,986	18,971
Payments to Districts	160,000	324,665	(164,665)
Extracurricular Activities	16,831	19,426	(2,595)
Capital Outlay	2,466	27,003	(24,537)
Total	$7,152,389	$7,124,103	$28,286

The expenditures remained relatively stable, increasing by $28,286 or less than 1% compared to the prior year mostly due to the Center's efforts to control expenditure increases.

CAPITAL ASSETS AND LONG-TERM LIABILITIES ADMINISTRATION

Capital Assets

At the end of fiscal 2007 the Center had $172,831 net of accumulated depreciation invested in buildings and improvements; and machinery and equipment. The following table shows fiscal year 2007 and 2006 balances:

	Governmental Activities		Increase (Decrease)
	2007	2006	
Buildings and Improvements	$645	$645	$0
Machinery and Equipment	857,373	798,246	59,127
Less: Accumulated Depreciation	(685,187)	(627,380)	(57,807)
Totals	$172,831	$171,511	$1,320

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 7.

Long-Term Liabilities

At June 30, 2007, the Center had $867,104 in compensated absences payable, $54,351 due within one year. The following table summarizes the Center's long-term obligations outstanding as of June 30, 2007:

	2007	**2006**
Governmental Activities:		
Compensated Absences Payable	$867,104	$817,102

Additional information on the Center's long-term liabilities can be found in Note 9.

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 2008. 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, which 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 the Ohio regional service providers, and will take 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.

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Statement of Net Assets
June 30, 2007

	Governmental Activities
Assets:	
Cash and Cash Equivalents	$ 1,592,773
Investments	899,132
Receivables:	
Intergovernmental	1,565,215
Interest	5,170
Prepaid Items	176,509
Capital Assets, Net	172,831
Total Assets	4,411,630
Liabilities:	
Accounts Payable	196,446
Accrued Wages and Benefits	673,244
Intergovernmental Payable	317,418
Vacation Benefits Payable	34,880
Long Term Liabilities:	
Due Within One Year	54,351
Due in More Than One Year	812,753
Total Liabilities	2,089,092
Net Assets:	
Invested in Capital Assets	172,831
Restricted For:	
Other Purposes	139,348
Unrestricted	2,010,359
Total Net Assets	$ 2,322,538

See accompanying notes to the basic financial statements

Statement of Activities
For the Fiscal Year Ended June 30, 2007

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction	$ 2,998,834	$ 3,003,700	$ 465,945	$ 470,811
Support Services:				
Pupils	1,842,566	1,130,513	224,582	(487,471)
Instructional Staff	3,881,752	1,323,213	1,574,769	(983,770)
Board of Education	31,461	0	166	(31,295)
Administration	778,178	7,018	299,140	(472,020)
Fiscal Services	248,099	0	1,315	(246,784)
Operation and Maintenance of Plant	7,488	0	6,538	(950)
Pupil Transportation	9,487	0	684	(8,803)
Central	64,957	67,437	3,316	5,796
Payments to Districts	160,000	0	741	(159,259)
Operation of Non-Instructional:				
Community Services	46,075	0	46,609	534
Extracurricular Activities	16,831	15,050	89	(1,692)
Total Governmental Activities	10,085,728	5,546,931	2,623,894	(1,914,903)
Totals	$ 10,085,728	$ 5,546,931	$ 2,623,894	(1,914,903)

General Revenues	
Grants and Entitlements not Restricted to Specific Programs	1,648,177
Investment Earnings	145,737
Miscellaneous	294,371
Total General Revenues	2,088,285
Change in Net Assets	173,382
Net Assets Beginning of Year	2,149,156
Net Assets End of Year	$ 2,322,538

