



**MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER  
MUSKINGUM COUNTY**

**SINGLE AUDIT**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**



**Dave Yost • Auditor of State**



**MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER  
MUSKINGUM COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Governing Board:

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, 2012, 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. As described in Note 4, the Center merged operations with the Perry-Hocking Educational Service Center, Perry County, Ohio, on January 1, 2012. We did not audit the financial statements of the Perry-Hocking Educational Service Center for the period July 1, 2011 through December 31, 2011, which represents 15 percent and 18 percent, respectively, of the revenues and expenses of the governmental activities, 14 percent and 16 percent, respectively, of the revenues and expenditures of the major General Fund, and 31 percent and 34 percent, respectively, of the revenues and expenditures of the aggregate remaining fund information. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Center, is based on the report of the other auditors.

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. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, 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 Muskingum Valley Educational Service Center, Muskingum County, Ohio, as of June 30, 2012, 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 March 5, 2013, 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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Accounting principles generally accepted in the United States of America require this presentation to include *Management's Discussion and Analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the Center's basic financial statements taken as a whole. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual provides additional analysis and is not a required part of the basic financial statements. The Federal Awards Receipts and Expenditures Schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual and the Federal Awards Receipts and Expenditures Schedule are management's responsibility, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. These Schedules were subject to the auditing procedures we and the other auditors applied to the basic financial statements. We and the other auditors also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**Dave Yost**  
Auditor of State

March 5, 2013

**Muskingum Valley Educational Service Center, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2012*  
*Unaudited*

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The discussion and analysis of the Muskingum Valley Educational Service Center's financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the Educational Service Center's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Educational Service Center's financial performance.

**Financial Highlights**

Key financial highlights for the fiscal year 2012 are as follows:

- Net assets of governmental activities decreased \$47,962.
- General revenues accounted for \$1,052,827 in revenue or 6 percent of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$16,560,874, or 94 percent of total revenues of \$17,613,701.
- The Educational Service Center had \$17,661,663 in expenses related to governmental activities; only \$16,560,874 of these expenses was offset by program specific charges for services and grants and contributions.
- On January 1, 2012, Muskingum Valley Educational Service Center merged with Perry-Hocking Educational Service Center. See Note 4 for more information on the merger.

**Using this Annual Financial Report**

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

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

**Muskingum Valley Educational Service Center, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2012*  
*Unaudited*

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

**Statement of Net Assets and Statement of Activities**

While this document contains information about the funds used by the Educational Service Center to provide programs and activities for School Districts, the view of the Educational Service Center as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2012?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, all of the Educational Service Center's activities are reported as governmental including instruction and support services.

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

***Fund Financial Statements***

The analysis of the Educational Service Center's major fund begins on page 8. Fund financial reports provide detailed information about the Educational Service Center's major fund. The Educational Service Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's major governmental fund is the General Fund.

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

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



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

**The Educational Service Center as a Whole**

Recall that the Statement of Net Assets provides the perspective of the Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center’s net assets for 2012 compared to 2011.

**Table 1**  
**Net Assets**

	Governmental Activities		
	2012	2011	Change
<b>Assets</b>			
Current and Other Assets	\$5,594,760	\$5,939,848	(\$345,088)
Capital Assets	657,218	631,152	26,066
<b>Total Assets</b>	<u>6,251,978</u>	<u>6,571,000</u>	<u>(319,022)</u>
<b>Liabilities</b>			
Long-Term Liabilities	1,084,074	900,398	183,676
Other Liabilities	2,035,436	2,490,172	(454,736)
<b>Total Liabilities</b>	<u>3,119,510</u>	<u>3,390,570</u>	<u>(271,060)</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Debt	643,084	602,733	40,351
Restricted	194,939	327,859	(132,920)
Unrestricted	2,294,445	2,249,838	44,607
<b>Total Net Assets</b>	<u>\$3,132,468</u>	<u>\$3,180,430</u>	<u>(\$47,962)</u>

Total assets decreased \$319,022. The primary items that impacted the change were a decrease in cash and cash equivalents of \$547,249 and a decrease in accounts receivable of \$405,246, which was offset by an increase in intergovernmental receivable in the amount of \$596,606 and an increase in capital assets of \$26,066.

Total liabilities decreased \$271,060. The decrease was primarily due to a decrease in accrued wages and benefits in the amount of \$405,068 and a decrease in intergovernmental payables in the amount of \$92,023. These decreases were offset by an increase to accounts payable of \$66,769.

**Muskingum Valley Educational Service Center, Ohio**  
*Management's Discussion and Analysis*  
For the Fiscal Year Ended June 30, 2012  
Unaudited

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2012, and comparisons to fiscal year 2011.

**Table 2**  
**Changes in Net Assets**

	Governmental Activities		
	2012	2011	Change
<b>Revenues</b>			
Program Revenues:			
Charges for Services	\$12,607,665	\$12,006,597	\$601,068
Operating Grants and Contributions	3,953,209	4,427,017	(473,808)
Total Program Revenues	<u>16,560,874</u>	<u>16,433,614</u>	<u>127,260</u>
General Revenues:			
Grants and Entitlements	980,119	1,214,724	(234,605)
Investment Earnings	21,380	33,676	(12,296)
Gain on Sale of Capital Asset	0	5,248	(5,248)
Miscellaneous	51,328	40,088	11,240
Total General Revenues	<u>1,052,827</u>	<u>1,293,736</u>	<u>(240,909)</u>
Total Revenues	<u>17,613,701</u>	<u>17,727,350</u>	<u>(113,649)</u>
<b>Program Expenses</b>			
Instruction:			
Regular	999,545	792,353	207,192
Special	4,683,031	4,424,264	258,767
Adult/Continuing	36,747	26,197	10,550
Intervention	237,221	215,880	21,341
Support Services:			
Pupils	3,580,874	3,604,218	(23,344)
Instructional Staff	5,129,884	5,516,044	(386,160)
Board of Education	74,624	69,076	5,548
Administration	1,380,595	1,193,543	187,052
Fiscal	579,213	540,946	38,267
Operation and Maintenance of Plant	208,449	219,886	(11,437)
Pupil Transportation	54,071	43,721	10,350
Central	412,822	589,553	(176,731)
Operation of Non-Instructional Services			
Community Services	268,697	121,499	147,198
Extracurricular Activities	14,133	23,436	(9,303)
Interest and Fiscal Charges	1,757	2,852	(1,095)
Total Expenses	<u>17,661,663</u>	<u>17,383,468</u>	<u>278,195</u>
Change in Net Assets	(47,962)	343,882	(391,844)
Net Assets Beginning of Year	<u>3,180,430</u>	<u>2,836,548</u>	<u>343,882</u>
Net Assets End of Year	<u>\$3,132,468</u>	<u>\$3,180,430</u>	<u>(\$47,962)</u>

**Muskingum Valley Educational Service Center, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2012*  
*Unaudited*

The Educational Service Center's net assets decreased \$47,962. Revenues decreased \$113,649 and expenses increased \$278,195. On January 1, 2012, Muskingum Valley ESC merged with and assumed all operations of Perry-Hocking ESC. Perry-Hocking ESCs services were primarily direct instructional services, including preschool programming for typical and handicapped students, special education programming for school-age students, adult basic literary education programming, and intervention-based services. As a result of the merger, Muskingum Valley ESC provides a broader depth of direct instructional services. During fiscal year 2012, the Educational Service Center experienced a ten percent decrease in state funding which accounts for a portion of the decrease in grants and entitlements. The number of districts served by the Educational Service Center decreased by one district which reduced state funding and charges for services. The Educational Service Center also experienced a 15 percent increase in health insurance premiums due to long-standing health issues in the covered group.

