



Dave Yost • Auditor of State



**OHIO VALLEY EDUCATIONAL SERVICE CENTER  
GUERNSEY COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Ohio Valley Educational Service Center  
Guernsey County  
128 East 8<sup>th</sup> Street  
Cambridge, Ohio 43725

To the Board of Education:

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Ohio Valley Educational Service Center, Guernsey County, Ohio (the Educational Service Center), as of and for the year ended June 30, 2012, and the related notes to the financial statements, which collectively comprise the Educational Service Center's basic financial statements as listed in the table of contents.

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

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

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

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Ohio Valley Educational Service Center, Guernsey County, Ohio, as of June 30, 2012, and the respective changes in financial position for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2014, on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Educational Service Center's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State

Columbus, Ohio

March 12, 2014

## Ohio 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 Ohio 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:

- In total, net assets of governmental activities increased \$287,115 which represents a 24 percent increase from the prior fiscal year ending net assets.
- General revenues accounted for \$804,849 in revenue or 10 percent of all revenues. Program specific revenues in the form of charges for services, grants, and contributions accounted for \$7,582,802 or 90 percent of total revenues of \$8,387,651.
- The Educational Service Center had \$8,100,536 in expenses related to governmental activities; all of these expenses were offset by program specific charges for services, grants, and contributions.
- The Educational Service Center's major fund is the General Fund. The General Fund had \$8,009,044 in revenues, \$8,005,167 in expenditures and \$30,448 in other financing sources and uses. The General Fund's balance decreased \$26,571.

### **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 Ohio 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.

## Ohio 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 funds. The Educational Service Center uses many funds to account for a multiple 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.

***Fiduciary Funds*** The Educational Service Center's fiduciary funds are private purpose trust funds. All of the Educational Service Center's fiduciary activities are reported in the Statement of Fiduciary Net Assets. These activities are separate from the Educational Service Center's governmental and fund financial statements because the Educational Service Center cannot use these assets to finance its operations. Fiduciary funds use the accrual basis of accounting.



## Ohio Valley Educational Service Center, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2012

Unaudited

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### 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 I provides a summary of the Educational Service Center's net assets for 2012 compared to 2011.

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

	<u>Governmental Activities</u>		
	<u>2012</u>	<u>2011</u>	<u>Change</u>
<b>Assets</b>			
Current and Other Assets	\$2,351,743	\$2,290,564	\$61,179
Capital Assets	<u>448,123</u>	<u>465,385</u>	<u>(17,262)</u>
Total Assets	<u>2,799,866</u>	<u>2,755,949</u>	<u>43,917</u>
<b>Liabilities</b>			
Long-Term Liabilities	426,199	431,118	(4,919)
Other Liabilities	<u>880,814</u>	<u>1,119,093</u>	<u>(238,279)</u>
Total Liabilities	<u>1,307,013</u>	<u>1,550,211</u>	<u>(243,198)</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Debt	438,904	449,329	(10,425)
Restricted for Other Purposes	53,141	12,238	40,903
Restricted for Unclaimed Monies	28,613	28,613	0
Unrestricted	<u>972,195</u>	<u>715,558</u>	<u>256,637</u>
<b>Total Net Assets</b>	<u>\$1,492,853</u>	<u>\$1,205,738</u>	<u>\$287,115</u>

Total assets increased \$43,917. The majority of the increase was due to an increase in cash with fiscal agent, which are the monies held in the Health Self Insurance account. Intergovernmental receivable stayed consistent, increasing only \$639. These increases were offset by an overall decrease in capital assets due to depreciation.

Total liabilities decreased \$243,198. The majority of this decrease was due to a decrease in claims payable in the amount of \$224,839. This was attributable to the run out claims of the OME-RESA Self Insurance plan being less than last year's claims payable.