See accompanying notes to the basic financial statements

Balance Sheet
Governmental Funds
June 30, 2007

	General	Tech Equity Grant	Parent Mentor	Other Governmental Funds	Total Governmental Funds
Assets:					
Cash and Cash Equivalents	$ 1,389,186	$ 0	$ 0	$ 6,803	$ 1,395,989
Investments	899,132	0	0	0	899,132
Receivables:					
Intergovernmental	804,518	175,867	183,662	374,639	1,538,686
Interest	5,170	0	0	0	5,170
Interfund Loan Receivable	247,676	0	0	0	247,676
Prepaid Items	176,509	0	0	0	176,509
Total Assets	$ 3,522,191	$ 175,867	$ 183,662	$ 381,442	$ 4,263,162
Liabilities:					
Accounts Payable	$ 77,859	$ 43,612	$ 55,636	$ 19,339	$ 196,446
Accrued Wages and Benefits	627,201	18,408	4,493	7,833	657,935
Intergovernmental Payable	171,460	115,194	3,163	24,459	314,276
Interfund Loans Payable	0	8,828	46,717	192,131	247,676
Deferred Revenue	124,529	0	182,412	50,919	357,860
Total Liabilities	1,001,049	186,042	292,421	294,681	1,774,193
Fund Balances:					
Reserved for Encumbrances	204,326	945	32,279	103,974	341,524
Reserved for Prepaid Items	176,509	0	0	0	176,509
Unreserved, Undesignated in:					
General Fund	2,140,307	0	0	0	2,140,307
Special Revenue Funds (Deficits)	0	(11,120)	(141,038)	(17,213)	(169,371)
Total Fund Balances (Deficits)	2,521,142	(10,175)	(108,759)	86,761	2,488,969
Total Liabilities and Fund Balances	$ 3,522,191	$ 175,867	$ 183,662	$ 381,442	$ 4,263,162

See accompanying notes to the basic financial statements

Reconciliation Of Total Governmental Fund Balances To Net Assets Of Governmental Activities June 30, 2007

Total Governmental Fund Balances	$ 2,488,969
Amounts reported for governmental activities in the statement of net assets are different because	
Capital assets used in governmental activities are not resources and therefore are not reported in the funds.	172,831
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	357,860
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.	203,701
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(900,823)
Net Assets of Governmental Funds	$ 2,322,538

See accompanying notes to the basic financial statements

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2007

	General	Tech Equity Grant	Parent Mentor	Other Governmental Funds	Total Governmental Funds
Revenues:					
Local Sources:					
Tuition	$ 3,036,409	$ 0	$ 0	0	3,036,409
Charges for Services	2,413,578	0	0	0	2,413,578
Investment Earnings	145,171	0	0	0	145,171
Extracurricular Activities	15,050	0	0	0	15,050
Class Materials and Fees	0	0	0	0	0
Intermediate Sources	0	0	0	15,602	15,602
Intergovernmental - State	1,650,177	1,019,108	0	619,673	3,288,958
Intergovernmental - Federal	37,184	0	348,835	514,112	900,131
All Other Revenue	123,991	0	0	0	123,991
Total Revenue	7,421,560	1,019,108	348,835	1,149,387	9,938,890
Expenditures:					
Current:					
Instruction	2,537,493	110,624	1,545	320,671	2,970,333
Supporting Services:					
Pupils	1,605,518	112,518	107,020	9,290	1,834,346
Instructional Staff	2,032,556	661,529	268,949	574,018	3,537,052
Board of Education	31,461	0	0	0	31,461
Administration	494,732	132,398	61,987	121,183	810,300
Fiscal Services	199,564	42,160	0	2,792	244,516
Operation & Maintenance of Plant	940	0	0	6,548	7,488
Pupil Transportation	8,871	0	0	616	9,487
Central	61,957	0	0	3,000	64,957
Payments to Districts	160,000	0	0	0	160,000
Operation of Non-Instructional:					
Community Services	0	0	0	46,075	46,075
Extracurricular Activities	16,831	0	0	0	16,831
Capital Outlay	2,466	0	0	0	2,466
Total Expenditures	7,152,389	1,059,229	439,501	1,084,193	9,735,312
Net Change in Fund Balance	269,171	(40,121)	(90,666)	65,194	203,578
Fund Balances at Beginning of Year (Restated)	2,251,971	29,946	(18,093)	21,567	2,285,391
Fund Balances End of Year	$ 2,521,142	$ (10,175)	$ (108,759)	$ 86,761	$ 2,488,969

See accompanying notes to the basic financial statements

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, 2007

Net Change in Fund Balances - Total Governmental Funds	$ 203,578
Amounts reported for governmental activities in the statement of activities are different because	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	3,879
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 fixed assets net of proceeds received.	(2,559)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	50,839
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 in the governmental funds.	(60,855)
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 revenue (expense) of the internal service fund is allocated among the governmental activities.	(21,500)
Change in Net Assets of Governmental Activities	$ 173,382