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

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

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

	2012 Total Cost of Services	2012 Net Cost of Services	2011 Total Cost of Services	2011 Net Cost of Services
Program Expenses				
Instruction:				
Regular	\$999,545	\$742,102	\$792,353	(\$11,071)
Special	4,683,031	(4,755,963)	4,424,264	(1,300,791)
Adult/Continuing	36,747	2,172	26,197	(2,123)
Intervention	237,221	50,512	215,880	(1,251)
Support Services:				
Pupils	3,580,874	2,025,413	3,604,218	792,661
Instructional Staff	5,129,884	1,271,184	5,516,044	667,463
Board of Education	74,624	74,624	69,076	38,949
Administration	1,380,595	1,061,131	1,193,543	628,432
Fiscal	579,213	76,281	540,946	(129,117)
Operation and Maintenance of Plant	208,449	150,216	219,886	13,282
Pupil Transportation	54,071	14,944	43,721	12,714
Central	412,822	227,990	589,553	240,780
Operation of Non-Instructional Services				
Community Services	268,697	158,108	121,499	(1,692)
Extracurricular Activities	14,133	318	23,436	1,543
Interest and Fiscal Charges	1,757	1,757	2,852	75
<b>Totals</b>	<b>\$17,661,663</b>	<b>\$1,100,789</b>	<b>\$17,383,468</b>	<b>\$949,854</b>

**Muskingum Valley Educational Service Center, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2012*  
*Unaudited*

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Special instruction programs comprise approximately 27 percent of total governmental program expenses while support services comprise approximately 65 percent of total governmental program expenses. Of the support services expenses, approximately 31 percent is for pupils, 45 percent for instructional staff, and 12 percent for administration.

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

The Educational Service Center's General Fund is accounted for using the modified accrual basis of accounting. The General Fund had total revenues of \$14,432,246 and expenditures of \$13,960,625, which resulted in an increase in fund balance of \$512,483. As a service organization, the Educational Service Center's primary expense is salaries and benefits.

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal year 2012, the Educational Service Center had \$657,218 invested in land and land improvements; buildings and improvements; and furniture, fixtures, and equipment. Table 4 shows fiscal year 2012 balances compared to 2011.

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

	2012	2011
Land and Land Improvements	\$193,898	\$193,898
Buildings and Improvements	164,288	174,938
Furniture, Fixtures, and Equipment	299,032	262,316
<b>Totals</b>	<b>\$657,218</b>	<b>\$631,152</b>

See Note 10 for more detailed information of the Educational Service Center's capital assets.

*Debt*

At June 30, 2012, the Educational Service Center had capital leases outstanding of \$14,134 for copiers. For additional information on debt, see Notes 16 and 17 to the basic financial statements.

**Muskingum Valley Educational Service Center, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2012*  
*Unaudited*

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***Economic Factors***

The Muskingum Valley Educational Service Center's net assets decreased \$47,962. As the preceding information shows, the Educational Service Center relies heavily on contracts with its member school districts in Coshocton, Hocking, Morgan, Muskingum, and Perry Counties. Existing contracts with member districts will fund the Educational Service Center's operations during fiscal year 2013. However, the future financial health of the Educational Service Center presents certain challenges.

General Fund revenue for the Educational Service Center is generated by four primary means: state funding, fees for services, grants, and interest. State funding has declined as a percentage of the total revenue budget throughout the course of the Educational Service Center's existence. During fiscal year 1998, state funds accounted for 70 percent of total General Fund revenue. While the Educational Service Center's state funding has been frozen since fiscal year 2000, school foundation funds were further diminished in fiscal year 2008, when the state department reduced the Educational Service Center's allocation by \$82,000. For fiscal year 2012, the allocation has been reduced another 10 percent or approximately \$80,000. During fiscal year 2013, ESC state funding will be reduced another 15 percent. Muskingum Valley ESC uses its state funding to offset administrative costs. As the state of Ohio continues to reduce ESC funding, MVESC must search for ways to fund its administrative costs by either raising administrative fees charged for services or serving as the fiscal agent for additional programs and grants.

Another challenge the Educational Service Center faces is the financial circumstances of its member districts. With the uncertainty of adequate state funding, districts may not be able to continue with existing Educational Service Center services or obtain additional Educational Service Center services.

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

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

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**Muskingum Valley Educational Service Center, Ohio**

*Statement of Net Assets*

*June 30, 2012*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$3,937,488
Inventory Held for Resale	46,927
Accrued Interest Receivable	2,773
Prepaid Items	162,619
Accounts Receivable	22,307
Intergovernmental Receivable	1,422,646
Nondepreciable Capital Assets	193,898
Depreciable Capital Assets, Net	<u>463,320</u>
 Total Assets	 <u>6,251,978</u>
<b>Liabilities</b>	
Accounts Payable	300,849
Accrued Wages and Benefits Payable	1,385,888
Vacation Benefits Payable	52,467
Intergovernmental Payable	296,232
Long-Term Liabilities:	
Due Within One Year	90,267
Due In More Than One Year	<u>993,807</u>
 Total Liabilities	 <u>3,119,510</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	643,084
Restricted for:	
Capital Projects	4,478
Unclaimed Monies	2,683
Other Purposes	187,778
Unrestricted	<u>2,294,445</u>
 Total Net Assets	 <u><u>\$3,132,468</u></u>

See accompanying notes to the basic financial statements

**Muskingum Valley Educational Service Center, Ohio**

*Statement of Activities*

*For the Fiscal Year Ended June 30, 2012*

	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Assets
				Governmental Activities
<b>Governmental Activities</b>				
Instruction:				
Regular	\$999,545	\$0	\$257,443	(\$742,102)
Special	4,683,031	8,713,982	725,012	4,755,963
Adult/Continuing	36,747	0	34,575	(2,172)
Intervention	237,221	27,820	158,889	(50,512)
Support Services:				
Pupils	3,580,874	1,256,368	299,093	(2,025,413)
Instructional Staff	5,129,884	2,170,958	1,687,742	(1,271,184)
Board of Education	74,624	0	0	(74,624)
Administration	1,380,595	9,636	309,828	(1,061,131)
Fiscal	579,213	387,965	114,967	(76,281)
Operation and Maintenance of Plant	208,449	0	58,233	(150,216)
Pupil Transportation	54,071	9,496	29,631	(14,944)
Central	412,822	0	184,832	(227,990)
Operation of Non-Instructional Services				
Community Services	268,697	17,625	92,964	(158,108)
Extracurricular Activities	14,133	13,815	0	(318)
Interest and Fiscal Charges	1,757	0	0	(1,757)
<b>Totals</b>	<b>\$17,661,663</b>	<b>\$12,607,665</b>	<b>\$3,953,209</b>	<b>(1,100,789)</b>