**Ohio 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.

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

	Governmental Activities		Change
	2012	2011	
<b>Revenues</b>			
Program Revenues			
Charges for Services	\$5,609,884	\$5,948,012	(\$338,128)
Operating Grants and Contributions	1,972,918	1,895,489	77,429
Total Program Revenues	<u>7,582,802</u>	<u>7,843,501</u>	<u>(260,699)</u>
General Revenues			
Grants and Entitlements	785,072	852,325	(67,253)
Investment Earnings	6,575	9,901	(3,326)
Miscellaneous	13,202	20,840	(7,638)
Total General Revenues	<u>804,849</u>	<u>883,066</u>	<u>(78,217)</u>
Total Revenues	<u>8,387,651</u>	<u>8,726,567</u>	<u>(338,916)</u>
<b>Program Expenses</b>			
Instruction			
Regular	227,079	227,053	26
Special	2,305,772	2,470,035	(164,263)
Special - Intergovernmental	124,603	149,700	(25,097)
Adult/Continuing	41,857	47,226	(5,369)
Support Services			
Pupils	1,720,235	1,762,585	(42,350)
Instructional Staff	2,402,145	2,617,678	(215,533)
Board of Education	47,345	46,039	1,306
Administration	765,288	812,878	(47,590)
Fiscal	288,404	241,854	46,550
Operation and Maintenance of Plant	74,443	102,386	(27,943)
Pupil Transportation	13,665	14,650	(985)
Central	32,252	31,398	854
Operation of Non-Instructional Services	2,879	2,862	17
Extracurricular Activities	53,314	49,821	3,493
Interest	1,255	14,374	(13,119)
Total Expenses	<u>8,100,536</u>	<u>8,590,539</u>	<u>(490,003)</u>
<b>Change in Net Assets</b>	287,115	136,028	151,087
Net Assets Beginning of Year	<u>1,205,738</u>	<u>1,069,710</u>	<u>136,028</u>
Net Assets End of Year	<u>\$1,492,853</u>	<u>\$1,205,738</u>	<u>\$287,115</u>

## Ohio Valley Educational Service Center, Ohio

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2012*

Unaudited

During fiscal year 2012, the Educational Service Center's net assets increased \$287,115. This slight change in net assets is due to the Educational Service Center decreasing its expenditures at a rate more than its revenues decreased. During these times of economic difficulties, some districts have turned to the Educational Service Center as a means to save money through consortium services. However, the tough economic times have also caused districts to have to make overall cuts, leading to a decrease in charges for services of \$338,128. Overall expenses of the Educational Service center decreased \$490,003. The Educational Service Center has made an effort to cut expenditures during these times of state cuts and uncertainties, as well as there being fewer expenditures correlated to the decrease in charges for services.

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 area. Charges for services are modeled to cover the cost of all services 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, grants, and contributions offsetting those services. Table 3 shows the total cost of services and the net cost of services. In other words, it identifies the cost of those services supported by unrestricted revenue.

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

	2012 Total Cost of Services	2012 Net Cost of Services	2011 Total Cost of Services	2011 Net Cost of Services
<b>Program Expenses</b>				
Instruction:				
Regular	\$227,079	(\$107,748)	\$227,053	(\$110,969)
Special	2,305,772	(71,851)	2,470,035	93,389
Special - Intergovernmental	124,603	10,516	149,700	31,591
Adult/Continuing	41,857	19,782	47,226	24,857
Support Services:				
Pupil	1,720,235	156,417	1,762,585	48,928
Instructional Staff	2,402,145	710,312	2,617,678	919,346
Board of Education	47,345	26,998	46,039	25,911
Administration	765,288	(389,077)	812,878	(469,949)
Fiscal	288,404	86,484	241,854	58,163
Operation and Maintenance of Plant	74,443	21,948	102,386	52,071
Pupil Transportation	13,665	5,933	14,650	7,798
Central	32,252	17,430	31,398	28,823
Operation of Non-Instructional Services	2,879	1,251	2,862	1,149
Extracurricular Activities	53,314	28,084	49,821	21,556
Interest and Fiscal Charges	1,255	1,255	14,374	14,374
<b>Totals</b>	<b>\$8,100,536</b>	<b>\$517,734</b>	<b>\$8,590,539</b>	<b>\$747,038</b>

# Ohio Valley Educational Service Center, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2012

Unaudited

Instruction programs comprise approximately 33 percent of total governmental program expenses, support services comprise approximately 66 percent of total governmental program expenses, and operation of non-instructional services, extracurricular activities, and interest expenses combined comprise approximately 1 percent of total governmental program expenses. Of the instruction expenses, approximately 90 percent is for special instruction. Of the support services expenses, approximately 32 percent is for pupils, 45 percent for instructional staff, and 14 percent for administration.

## The Educational Service Center's Major Fund

The Education Service Center has one major fund: the General Fund. The Educational Service Center's major fund is accounted for using the modified accrual basis of accounting. The General Fund had total revenues of \$8,009,044, expenditures of \$8,005,167 and other financing use of \$30,448. The General Fund had a decrease in assets of \$41,140, which was mainly due to an increase in intergovernmental receivable of \$31,271, and a decrease in liabilities of \$14,569, which was mainly due to a decrease in accrued wages and benefits payable \$48,224. This was offset by an increased in matured compensated absences payable of \$24,264. The General Fund had a decrease in fund balance in the amount of \$26,571.