See accompanying notes to the basic financial statements

Statement of Fund Net Assets
Proprietary Funds
June 30, 2007

		Governmental Activities - Internal Service Funds
Assets:		
Current Assets:		
Cash and Cash Equivalents	$	196,784
Receivables:		
Intergovernmental		26,529
Total Current Assets		223,313
Total Assets		223,313
Liabilities:		
Current Liabilities:		
Accrued Wages and Benefits		15,309
Intergovernmental Payable		3,142
Total Current Liabilities		18,451
Long Term Liabilities:		
Compensated Absences Payable		1,161
Total Long Term Liabilities		1,161
Total Liabilities		19,612
Net Assets:		
Unrestricted		203,701
Total Net Assets	$	203,701

See accompanying notes to the basic financial statements

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2007

	Governmental Activities - Internal Service Funds
Operating Revenues:	
Charges for Services	$ 271,940
Total Operating Revenues	271,940
Operating Expenses:	
Salaries and Wages	207,943
Fringe Benefits	35,119
Contractual Services	25,824
Supplies and Materials	24,554
Total Operating Expenses	293,440
Change in Net Assets	(21,500)
Net Assets Beginning of Year (Restated)	225,201
Net Assets End of Year	$ 203,701

See accompanying notes to the basic financial statements

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2007

	Governmental Activities - Internal Service Funds
Cash Flows from Operating Activities:	
Cash Received from Charges for Services	$248,361
Cash Payments for Goods and Services	(50,842)
Cash Payments to Employees for Services and Benefits	(256,207)
Net Cash Used by Operating Activities	(58,688)
Net Decrease in Cash and Cash Equivalents	(58,688)
Cash and Cash Equivalents at Beginning of Year	255,472
Cash and Cash Equivalents at End of Year	$196,784
Reconciliation of Operating Loss to Net Cash Used by Operating Activities:	
Operating Loss	($21,500)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Changes in Assets and Liabilities:	
Increase in Intergovernmental Receivable	(23,579)
Decrease in Accounts Payable	(464)
Decrease in Accrued Wages and Benefits	(11,454)
Decrease in Intergovernmental Payables	(2,284)
Increase in Vacation Benefits Payable	593
Total Adjustments	(37,188)
Net Cash Used by Operating Activities	($58,688)

See accompanying notes to the basic financial statements

Statement of Net Assets
Fiduciary Funds
June 30, 2007

	Private Purpose Trust Fund	Investment Trust Fund	Agency
Assets:			
Cash and Cash Equivalents	$ 55,557	$ 463,868	$ 8,461
Investments	0	0	1,708,550
Receivables:			
Intergovernmental	0	2,465	0
Total Assets	55,557	466,333	1,717,011
Liabilities:			
Accounts Payable	0	25,884	0
Due to Others	0	0	1,717,011
Total Liabilities	0	25,884	1,717,011
Net Assets:			
Restricted For:			
Held in Trust for Scholarships	55,557	0	0
Trust Pool Participants	0	440,449	0
Total Net Assets	$ 55,557	$ 440,449	$ 0

See accompanying notes to the basic financial statements

Statement of Changes in Net Assets
Fiduciary Funds
For the Year Ended June 30, 2007

	Private Purpose Trust Fund	Investment Trust Fund
Additions:		
Contributions:		
Private Donations	$ 5,800	$ 0
Dues	0	377,399
Total Contributions	5,800	377,399
Investment Earnings:		
Interest	0	16,471
Total Investment Earnings	0	16,471
Total Additions	5,800	393,870
Deductions:		
Administrative Expenses	88,074	301,142
Total Deductions	88,074	301,142
Change in Net Assets	(82,274)	92,728
Net Assets at Beginning of Year	137,831	347,721
Net Assets End of Year	$ 55,557	$ 440,449

See accompanying notes to the basic financial statements

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 11 and 12 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.

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 are the Center's major governmental funds:

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.

Tech Equity Grant Fund – This fund is used to account for monies set aside to provide for technology purchases.

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

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.

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.

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.

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. 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.

F. 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 2007. STAR Ohio 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, 2007. These amounts are presented as "Cash and Cash Equivalents" on the Center's Financial Statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. 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.

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:

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

H. Long-Term Obligations

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

Obligation	Fund
Compensated Absences	General Fund

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. 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.

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.

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Compensated Absences (Continued)

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 $54,351 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.

J. 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.

K. 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.

L. 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.

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. 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.