**General Revenues**

Grants and Entitlements not Restricted to Specific Programs	980,119
Investment Earnings	21,380
Miscellaneous	51,328
<b>Total General Revenues</b>	<b>1,052,827</b>
Change in Net Assets	(47,962)
Net Assets Beginning of Year - (See Note 4)	3,180,430
<b>Net Assets End of Year</b>	<b>\$3,132,468</b>

See accompanying notes to the basic financial statements



**Muskingum Valley Educational Service Center, Ohio**

*Balance Sheet  
Governmental Funds  
June 30, 2012*

	General	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$3,730,099	\$43,840	\$3,773,939
Accounts Receivable	21,910	0	21,910
Inventory Held for Resale	46,927	0	46,927
Interfund Receivable	123,022	0	123,022
Intergovernmental Receivable	816,718	605,928	1,422,646
Prepaid Items	158,915	3,704	162,619
Accrued Interest Receivable	2,773	0	2,773
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	2,683	0	2,683
<b>Total Assets</b>	<b>\$4,903,047</b>	<b>\$653,472</b>	<b>\$5,556,519</b>
<b>Liabilities</b>			
Accounts Payable	\$160,173	\$140,532	\$300,705
Accrued Wages and Benefits Payable	1,184,453	201,435	1,385,888
Interfund Payable	0	123,022	123,022
Deferred Revenue	2,773	137,594	140,367
Intergovernmental Payable	256,165	40,067	296,232
<b>Total Liabilities</b>	<b>1,603,564</b>	<b>642,650</b>	<b>2,246,214</b>
<b>Fund Balances</b>			
Nonspendable:			
Prepaid Items	158,915	3,704	162,619
Unclaimed Monies	2,683	0	2,683
Restricted for:			
State Grant Expenditures	0	118	118
Federal Grant Expenditures	0	44,556	44,556
Capital Projects	0	4,478	4,478
Local Grant Expenditures	0	30,604	30,604
Assigned	344,911	0	344,911
Unassigned	2,792,974	(72,638)	2,720,336
<b>Total Fund Balances (Deficit)</b>	<b>3,299,483</b>	<b>10,822</b>	<b>3,310,305</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$4,903,047</b>	<b>\$653,472</b>	<b>\$5,556,519</b>

See accompanying notes to the basic financial statements

**Muskingum Valley Educational Service Center, Ohio**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 June 30, 2012*

<b>Total Governmental Fund Balances</b>		\$3,310,305
<i>Amounts reported for governmental activities in the statement of net assets are different because of the following:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		657,218
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		161,119
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds:		
Accrued Interest Receivable	2,773	
Grants	<u>137,594</u>	140,367
Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:		
Capital Leases Payable	(14,134)	
Vacation Benefits Payable	(52,467)	
Compensated Absences	<u>(1,069,940)</u>	<u>(1,136,541)</u>
Net Assets of Governmental Activities		<u>\$3,132,468</u>

See accompanying notes to the basic financial statements

**Muskingum Valley Educational Service Center, Ohio**  
*Statement of Revenues, Expenditures, and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2012*

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Intergovernmental	\$1,672,207	\$3,274,532	\$4,946,739
Investment Earnings	20,533	0	20,533
Charges for Services	3,957,582	0	3,957,582
Tuition and Fees	8,713,982	0	8,713,982
Extracurricular Activities	13,815	0	13,815
Miscellaneous	54,127	4,450	58,577
<b>Total Revenues</b>	<b>14,432,246</b>	<b>3,278,982</b>	<b>17,711,228</b>
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	694,876	324,829	1,019,705
Special	4,458,376	46,307	4,504,683
Adult/Continuing	0	36,609	36,609
Intervention	73,780	152,731	226,511
Support Services:			
Pupils	3,275,411	282,756	3,558,167
Instructional Staff	3,332,785	1,772,730	5,105,515
Board of Education	74,523	0	74,523
Administration	1,121,485	315,628	1,437,113
Fiscal	453,259	115,380	568,639
Operation and Maintenance of Plant	147,763	62,001	209,764
Pupil Transportation	26,374	27,697	54,071
Central	221,804	189,832	411,636
Operation of Non-Instructional Services:			
Community Service	50,014	91,745	141,759
Extracurricular Activities	14,133	0	14,133
Debt Service:			
Principal Retirement	14,285	0	14,285
Interest and Fiscal Charges	1,757	0	1,757
<b>Total Expenditures</b>	<b>13,960,625</b>	<b>3,418,245</b>	<b>17,378,870</b>
Excess of Revenues Over (Under) Expenditures	471,621	(139,263)	332,358
<b>Other Financing Source</b>			
Transfers In	40,862	0	40,862
Transfers Out	0	(40,862)	(40,862)
<b>Total Other Financing Sources (Use)</b>	<b>40,862</b>	<b>(40,862)</b>	<b>0</b>
Net Change in Fund Balances	512,483	(180,125)	332,358
Fund Balances Beginning of Year - (See Note 4)	2,787,000	190,947	2,977,947
<b>Fund Balances (Deficit) End of Year</b>	<b>\$3,299,483</b>	<b>\$10,822</b>	<b>\$3,310,305</b>

See accompanying notes to the basic financial statements

**Muskingum Valley Educational Service Center, Ohio**  
*Reconciliation of the Statement of Revenues, Expenditures, and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2012*

<b>Net Change in Fund Balances - Total Governmental Funds</b>		<b>\$332,358</b>
<i>Amounts reported for governmental activities in the statement of activities are different because</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:		
Capital Asset Additions	182,605	
Depreciation Expense	<u>(156,539)</u>	26,066
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. The net change of the internal service fund is reported with governmental activities.		
		(86,186)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Investment Earnings	847	
Grants	(13,411)	
Miscellaneous	(7,249)	
Charges for Services	<u>(77,714)</u>	(97,527)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:		
Capital Leases Payable	14,285	
Vacation Benefits Payable	(38,997)	
Compensated Absences Payable	<u>(197,961)</u>	<u>(222,673)</u>
Change in Net Assets of Governmental Activities		<u><u>(\$47,962)</u></u>

See accompanying notes to the basic financial statements

**Muskingum Valley Educational Service Center, Ohio**

*Statement of Fund Net Assets*

*Self-Insurance Internal Service Fund*

*June 30, 2012*

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<b>Current Assets</b>	
Cash and Cash Equivalents in Segregated Accounts	\$160,866
Accounts Receivable	<u>397</u>
<i>Total Assets</i>	<u>161,263</u>
<b>Current Liabilities</b>	
Accounts Payable	<u>144</u>
<b>Net Assets</b>	
Unrestricted	<u><u>\$161,119</u></u>

See accompanying notes to the basic financial statements

**Muskingum Valley Educational Service Center, Ohio**  
*Statement of Revenues, Expenses, and Changes in Fund Net Assets*  
*Self-Insurance Internal Service Fund*  
*For the Fiscal Year Ended June 30, 2012*