## Budgeting Highlights

Under Ohio law, Educational Service Centers are no longer required to prepare a budget. Therefore, at June 30, 2012, a budgetary statement is not presented within the basic financial statements because the Board did not approve estimated revenues or adopt appropriations.

## Capital Assets and Debt Administration

### Capital Assets

At the end of fiscal year 2012, the Educational Service Center had \$448,123 invested in land, buildings, improvements, furniture and equipment, and vehicles. Table 4 shows fiscal year 2012 balances compared to 2011.

Table 4  
Capital Assets  
(Net of Depreciation)

	Governmental Activities	
	2012	2011
Land	\$100,344	\$100,344
Land Improvements	\$1,897	\$2,149
Buildings	327,437	335,674
Machinery, Equipment Furniture, and Fixtures	18,445	27,218
Totals	<u>\$448,123</u>	<u>\$465,385</u>

See Note 9 for more information on Capital Assets.

## Ohio Valley Educational Service Center, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2012

Unaudited

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### Debt

At June 30, 2012, the Educational Service Center had the following debt outstanding:

Table 5  
Outstanding Debt at Fiscal Year End

	Governmental Activities	
	2012	2011
Capital Leases	\$9,219	\$16,056
	<u>\$9,219</u>	<u>\$16,056</u>

See Notes 14 and 15 for more information on debt.

### Economic Factors

As the preceding information shows, the Educational Service Center relies heavily on the contracts for services it provides to its local, city, and exempted village school districts. The majority of these services are special education in nature. The services these children are to be provided are mandated by Individual Education Plans (IEPs). The districts are required, by law, to serve these children. The school districts may provide the services through their own personnel, or contract out to have it provided. Many of the served districts rely solely on the Educational Service Center to provide these services. Special education service charges are based upon the actual cost of the service divided by the number of students who will benefit from the service. The financial positions of the school districts and their willingness to continue to contract for special education services with the Educational Service Center will continue to have an impact on the increase or decrease in revenues of the Educational Service Center.

Other significant revenue sources for the Educational Service Center are state foundation payments and grants. Existing contracts with the Educational Service Center's districts, as well as the Educational Service Center's cash balance, will provide the Educational Service Center with the necessary funds to operate during fiscal year 2013. However, the financial health of the Educational Service Center presents certain challenges. The Educational Service Center's state funding was reduced an additional 10% during fiscal year 2012. The Educational Service Center relies on the state per pupil funding to support fiscal and administrative costs.

### 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, contact Megan Atkinson, Treasurer at the Ohio Valley Educational Service Center, 128 East 8<sup>th</sup> Street, Cambridge, Ohio 43725. You may also E-mail the Treasurer at [megan.atkinson@omeresanet.net](mailto:megan.atkinson@omeresanet.net).

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**Ohio 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	\$2,000,560
Cash and Cash Equivalents with Fiscal Agent	202,888
Accounts Receivable	4,935
Intergovernmental Receivable	132,032
Prepays	11,328
Non-Depreciable Capital Assets	100,344
Depreciable Capital Assets, Net	<u>347,779</u>
 Total Assets	 <u>2,799,866</u>
<b>Liabilities</b>	
Accounts Payable	22,161
Accrued Wages and Benefits Payable	609,303
Intergovernmental Payable	161,632
Matured Compensated Absences Payable	24,264
Claims Payable	63,454
Long-Term Liabilities:	
Due Within One Year	130,461
Due in More Than One Year	<u>295,738</u>
 Total Liabilities	 <u>1,307,013</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	438,904
Restricted for Other Purposes	53,141
Restricted for Unclaimed Monies	28,613
Unrestricted	<u>972,195</u>
 Total Net Assets	 <u>\$1,492,853</u>