N. 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.

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 44% of the Center's operating revenue during the 2007 fiscal year.

NOTE 2 - ACCOUNTABILITY

Fund Deficits - The fund deficits at June 30, 2007 of $10,175 in the Tech Equity Grant Fund, $108,759 in the Parent Mentor Grant Fund, and $3,561 in the EHA Preschool Handicap Grant Fund (special revenue funds) arose from the recognition of expenditures on the modified accrual basis of accounting. Deficits did not exist under the cash basis of accounting.

NOTE 3 – RESTATEMENT OF FUND BALANCES / NET ASSETS

During the 2006 fiscal year the Center over stated the liability reported for workers compensation liability in several funds. This had the following effects on fund balances as of June 30, 2006:

	General Fund	Tech Equity Fund	Parent Mentor Fund
Fund Balance/Net Assets at June 30, 2006	$1,901,177	$18,200	($25,148)
Prior Period Adjustments:			
Restate Worker's Compensation	350,794	11,746	7,055
Fund Balance/Net Assets at June 30, 2006 - Restated	$2,251,971	$29,946	($18,093)

	Other Governmental Fund	Internal Service Fund	Governmental Activities
Fund Balance/Net Assets at June 30, 2006	$13,105	$207,520	$1,753,418
Prior Period Adjustments:			
Restate Worker's Compensation	8,462	17,681	395,738
Fund Balance/Net Assets at June 30, 2006 - Restated	$21,567	$225,201	$2,149,156

NOTE 4 – 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.

NOTE 4 – 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 (STAROhio).

- 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 in the portfolio's principal value and liquidity.

NOTE 4 – 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 $1,682,149 and the bank balance was $2,260,228. Federal depository insurance covered $200,000 of the bank balance and $2,060,228 was uninsured. Of the remaining uninsured bank balance, the Center was exposed to custodial risk as follows:

	Balance
Uninsured and collateralized with securities held by the pledging institution's trust department not in the Center's name	$2,060,228
Total Balance	$2,060,228

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 of 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 $74,914 earned by other funds were credited to the General Fund as required by state statute.

NOTE 4 – DEPOSITS AND INVESTMENTS (Continued)

B. Investments

The Center's investments at June 30, 2007 were as follows:

			Investment Maturities (in Years)	
	Fair Value	Credit Rating	less than 1	1-3
Repurchase Agreements	$2,006,844	N/A	$2,006,844	$0
STAROhio	$340,216	AAAm [1]	$340,216	$0
US Treasury Notes	699,132	*	499,533	199,599
Total Investments	$3,046,192		$2,846,593	$199,599

[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 underlying securities for the repurchase agreement carry a rating of AAA by Standard and Poor's. The United States Treasury Notes are guaranteed by the U.S. Government. STAROhio 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 5 - RECEIVABLES

Receivables at June 30, 2007 consisted of interest and intergovernmental receivables.

NOTE 6 - INTERFUND BALANCES

Individual interfund balances at June 30, 2007, are as follows:

	Interfund Loans Receivable	Interfund Loans Payable
General Fund	$247,676	$0
Tech Equity Grant Fund	0	8,828
Parent Mentor Fund	0	46,717
Nonmajor Governmental Funds		
Other Grants Fund	0	143,354
SIRI Grant Fund	0	36,621
Alternative Education Grant Fund	0	12,156
Total Nonmajor Governmental Funds	0	192,131
Totals	$247,676	$247,676

NOTE 7 - CAPITAL ASSETS

A. Governmental Activities Capital Assets

Summary by category of changes in governmental activities capital assets at June 30, 2007:

Historical Cost:

Class	June 30, 2006	Additions	Deletions	June 30, 2007
Capital assets being depreciated:				
Buildings and Improvements	$645	$0	$0	$645
Machinery and Equipment	798,246	89,586	(30,459)	857,373
Total Cost	$798,891	$89,586	($30,459)	$858,018

Accumulated Depreciation:

Class	June 30, 2006	Additions	Deletions	June 30, 2007
Buildings and Improvements	($468)	($64)	$0	($532)
Machinery and Equipment	(626,912)	(85,643)	27,900	(684,655)
Total Depreciation	($627,380)	($85,707) *	$27,900	($685,187)
Net Value:	$171,511			$172,831

* Depreciation expenses were charges to governmental functions as follows:

Instruction	$10,721
Support Services:	
Pupils	5,909
Instructional Staff	33,399
Administration	34,419
Fiscal Services	1,259
Total Depreciation Expense	$85,707

NOTE 8 - DEFINED BENEFIT PENSION PLANS

All of the Center'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 Center, 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 Center 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, 2006, (latest information available) 10.58% was allocated to fund the pension benefit and 3.42% to fund health care. The Center's contributions to the SERS of Ohio for the years ending June 30, 2007, 2006, and 2005 were $165,357, $154,485, and $144,768, 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 2006 employer contribution rate (latest information available) that was used to fund health care for the year 2006 was 3.42%. 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 2007, the minimum pay has been established as $35,800, however the surcharge is capped at 2% of each employer's SERS salaries. 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 $40,394.

NOTE 8 - 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, 2006 were $158,751,207. 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, 2006, the value of the health care fund was $295.6 million, which is about 221% of next year's projected net health care costs. 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 59,492.

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

All certified employees of the Center 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) 227-7877 or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary 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 among various investment choices. 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.

NOTE 8 - DEFINED BENEFIT PENSION PLANS (Continued)

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

The Ohio Revised Code provides statutory authority for Center and employee contributions of 14% and 10%, respectively. The contribution requirements of plan members and the Center 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, 2006, (latest information available) 13% was allocated to fund the pension benefit and 1% to fund health care. The Center's contributions to the STRS of Ohio for the years ending June 30, 2007, 2006, and 2005 were $511,746, $450,495, and $440,731, 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, 2006, (latest information available) the board allocated employer contributions are equal to 1% of covered payroll to the Health Care Stabilization Fund, which amounted to $36,553 for the Center. The balance of the Health Care Stabilization Fund was $3.5 billion at June 30, 2006. For the fiscal year ended June 30, 2006, the net health care costs paid by STRS were $282,743,000. There were 119,184 eligible benefit recipients.

NOTE 9 - GENERAL LONG-TERM OBLIGATIONS

Long-term obligations of the Center at June 30, 2007 were as follows:

	Balance June 30, 2006	Additions	Deletions	Balance June 30, 2007	Amount Due Within one Year
General Long-Term Obligations:					
Compensated Absences	$817,102	$120,009	($70,007)	$867,104	$54,351
Total General Long-Term Obligations	$817,102	$120,009	($70,007)	$867,104	$54,351

NOTE 10 – 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, 2007:

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	$400,000

NOTE 11 – 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 2007. During fiscal year 2007, the Center paid an additional $300 for 2008 membership fees.

NOTE 11 – 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 it 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 12 – 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 Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member board of directors consisting of the President, the President-elect and the Immediate Past President of the OSBA. The 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 sixteen school districts as of June 30, 2007. 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.

NOTE 12 – 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 13 - 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 2007 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 2007, the Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (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.

NOTE 14 - 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, 2007.

B. Litigation

The Center is currently not party to any litigation.

NOTE 15 – 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.

NOTE 16 – 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, 2007

Assets:	
Equity Pooled in Cash and Cash Equivalents	$2,120,873
Total Assets:	$2,120,873
Net Assets Held in Trust for Pool Participants:	
Internal Portion	$1,657,005
External Portion	463,868
Total Net Assets Held in Trust for Pool Participants	$2,120,873

Statement of Changes in Net Assets
For the Fiscal Year Ended June 30, 2007

Additions:	
Interest Income	$130,915
Deductions:	
Operating Deductions	0
Net Increase in Assets Resulting from Operations	130,915
Capital Transactions	(951,653)
Total Decrease in Net Assets	(820,738)
Net Assets - Beginning of Year	2,941,611
Net Assets - End of Year	$2,120,873

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.