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<b>Operating Revenues</b>	
Charges for Services	<u>\$502,415</u>
<b>Operating Expenses</b>	
Purchased Services	9,285
Claims	<u>579,316</u>
<i>Total Operating Expenses</i>	<u>588,601</u>
<i>Change in Net Assets</i>	(86,186)
<i>Net Assets Beginning of Year</i>	<u>247,305</u>
<i>Net Assets End of Year</i>	<u><u>\$161,119</u></u>

See accompanying notes to the basic financial statements

**Muskingum Valley Educational Service Center, Ohio**

*Statement of Cash Flows*

*Self-Insurance Internal Service Fund*

*For the Fiscal Year Ended June 30, 2012*

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**Increase (Decrease) in Cash and Cash Equivalents**

**Cash Flows from Operating Activities**

Cash Received from Transactions with Other Funds	\$502,018
Cash Payments for Services	(9,141)
Cash Payments for Claims	<u>(589,920)</u>

*Net Cash Used for Operating Activities* (97,043)

*Cash and Cash Equivalents Beginning of Year* 257,909

*Cash and Cash Equivalents End of Year* \$160,866

**Reconciliation of Operating Loss to Net Cash  
Used for Operating Activities**

Operating Loss (86,186)

**Changes in Liabilities**

Increase in Accounts Receivable	(397)
Increase in Accounts Payable	144
Decrease in Claims Payable	<u>(10,604)</u>

*Net Cash Used for Operating Activities* (\$97,043)

See accompanying notes to the basic financial statements

**Muskingum Valley Educational Service Center, Ohio**

*Statement of Fiduciary Net Assets*

*Fiduciary Funds*

*June 30, 2012*

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	Private Purpose Trust Fund	Investment Trust Fund	Agency Funds
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$46,118	\$389,670	\$0
Cash and Cash Equivalents in Segregated Accounts			4,172,245
Total Assets	<u>46,118</u>	<u>389,670</u>	<u><u>\$4,172,245</u></u>
<b>Liabilities</b>			
Due to Others	0	0	\$4,172,245
Total Liabilities	<u>0</u>	<u>0</u>	<u><u>\$4,172,245</u></u>
<b>Net Assets</b>			
Held in Trust for Scholarships	46,118	0	
Trust Pool Participants	0	389,670	
Total Net Assets	<u><u>\$46,118</u></u>	<u><u>\$389,670</u></u>	

See accompanying notes to the basic financial statements



**Muskingum Valley Educational Service Center, Ohio**  
*Statement of Changes in Fiduciary Net Assets*  
*Fiduciary Funds*  
*For the Fiscal Year Ended June 30, 2012*

	Private Purpose Trust Fund	Investment Trust Fund
<b>Additions</b>		
Gifts and Contributions	\$250	\$0
Investment Earnings	0	1,016
Total Additions	250	1,016
<b>Deductions</b>		
Distributions to Participants		2,931
Capital Transactions		36,468
Payments in Accordance with Trust Agreements	900	0
Total Deductions	900	39,399
Change in Net Assets	(650)	(38,383)
Net Assets Beginning of Year	46,768	428,053
Net Assets End of Year	\$46,118	\$389,670

See accompanying notes to the basic financial statements

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**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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

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

The Muskingum Valley Educational Service Center operates under a locally-elected Board form of government consisting of nine members elected at-large for staggered four year terms. The Educational Service Center has 167 support staff employees and 177 certified personnel that provide services to the school districts.

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

**A. Primary Government**

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

The Educational Service Center participates in the Ohio Mid-Eastern Regional Education Service Agency, Coalition of Rural and Appalachian Schools, and the Ohio Coalition of Equity and Adequacy of School Funding, which are defined as jointly governed organizations. The Educational Service Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan, the Schools of Ohio Risk Sharing Authority, and the Ohio School Benefits Cooperative, which are defined as insurance purchasing pools. These organizations are presented in Notes 18 and 19.

**B. Component Units**

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

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Educational Service Center have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Educational Service Center also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the Educational Service Center's accounting policies are described below.

**A. Basis Of Presentation**

The Educational Service Center's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

**Government-wide Financial Statements** The statement of net assets and the statement of activities display information about the Educational Service Center as a whole. These statements include the financial activities of the primary government. These statements usually distinguish between those activities of the Educational Service Center that are governmental (primarily supported by intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges). The Educational Service Center, however, has no business-type activities.

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

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

**B. Fund Accounting**

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

## Muskingum Valley Educational Service Center, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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

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

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

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

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

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

### **C. Measurement Focus**

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

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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

**D. Basis of Accounting**

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

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

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

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

**Deferred Revenue** Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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

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

**E. Cash and Cash Equivalents**

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

During fiscal year 2012 investments were limited to certificates of deposit, Federal National Mortgage Association Securities, and United States Treasury Notes. The Educational Service Center reports its United States Treasury Notes and Federal National Mortgage Association Securities at fair value, and reports its nonnegotiable certificates of deposit at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2012 amounted to \$20,533, which includes \$11,300 assigned from other Educational Service Center funds.

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

**F. Receivables and Payables**

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

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2012, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

**H. Inventory**

Inventories are presented at cost on a first-in, first-out basis and are expensed/expended when used. Inventories consist of consumable supplies.



**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2012*

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**I. Capital Assets**

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

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

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	10-30 years
Furniture, Fixtures, and Equipment	5-30 years

**J. Compensated Absences**

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

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

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

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

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



**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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**L. Restricted Assets**

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

**M. Fund Balance**

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

**Nonspendable:** The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The "not in spendable form" includes items that are not expected to be converted to cash. It also includes the long-term amount of loans and notes receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

**Restricted:** The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

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

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

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

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

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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**N. 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 Educational Service Center or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Net assets restricted for other purposes include state and federal grants restricted to expenditures for specified purposes.

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

**O. Estimates**

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

**NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES**

For fiscal year 2012, the School District has implemented Governmental Accounting Standard Board (GASB) Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an amendment of GASB Statement No. 53". GASB Statement No. 64 clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The implementation of this statement did not result in any material change in the Educational Service Center's financial statements.

**NOTE 4 – MERGER OF OPERATIONS**

On January 1, 2012, Muskingum Valley Educational Service Center merged with Perry-Hocking Educational Service Center. The merger was financially beneficial to both entities. Muskingum Valley Educational Service Center was seeking to expand their operations at the same time Perry-Hocking Educational Service Center was seeking to merge with another Educational Service Center. This merger allowed both entities to achieve their long term goals of efficiently continuing to serve their members. The merged entity retained the name Muskingum Valley Educational Service Center and continued operations under the Muskingum Valley Educational Service Center's IRN number. The effect of the merger on fund balance and net assets is as follows:

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2012*

Muskingum Valley ESC Fund Balances at 6/30/11	General Fund	Other Governmental Funds	Total
Nonspendable:			
Prepays	\$190,534	\$1,235	\$191,769
Unclaimed Monies	1,651	0	1,651
<i>Total Nonspendable</i>	<u>192,185</u>	<u>1,235</u>	<u>193,420</u>
Restricted for:			
State Grant Expenditures	0	12,471	12,471
Federal Grant Expenditures	0	13,938	13,938
Capital Improvements	0	0	0
Local Grant Expenditures	0	111,015	111,015
<i>Total Restricted</i>	<u>0</u>	<u>137,424</u>	<u>137,424</u>
Assigned to:			
Other Purposes	195,182	0	195,182
<i>Total Assigned</i>	<u>195,182</u>	<u>0</u>	<u>195,182</u>
Unassigned:	2,197,279	(25,224)	2,172,055
<i>Total Fund Balances</i>	<u><u>\$2,584,646</u></u>	<u><u>\$113,435</u></u>	<u><u>\$2,698,081</u></u>

Perry Hocking ESC Fund Balances at 6/30/11	General Fund	Other Governmental Funds	Total
Nonspendable:			
Prepays	\$0	\$0	\$0
Unclaimed Monies	0	0	0
<i>Total Nonspendable</i>	<u>0</u>	<u>0</u>	<u>0</u>
Restricted for:			
State Grant Expenditures	0	14,219	14,219
Federal Grant Expenditures	0	18,773	18,773
Capital Improvements	0	4,478	4,478
Local Grant Expenditures	0	36,546	36,546
<i>Total Restricted</i>	<u>0</u>	<u>74,016</u>	<u>74,016</u>
Assigned to:			
Other Purposes	215,501	3,496	218,997
<i>Total Assigned</i>	<u>215,501</u>	<u>3,496</u>	<u>218,997</u>
Unassigned:	(13,147)	0	(13,147)
<i>Total Fund Balances</i>	<u><u>\$202,354</u></u>	<u><u>\$77,512</u></u>	<u><u>\$279,866</u></u>

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

Combined Fund Balances at 6/30/11	General Fund	Other Governmental Funds	Total
Nonspendable:			
Prepays	\$190,534	\$1,235	\$191,769
Unclaimed Monies	1,651	0	1,651
<i>Total Nonspendable</i>	<u>192,185</u>	<u>1,235</u>	<u>193,420</u>
Restricted for:			
State Grant Expenditures	0	26,690	26,690
Federal Grant Expenditures	0	32,711	32,711
Capital Improvements	0	4,478	4,478
Local Grant Expenditures	0	147,561	147,561
<i>Total Restricted</i>	<u>0</u>	<u>211,440</u>	<u>211,440</u>
Assigned to:			
Other Purposes	410,683	3,496	414,179
<i>Total Assigned</i>	<u>410,683</u>	<u>3,496</u>	<u>414,179</u>
Unassigned:	2,184,132	(25,224)	2,158,908
<i>Total Fund Balances</i>	<u>\$2,787,000</u>	<u>\$190,947</u>	<u>\$2,977,947</u>

	Muskingum Valley ESC at 6/30/11	Perry Hocking ESC at 6/30/11	Combined at 6/30/11
<b>Assets</b>			
Current and Other Assets	\$4,378,466	\$1,561,382	5,939,848
Capital Assets	157,555	473,597	631,152
<i>Total Assets</i>	<u>4,536,021</u>	<u>2,034,979</u>	<u>6,571,000</u>
<b>Liabilities</b>			
Long-Term Liabilities	721,635	178,763	900,398
Other Liabilities	1,480,438	1,009,734	2,490,172
<i>Total Liabilities</i>	<u>2,202,073</u>	<u>1,188,497</u>	<u>3,390,570</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net	157,555	445,178	602,733
Restricted	248,457	79,402	327,859
Unrestricted	1,927,936	321,902	2,249,838
<i>Total Net Assets</i>	<u>\$2,333,948</u>	<u>\$846,482</u>	<u>\$3,180,430</u>

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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**NOTE 5 - ACCOUNTABILITY**

The Public School Preschool, Alternative Education Grant, Miscellaneous State Grants, EHA Preschool Handicap Grant, Center of Practice Grant, ABLE Grant, and Teach Ohio Grant Special Revenue Funds had deficit fund balances in the amount of \$54,018, \$3,072, \$553, \$5,235, \$2,875, \$1,384 and \$5,419, respectively, at June 30, 2012. The deficits were the result of the application of generally accepted accounting principles. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

**NOTE 6 - DEPOSITS AND INVESTMENTS**

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury or any obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and obligations of the State of Ohio;
5. Time certificates of deposits or savings or deposit accounts, including, but not limited to, passbook accounts;

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and,
8. Commercial paper and bankers acceptances if training requirements have been met.

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

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Educational Service Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$2,960,013 of the Educational Service Center's bank balance of \$9,306,659 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirement could potentially subject the Educational Service Center to a successful claim by the FDIC.

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

Investments

As of June 30, 2012, the Educational Service Center had the following investments:

	Fair Value	Maturity	Rating	Rating Agency
Federal National Mortgage Association Notes	\$100,172	12/17/2013	Aaa	Moody's
Treasury Notes	200,006	8/31/2012	Aaa	Moody's
Treasury Notes	199,529	11/30/2014	Aaa	Moody's
Total	<u>\$499,707</u>			

Interest Rate Risk

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

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2012*

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Credit Risk

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

Custodial Credit Risk

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

**NOTE 7 - STATE FUNDING**

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

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

The Educational Service Center also receives funding from the State Department of Education in the amount of \$40.52 times the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all local school districts within the Educational Service Center's territory and all of the Educational Service Center's client school districts. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the Educational Service Center's local and client school districts an amount equal to \$6.50 times the school district's total student count and remits this amount to the Educational Service Center.

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

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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**NOTE 8 - INTERFUND ACTIVITY**

Interfund balances at June 30, 2012, arise from the provision of cash flow resources from the General Fund until the receipt of grant monies by the Special Revenue Funds for \$61,560, and \$61,462 due to the General Fund from Special Revenue Funds for cash deficits.

	<u>Receivable</u>	<u>Payable</u>
General Fund	\$123,022	\$0
Special Revenue Funds:		
Public Preschool	0	13,116
Alternative Education Grant	0	3,466
Miscellaneous State Grants	0	3,637
ABLE	0	13,846
Teach Ohio Grant	0	8,784
Special Education	0	14,475
Preschool Handicap Grant	0	6,232
Center of Practice Grant	0	2,875
Miscellaneous Federal Grants	0	56,591
Total Special Revenue Funds	<u>0</u>	<u>123,022</u>
Total All Funds	<u>\$123,022</u>	<u>\$123,022</u>

**NOTE 9 - RECEIVABLES**

Receivables at June 30, 2012, consisted of accounts receivable (charges for services, excess costs), interfund, accrued interest, and intergovernmental grants. All receivables are considered collectible in full due to the stable condition of State programs and the current fiscal year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amounts</u>
Tuition	\$585,651
Program Costs	231,067
Early Childhood Education Grant	60,543
Alternative Education Challenge Grant	7,849
State Grants	27,199
IDEA B Grant	79,561
ABLE Grant	15,272
Early Learning Grant	15,261
Early Childhood Special Education Grant	1,195
Early Childhood Special Education Discretionary Grant	9,376
Race to the Top Grant	38,027
Center of Practice Grant	13,479
Federal Grants	<u>338,166</u>
Total	<u>\$1,422,646</u>