SUPPLEMENTAL INFORMATION

Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) General Fund For the Fiscal Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Local Sources:				
Tuition	$ 3,200,421	$ 3,200,421	$ 2,752,312	$ (448,109)
Services Provided to Other Entities	1,905,749	2,105,295	2,298,584	193,289
Investment Earnings	149,000	149,000	145,096	(3,904)
Extracurricular Activities	18,181	18,181	15,002	(3,179)
Intergovernmental - State	1,647,845	1,647,845	1,650,177	2,332
Intergovernmental - Federal	93,041	93,041	33,525	(59,516)
All Other Revenues	161,400	161,400	136,307	(25,093)
Total Revenues	7,175,637	7,375,183	7,031,003	(344,180)
Expenditures:				
Current:				
Instruction	2,563,879	2,563,879	2,532,723	31,156
Support Services:				
Pupils	1,578,665	1,578,665	1,629,520	(50,855)
Instructional Staff	2,028,790	2,090,578	2,143,419	(52,841)
Board of Education	36,528	36,528	32,918	3,610
Administration	617,912	617,912	499,492	118,420
Fiscal Services	204,424	204,424	198,828	5,596
Operation and Maintenance of Plant	2,170	2,170	969	1,201
Pupil Transportation	27,989	27,989	25,803	2,186
Central	122,548	122,548	61,454	61,094
Extracurricular Activities	21,119	21,119	18,794	2,325
Capital Outlay	21,480	21,480	0	21,480
Total Expenditures	7,225,504	7,287,292	7,143,920	143,372
Excess (Deficiency) of Revenues Over (Under) Expenditures	(49,867)	87,891	(112,917)	(200,808)
Other Financing Sources (Uses):				
Transfers In	20,000	20,000	0	(20,000)
Transfers Out	(20,000)	(20,000)	0	20,000
Advances In	0	0	85,973	85,973
Advances Out	0	0	(247,676)	(247,676)
Refund of Prior Year's Receipts	(251,352)	(251,352)	(160,000)	91,352
Total Other Financing Sources (Uses):	(251,352)	(251,352)	(321,703)	(70,351)
Net Change in Fund Balance	(301,219)	(163,461)	(434,620)	(271,159)
Fund Balance at Beginning of Year	2,248,585	2,248,585	2,248,585	0
Prior Year Encumbrances	194,673	194,673	194,673	0
Fund Balance at End of Year	$ 2,142,039	$ 2,279,797	$ 2,008,638	$ (271,159)

See accompanying notes to the supplemental information

Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) Special Revenue Fund – Tech Equity Fund For the Fiscal Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Intergovernmental - State	$ 1,557,260	$ 1,255,575	$ 843,241	$ (412,334)
Total Revenues	1,557,260	1,255,575	843,241	(412,334)
Expenditures:				
Current:				
Instruction	63,614	132,640	137,769	(5,129)
Support Services:				
Pupils	122,845	107,299	113,076	(5,777)
Instructional Staff	752,900	934,288	720,102	214,186
Administration	759,302	161,158	139,609	21,549
Fiscal Services	0	61,590	42,161	19,429
Total Expenditures	1,698,661	1,396,975	1,152,717	244,258
Excess (Deficiency) of Revenues Over (Under) Expenditures	(141,401)	(141,400)	(309,476)	(168,076)
Other Financing Sources (Uses):				
Advances In	0	0	8,828	8,828
Total Other Financing Sources (Uses):	0	0	8,828	8,828
Net Change in Fund Balance	(141,401)	(141,400)	(300,648)	(159,248)
Fund Balance at Beginning of Year	1,637	1,637	1,637	0
Prior Year Encumbrances	141,401	141,401	141,401	0
Fund Balance at End of Year	$ 1,637	$ 1,638	$ (157,610)	$ (159,248)

See accompanying notes to the supplemental information

Schedule 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, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Intergovernmental - Federal	$ 532,723	$ 532,723	$ 347,585	$ (185,138)
Total Revenues	532,723	532,723	347,585	(185,138)
Expenditures:				
Current:				
Instruction	28,292	34,826	30,523	4,303
Support Services:				
Pupils	180,819	115,703	107,756	7,947
Instructional Staff	246,454	304,409	292,802	11,607
Administration	101,431	102,060	74,366	27,694
Total Expenditures	556,996	556,998	505,447	51,551
Excess (Deficiency) of Revenues Over (Under) Expenditures	(24,273)	(24,275)	(157,862)	(133,587)
Other Financing Sources (Uses):				
Advances In	0	0	46,717	46,717
Total Other Financing Sources (Uses):	0	0	46,717	46,717
Net Change in Fund Balance	(24,273)	(24,275)	(111,145)	(86,870)
Fund Balance at Beginning of Year	(89,034)	(89,034)	(89,034)	0
Prior Year Encumbrances	113,309	113,309	113,309	0
Fund Balance at End of Year	$ 2	$ 0	$ (86,870)	$ (86,870)

See accompanying notes to the supplemental information

Notes to the Supplemental Information
For the Fiscal Year Ended June 30, 2007

NOTE 1 - BUDGETARY PROCESS

There are no budgetary requirements for Educational Service Centers identified in the Ohio Revised Code nor does the State Department of Education specify any budgetary guidelines to be followed.