**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

**NOTE 10 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
<u>Nondepreciable Capital Assets</u>				
Land	\$193,898	\$0	\$0	\$193,898
Total Nondepreciable Capital Assets	<u>193,898</u>	<u>0</u>	<u>0</u>	<u>193,898</u>
<u>Depreciable Capital Assets</u>				
Buildings and Improvements	235,355	0	0	235,355
Furniture, Fixtures, and Equipment	1,641,904	182,605	0	1,824,509
Total at Historical Cost	<u>1,877,259</u>	<u>182,605</u>	<u>0</u>	<u>2,059,864</u>
Less Accumulated Depreciation				
Buildings and Improvements	(60,417)	(10,650)	0	(71,067)
Furniture, Fixtures, and Equipment	(1,379,588)	(145,889)	0	(1,525,477)
Total Accumulated Depreciation	<u>(1,440,005)</u>	<u>(156,539) *</u>	<u>0</u>	<u>(1,596,544)</u>
Depreciable Capital Assets, Net of Accumulated Depreciation	<u>437,254</u>	<u>26,066</u>	<u>0</u>	<u>463,320</u>
Governmental Activities Capital Assets, Net	<u>631,152</u>	<u>26,066</u>	<u>0</u>	<u>657,218</u>

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

Instruction:	
Regular	\$4,528
Special	4,333
Adult Education	138
Student Intervention	10,710
Support Services:	
Pupils	3,824
Instructional Staff	26,197
Administration	87,245
Fiscal	606
Operation and Maintenance	17,622
Central	1,336
Total Depreciation Expense	<u>\$156,539</u>

**NOTE 11 - RISK MANAGEMENT**

The Educational Service Center is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2012, the Educational Service Center participated with other school districts in the Schools of Ohio Risk Sharing Authority (SORSA), a public entity insurance purchasing pool. Each individual school district enters into an agreement with SORSA and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The Educational Service Center pays this annual premium to SORSA. (See Note 19)

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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

<u>Building and Contents (deductible waived)</u>	
Building	\$1,416,263
Personal Property	100,000
Valuable Paper and Records	\$1,000,000
Accounts Receivable	1,000,000
Extra Expense	1,000,000
Business Income	2,000,000
<u>Earthquake (\$50,000 deductible)</u>	2,000,000
<u>Crime Insurance (deductible waived)</u>	
Employee Theft	100,000
Forgery or Alteration	100,000
Computer Fraud	100,000
<u>Inland Marine (deductible waived)</u>	
Electronic Data Processing Media and Data Reproduction	1,250,000
<u>Fleet Insurance (deductible waived)</u>	
Automobile Liability (per occurrence)	12,000,000
Uninsured Motorists (per occurrence)	1,000,000
<u>General Liability (deductible waived)</u>	
Per Occurrence	12,000,000
Aggregate Limit	14,000,000
<u>Educational Legal Liability for General Liability (deductible waived)</u>	
Errors and Omissions	
Per Occurrence	12,000,000
Aggregate Limit	12,000,000

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

For fiscal year 2012, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 19). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control, and actuarial services to the GRP.

In previous fiscal years dental, vision, and healthcare reimbursement insurance was offered to employees of Perry-Hocking Educational Service Center through a self-insurance internal service fund. This program was discontinued on December 31, 2011.

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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Changes in claims activity for the past two fiscal years are as follows:

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2011	\$10,026	\$872,726	\$872,148	\$10,604
2012	10,604	579,316	589,920	0

**NOTE 12 - DEFINED BENEFIT PENSION PLANS**

***A. School Employees Retirement System***

Plan Description - The Educational Service Center participates in the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plan. SERS provides retirement, disability, and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2012, the allocation to pension and death benefits was 12.70 percent. The remaining 1.30 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care Funds. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2012, 2011, and 2010, were \$306,281, \$176,046, and \$165,672, respectively. For fiscal year 2012, 84.78 percent has been contributed, with the remaining being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

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

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50. Benefits are established by Ohio Revised Code Chapter 3307.

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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. For the fiscal year ended June 30, 2012, plan members were required to contribute 10 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2011, the portion used to fund pension obligations was also 13 percent.

The Educational Service Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended 2012, 2011, and 2010, were \$796,770, \$605,993, and \$647,032, respectively. For fiscal year 2012, 87.20 percent has been contributed for the DB plan and 87.20 percent has been contributed for the Combined Plan, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

Contributions made to STRS Ohio for the DC Plan for fiscal year 2012 were \$11,491 made by the Educational Service Center and \$8,208 made by the plan members. In addition, member contributions of \$7,150 were made for fiscal year 2012 for the defined contribution portion of the Combined Plan.

***C. Social Security System***

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2012, three members of the Board of Education elected Social Security. The Board's liability is 6.2 percent of wages paid.

**NOTE 13 - POST-EMPLOYMENT BENEFITS**

***A. School Employees Retirement System***

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

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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Comprehensive Annual Financial Report can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2012, 0.55 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for fiscal year 2012, this amount was \$35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility, and retirement status.

The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010, were \$24,280, \$23,989, and \$107,495, respectively. For fiscal year 2012, 47.22 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2012, this actuarially required allocation was 0.75 percent of covered payroll. The Educational Service Center's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010, were \$18,075, \$10,008, and \$13,669, respectively. For fiscal year 2012, 84.77 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

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

Plan Description - The Educational Service Center contributes to the cost sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy - Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the post-employment health care. The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010, were \$61,290, \$46,615, and \$49,772, respectively. For fiscal year 2012, 87.20 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

**NOTE 14 - EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2012*

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laws. Classified employees and administration employees earn ten to twenty-five days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

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

**B. Insurance Benefits**

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

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

**NOTE 15 - OPERATING LEASE**

The Educational Service Center is obligated under an operating lease to Muskingum County for the rental of office space for a period of twenty years. The Educational Service Center paid to the County half of the lease obligation (\$400,000), in December of 1996. The operating lease does not give rise to property rights or lease obligations, and therefore the results of the lease agreement are not reflected in the Educational Service Center's financial statements. The following is a schedule by years of future minimum rental payments required under the operating lease that have remaining noncancelable lease terms in excess of one year as of June 30, 2012:

Fiscal Year Ending June 30,	Total
2013	\$45,990
2014	46,020
2015	46,020
2016	46,020
2017	23,010
Total minimum lease payments	<u><u>\$207,060</u></u>

**NOTE 16 - CAPITAL LEASES – LESSEE DISCLOSURE**

During a previous fiscal year, the Educational Service Center traded in existing capitalized lease copiers for new copiers. Each lease meets the criteria of a capital lease as defined by the Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in the fund financial statements. The capital leases payable have been recorded on the government-wide statements.



**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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Fiscal Year Ending June 30,	Total
2013	\$14,706
Less Amount Representing Interest	(572)
Present Value of Net Minimum Lease Payments	<u>\$14,134</u>

The copiers were capitalized in the amount of \$65,934. This amount represents the present value of the minimum lease payments at the time of acquisition. Principal payments in fiscal year 2012 were \$14,285.

**NOTE 17 - LONG-TERM OBLIGATIONS**

The changes in the Educational Service Center's long-term obligations during fiscal year 2012 were as follows:

	Outstanding 6/30/2011	Additions	Deletions	Outstanding 6/30/2012	Due Within One Year
Capital Leases	\$28,419	\$0	\$14,285	\$14,134	\$14,134
Compensated Absences	871,979	275,385	77,424	1,069,940	76,133
Total Long Term Obligations	<u>\$900,398</u>	<u>\$275,385</u>	<u>\$91,709</u>	<u>\$1,084,074</u>	<u>\$90,267</u>

Compensated absences and capital leases will be paid from the General Fund.

**NOTE 18 - JOINTLY GOVERNED ORGANIZATIONS**

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

OME-RESA was created as a regional council of governments pursuant to State statutes. OME-RESA has 11 participating counties consisting of Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Muskingum, Noble and Tuscarawas Counties. OME-RESA is governed by a governing board which is selected by member districts. OME-RESA possesses its own budgeting and taxing authority. The Center's payments to OME-RESA for computer services for fiscal year 2012 were \$10,048. To obtain financial information write to the Ohio Mid-Eastern Regional Education Service Agency, Attn: Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio 43952.

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

The Coalition of Rural and Appalachian Schools is a jointly governed organization composed of 136 Educational Service Centers and other educational institutions in the 35-county region of Ohio designated as Appalachia. The Coalition is operated by a Board which is composed of seventeen members. One elected and one appointed from each of the seven regions into which the 35 Appalachian counties are divided; and three from Ohio University College of Education. The Council provides various in-service training programs for Educational Service Center administrative personnel; gathers data regarding the level of education provided to children in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for Educational Service Center personnel. The Educational Service Center membership fees were \$325 during fiscal year 2012. The financial information for the Coalition can be obtained from the Executive Director, at McCracken Hall, Ohio University, Athens, Ohio 45701.

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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

The Ohio Coalition for Equity and Adequacy of School Funding is a regional council of governments established in January 1991. The purpose of the Coalition is to bring about greater equity and adequacy of public school funding in Ohio. The Coalition is governed by a steering committee consisting of representatives from the membership group. The steering committee consists of not more than 78 representatives, who are Superintendents of Boards of Education that are Coalition members, plus an additional 12 representatives may be appointed by the Chairperson. The Center's membership fee was \$1,000 for fiscal year 2012. The Center serves as the fiscal agent of the Coalition and financial activity of the Coalition is reported as an investment trust fund as discussed in Note 21.

**NOTE 19 - INSURANCE PURCHASING POOLS**

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

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

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

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

**C. Ohio School Benefits Cooperative**

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

Participants may enroll in the joint insurance purchasing program for medical, prescription drug, vision dental and/or life insurance. A second option is available for self-insured participants that provides for the purchase of stop loss insurance coverage through OSBC's third party administrator. The OSBC's business and affairs are conducted by a nine member Board of Directors consisting of Educational Service Center superintendents elected by the members of the OSBC. Medical Mutual/Antares is the Administrator of the OSBC. On October 1, 2006, the Educational Service Center elected to participate in the joint insurance purchasing program for medical, prescription drug, and dental coverage.



**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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**NOTE 20 - CONTINGENCIES**

**A. Grants**

The Educational Service Center received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2012.

**B. Litigation**

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

**NOTE 21 – INVESTMENT TRUST FUND**

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

Statement of Net Assets  
June 30, 2012

<i>Assets:</i>	
Equity in Pooled Cash and Cash Equivalents	\$4,373,276
Accrued Interest Receivable	2,773
<b>Total Assets</b>	<b>4,376,049</b>
<i>Net Assets Held in Trust for Pool Participants:</i>	
Internal Portion	3,986,379
External Portion	389,670
<b>Total Net Assets Held in Trust for Pool Participants</b>	<b>\$4,376,049</b>

Statement of Changes in Net Assets  
For the Fiscal Year Ended June 30, 2012

<i>Additions:</i>	
Interest Income	\$22,396
<i>Deductions:</i>	
Operating Deductions	0
Net Increase in Assets Resulting from Operations	22,396
Distributions paid to Participants	(21,549)
Capital Transactions	400,307
Total Increase in Net Assets	401,154
<b>Net Assets Beginning of Year</b>	<b>3,974,895</b>
<b>Net Assets End of Year</b>	<b>\$4,376,049</b>

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Educational Service Center's Investment Trust will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$2,585,052 of the Educational Service Center's Investment Trust bank balance of \$5,134,468 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirement could potentially subject the Educational Service Center to a successful claim by the FDIC.

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

Investments

As of June 30, 2012, the Educational Service Center's Investment Trust had the following investments:

	<u>Fair Value</u>	<u>Maturity</u>	<u>Rating</u>	<u>Rating Agency</u>
Federal National Mortgage Association Notes	\$100,172	12/17/2013	Aaa	Moody's
Treasury Notes	200,006	8/31/2012	Aaa	Moody's
Treasury Notes	199,529	11/30/2014	Aaa	Moody's
Total	<u>\$499,707</u>			

Interest Rate Risk

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

Credit Risk

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

## **Supplemental Information**

**Muskingum Valley Educational Service Center**  
*Schedule of Revenues, Expenditures, and Changes*  
*in Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2012*

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>Revenues</b>				
Intergovernmental	\$ 1,713,024	\$ 1,713,024	\$ 1,672,207	\$ (40,817)
Investment Earnings	21,034	21,034	20,533	(501)
Charges for Services	4,277,785	4,277,785	4,175,856	(101,929)
Tuition and Fees	8,417,261	8,417,261	8,273,655	(143,606)
Extracurricular Activities	14,152	14,152	13,815	(337)
Miscellaneous	54,900	54,900	60,397	5,497
<b>Total Revenues</b>	<b>14,498,156</b>	<b>14,498,156</b>	<b>14,216,463</b>	<b>(281,693)</b>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	708,822	708,822	701,567	7,255
Special	4,636,988	4,636,988	4,581,536	55,452
Intervention	119,242	119,242	117,816	1,426
Support Services:				
Pupils	3,444,853	3,444,853	3,403,699	41,154
Instructional Staff	3,870,180	3,870,180	3,825,492	44,688
Board of Education	88,067	88,067	87,014	1,053
Administration	1,170,344	1,170,344	1,156,775	13,569
Fiscal	482,556	482,556	476,785	5,771
Operation and Maintenance of Plant	181,024	181,024	180,195	829
Pupil Transportation	30,125	30,125	29,852	273
Central	254,299	254,299	251,258	3,041
Community Service	50,119	50,119	50,104	15
Extracurricular Activities	14,876	14,876	14,698	178
<b>Total Expenditures</b>	<b>15,051,495</b>	<b>15,051,495</b>	<b>14,876,791</b>	<b>174,704</b>
Excess of Revenues Under Expenditures	(553,339)	(553,339)	(660,328)	(106,989)
<b>Other Financing Sources and Uses</b>				
Transfers In	0	55,584	40,862	(14,722)
Advances In	39,833	39,833	39,833	0
Proceeds from Sale of Capital Assets	0	0	6,256	6,256
Refund of Prior Year Expenditures	6,523	6,523	0	(6,523)
Other Financing Uses	(25,000)	(25,000)	0	25,000
<b>Total Other Financing Sources and Uses</b>	<b>21,356</b>	<b>76,940</b>	<b>86,951</b>	<b>10,011</b>
Net Change in Fund Balances	(531,983)	(476,399)	(573,377)	(96,978)
Fund Balance Beginning of Year	3,656,759	3,656,759	3,656,759	0
Prior Year Encumbrances Appropriated	351,489	351,489	351,489	0
<b>Fund Balance End of Year</b>	<b>\$ 3,476,265</b>	<b>\$ 3,531,849</b>	<b>\$ 3,434,871</b>	<b>\$ (96,978)</b>