The Center adopts its budget on or before the start of the new fiscal year. Included in the budget are estimated resources and expenditures for each fund. Upon review by the 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 enacted by the Center at the fund level of expenditures, which is the Board's level 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 Board of Education. The budget figures which appear in the schedules 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.

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.

NOTE 1 - BUDGETARY PROCESS (Continued)

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:

Net Change in Fund Balance			
	General Fund	Tech Equity Grant Fund	Parent Mentor Fund
GAAP Basis (as reported)	$269,171	($40,121)	($90,666)
Increase (Decrease):			
Accrued Revenues at June 30, 2007, received during FY 2008	(932,835)	(175,867)	(1,250)
Accrued Revenues at June 30, 2006, received during FY 2007	380,575	0	0
Accrued Expenditures at June 30, 2007, paid during FY 2008	876,520	186,042	110,009
Accrued Expenditures at June 30, 2006, paid during FY 2007	(802,189)	(113,092)	(42,368)
FY 2006 Prepaids for FY 2007	230,327	0	0
FY 2007 Prepaids for FY 2008	(176,509)	0	0
Encumbrances Outstanding	(279,680)	(157,610)	(86,870)
Budget Basis	($434,620)	($300,648)	($111,145)

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER
MUSKINGUM COUNTY

FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

FEDERAL GRANTOR ***Pass Through Grantor*** Program Title	Federal CFDA Number	Pass-Through Entity Number	Receipts	Disbursements
UNITED STATES DEPARTMENT OF EDUCATION				
Passed Through Ohio Department of Education:				
Title I Grants to Local Educational Agencies	84.010	125252-C1ST-2007	$6,340	$6,177
Special Education Cluster:				
Special Education - Grants to States	84.027	125252-6BII-2006	101,051	124,696
		125252-6BPM-2006	5,197	5,828
		125252-6BPM-2007	20,267	18,911
		125252-6BSX-2006	221,070	269,144
Total Special Education - Grants to States			347,585	418,579
Special Education Preschool Grant	84.173	125252-PGS1-2006		8,002
		125252-PGS1-2007	78,687	77,906
Total Special Education Preschool Grant			78,687	85,908
Total Special Education Cluster			426,272	504,487
Total United States Department of Education			432,612	510,664
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed Through Ohio Department of Job and Family Services and Muskingum County Department of Job and Family Services:				
Temporary Assistance to Needy Families	93.558	N/A	364,250	502,605
Total United States Department of Health and Human Services			364,250	502,605
Total Federal Awards Receipts and Expenditures			**$796,862**	**$1,013,269**

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

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
JUNE 30, 2007**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures summarizes the activity of the 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, each major fund, and the aggregate remaining fund information of the Muskingum Valley Educational Service Center, Muskingum County, Ohio (the Center), as of and for the year ended June 30, 2007, which collectively comprise the Center's basic financial statements and have issued our report thereon dated April 17, 2008. 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 as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the Center's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Center's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Center's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Center's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Center's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

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Compliance and Other Matters

As part of reasonably assuring whether the Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, 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*.

We intend this report solely for the information and use of the audit committee, management, Board of Education, and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 17, 2008

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 the 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 its major federal program for the year ended June 30, 2007. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the Center's major federal program. 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 Center complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2007.

Internal Control Over Compliance

The Center's management is responsible for establishing and maintaining effective internal control over compliance with the 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

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A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Center's ability to administer a federal program such that there is more than a remote likelihood that the Center's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the Center's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

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

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 17, 2008

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER
MUSKINGUM COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	**Type of Financial Statement Opinion**	Unqualified
(d)(1)(ii)	**Were there any material control weaknesses reported at the financial statement level (GAGAS)?**	No
(d)(1)(ii)	**Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?**	No
(d)(1)(iii)	**Was there any reported material noncompliance at the financial statement level (GAGAS)?**	No
(d)(1)(iv)	**Were there any material internal control weaknesses reported for major federal programs?**	No
(d)(1)(iv)	**Were there any other significant deficiencies in internal control 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):**	Temporary Assistance for Needy Families (TANF), CFDA #93.558
(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 6, 2008

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