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Supplemental Information*

*For the Fiscal Year Ended June 30, 2012*

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**NOTE 1 – BUDGETARY PROCESS**

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

**A. Appropriations**

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

**B. Lapsing of Appropriations**

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

**C. Budgetary Basis of Accounting**

The Educational Service Center's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the 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 an assignment of fund balance (GAAP basis). The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements:

**Muskingum Valley Educational Service Center, Ohio**

*Notes to the Supplemental Information  
For the Fiscal Year Ended June 30, 2012*

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Net Change in Fund Balance

	<u>General Fund</u>
GAAP Basis	\$512,483
Net Adjustment for:	
Revenue Accruals	(215,783)
Expenditure Accruals	(588,412)
Proceeds from Sale of Capital Assets	6,256
Prepaid Items:	
Beginning of Fiscal Year	190,534
End of Fiscal Year	(158,915)
Advances In	39,833
Advances Out	0
Encumbrances	<u>(359,373)</u>
Budget Basis	<u><u>(\$573,377)</u></u>

**MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER  
MUSKINGUM COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

<b>FEDERAL GRANTOR/ Pass Through Grantor Program Title</b>	Grant Year	Federal CFDA Number	Receipts	Disbursements
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>				
<i>Direct Funding:</i>				
Fund for the Improvement of Education	2012	84.215	\$92,431	\$92,431
<i>Passed Through Ohio Department of Education:</i>				
Adult Education - Basic Grants to States	2011	84.002	22,933	36,781
<i>Special Education Cluster:</i>				
Special Education Grants to States	2011	84.027	109,487	126,374
	2012		803,461	801,911
Total Special Education Grants to States			<u>912,948</u>	<u>928,285</u>
Special Education Preschool Grants	2011	84.173	13,987	13,987
	2012		61,420	66,723
Total Special Education Preschool Grants			<u>75,407</u>	<u>80,710</u>
Total Special Education Cluster			<u>988,355</u>	<u>1,008,995</u>
Twenty - First Century Community Learning Centers	2012	84.287	338,894	327,820
Special Education - State Personnel Development	2011	84.323	5,995	5,995
	2012		28,982	28,833
Total Special Education - State Personnel Development			<u>34,977</u>	<u>34,828</u>
Improving Teacher Quality State Grants	2011	84.367	(108)	5,308
	2012		9,670	17,040
Total State Grants for Innovative Programs			<u>9,562</u>	<u>22,348</u>
ARRA - RttT - TeachOhio Pilot Program	2012	84.395	101,845	101,978
ARRA - RttT - Regional Specialist			102,276	101,731
ARRA - RttT - Regional Formative Instruction Specialist			98,273	100,070
Total ARRA - Race to the Top, Recovery Act			<u>302,394</u>	<u>303,779</u>
Total U.S. Department of Education			<u>1,789,546</u>	<u>1,826,982</u>
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>				
<i>Passed Through Coshocton County Department of Job and Family Services:</i>				
Temporary Assistance for Needy Families	2011	93.558	3,011	22
<b>Total Federal Awards Receipts and Expenditures</b>			<b><u>\$ 1,792,557</u></b>	<b><u>\$ 1,827,004</u></b>

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

**MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER  
MUSKINGUM COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2012**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B – REFUNDS**

The accompanying federal schedule includes negative receipts for grant monies returned to the grantor agency as follows:

<b>Federal Program</b>	<b>CFDA No.</b>	<b>Grant Year</b>	<b>Amount</b>
Improving Teacher Quality State Grants	84.367	2011	(\$108)





# Dave Yost • 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 Governing Board:

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, 2012, which collectively comprise the Center's basic financial statements and have issued our report thereon dated March 5, 2013. Our report refers to other auditors. 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*. Other auditors audited the financial statements of the Perry Hocking Educational Service Center, whose activity for the period July 1, 2011 through December 31, 2011 is combined with the governmental activities, major General Fund, and the aggregate remaining fund information, as described in our report on the Center's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that those auditors separately reported.

### 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 the purpose of expressing our opinions on the financial statements, but not for the purpose of opining 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Center's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

### **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 management, the audit committee, the Governing Board, federal awarding agencies and pass-through entities, and others within the Center. We intend it for no one other than these specified parties.

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

**Dave Yost**  
Auditor of State

March 5, 2013



# Dave Yost • Auditor of State

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

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

To the Governing Board:

### 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 could directly and materially affect each of the Center's major federal programs for the year ended June 30, 2012. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the Center's major federal programs. The Center's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the Center's compliance based on our audit.

The Center's basic financial statements include the operations of Perry-Hocking Educational Service Center, which received and expended \$514,772 and \$606,182, respectively, in federal awards for the period July 1, 2011 through December 31, 2011 which is not included in the Center's Federal Awards Receipts and Expenditures Schedule for the year ended June 30, 2012. Our audit of Federal awards, described below, did not include the operations of Perry Hocking Educational Service Center because this Center engaged another auditor to audit its Federal award programs in accordance with OMB Circular A-133.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the 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 these 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 these requirements.

In our opinion, the Muskingum Valley Educational Service Center complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2012.

### 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, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Center's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, 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 noted a matter involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the Center's management in a separate letter dated March 5, 2013.

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



**Dave Yost**  
Auditor of State

March 5, 2013

**MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2012**

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

<i>(d)(1)(i)</i>	<b>Type of Financial Statement Opinion</b>	Unqualified
<i>(d)(1)(ii)</i>	<b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(ii)</i>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iii)</i>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	No
<i>(d)(1)(v)</i>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<i>(d)(1)(vi)</i>	<b>Are there any reportable findings under § .510(a)?</b>	No
<i>(d)(1)(vii)</i>	<b>Major Programs (list):</b>	Twenty-First Century Community Learning Centers – CFDA No. 84.287  ARRA – Race to the Top, Recovery Act – CFDA No. 84.395
<i>(d)(1)(viii)</i>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	<b>Low Risk Auditee?</b>	Yes

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

None.

**3. FINDINGS FOR FEDERAL AWARDS**

None.

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# Dave Yost • Auditor of State

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

MUSKINGUM COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
MARCH 21, 2013