See accompanying notes to the basic financial statements

**Ohio Valley Educational Service Center, Ohio**

*Statement of Activities*

*For the Fiscal Year Ended June 30, 2012*

	Expenses	Program Revenues		Net Revenue (Expense) and Change in Net Assets
		Charges for Services	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>				
Instruction:				
Regular	\$227,079	\$269,894	\$64,933	\$107,748
Special	2,305,772	1,563,125	814,498	71,851
Special - Intergovernmental	124,603	0	114,087	(10,516)
Adult/Continuing	41,857	22,075	0	(19,782)
Support Services:				
Pupils	1,720,235	1,110,169	453,649	(156,417)
Instructional Staff	2,402,145	1,325,119	366,714	(710,312)
Board of Education	47,345	20,347	0	(26,998)
Administration	765,288	997,128	157,237	389,077
Fiscal	288,404	201,920	0	(86,484)
Operation and Maintenance of Plant	74,443	52,495	0	(21,948)
Pupil Transportation	13,665	7,732	0	(5,933)
Central	32,252	13,022	1,800	(17,430)
Operation of Non-Instructional Services	2,879	1,628	0	(1,251)
Extracurricular Activities	53,314	25,230	0	(28,084)
Interest	1,255	0	0	(1,255)
<b>Total Governmental Activities</b>	<b>\$8,100,536</b>	<b>\$5,609,884</b>	<b>\$1,972,918</b>	<b>(517,734)</b>
<b>General Revenues</b>				
Grants and Entitlements not Restricted to				
				785,072
				6,575
				13,202
				<b>804,849</b>
				287,115
				1,205,738
				<b>\$1,492,853</b>

See accompanying notes to the basic financial statements



**Ohio 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	\$1,937,573	\$34,374	\$1,971,947
Accounts Receivable	4,935	0	4,935
Interfund Receivable	52,000	0	52,000
Intergovernmental Receivable	35,511	96,521	132,032
Prepaid Items	10,602	726	11,328
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	28,613	0	28,613
<b>Total Assets</b>	<u>\$2,069,234</u>	<u>\$131,621</u>	<u>\$2,200,855</u>
<b>Liabilities</b>			
Accounts Payable	\$19,721	\$2,440	\$22,161
Accrued Wages and Benefits Payable	589,352	19,951	609,303
Interfund Payable	0	52,000	52,000
Intergovernmental Payable	156,612	5,020	161,632
Matured Compensated Absences Payable	24,264	0	24,264
Deferred Revenue	13,329	45,214	58,543
<b>Total Liabilities</b>	<u>803,278</u>	<u>124,625</u>	<u>927,903</u>
<b>Fund Balances</b>			
Nonspendable	39,215	726	39,941
Restricted	0	7,975	7,975
Assigned	100,674	0	100,674
Unassigned	1,126,067	(1,705)	1,124,362
<b>Total Fund Balances</b>	<u>1,265,956</u>	<u>6,996</u>	<u>1,272,952</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$2,069,234</u>	<u>\$131,621</u>	<u>\$2,200,855</u>

See accompanying notes to the basic financial statements

**Ohio 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>		<b>\$1,272,952</b>
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		448,123
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Grants	45,214	
Contract Services	<u>13,329</u>	58,543
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Capital Leases	(9,219)	
Compensated Absences Payable	<u>(416,980)</u>	(426,199)
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal fund are included in governmental activities in the statement of net assets.		<u>139,434</u>
Net Assets of Governmental Activities		<u><u>\$1,492,853</u></u>

See accompanying notes to the basic financial statements

**Ohio 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	\$2,392,047	\$325,941	\$2,717,988
Interest	2,678	0	2,678
Tuition and Fees	759,897	0	759,897
Rent	7,863	0	7,863
Gifts and Donations	754	2,000	2,754
Contract Services	4,843,795	0	4,843,795
Miscellaneous	2,010	1,265	3,275
<b>Total Revenues</b>	<b>8,009,044</b>	<b>329,206</b>	<b>8,338,250</b>
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	166,952	61,306	228,258
Special	2,371,036	31,734	2,402,770
Adult/Continuing	45,152	0	45,152
Support Services:			
Pupils	1,769,288	0	1,769,288
Instructional Staff	2,358,521	125,915	2,484,436
Board of Education	40,253	0	40,253
Administration	766,225	7,986	774,211
Fiscal	284,505	0	284,505
Operation and Maintenance of Plant	72,016	0	72,016
Pupil Transportation	13,665	0	13,665
Central	27,168	5,084	32,252
Operation of Non-Instructional Services	2,879	0	2,879
Extracurricular Activities	55,141	0	55,141
Capital Outlay	24,274	0	24,274
Intergovernmental	0	124,603	124,603
Debt Service:			
Principal	6,837	0	6,837
Interest	1,255	0	1,255
<b>Total Expenditures</b>	<b>8,005,167</b>	<b>356,628</b>	<b>8,361,795</b>
Excess of Revenues Over (Under) Expenditures	3,877	(27,422)	(23,545)
<b>Other Financing Source (Use)</b>			
Transfers In	0	30,448	30,448
Transfers Out	(30,448)	0	(30,448)
<b>Total Other Financing Source (Use)</b>	<b>(30,448)</b>	<b>30,448</b>	<b>0</b>
Net Change in Fund Balances	(26,571)	3,026	(23,545)
Fund Balances Beginning of Year	1,292,527	3,970	1,296,497
Fund Balances End of Year	<u>\$1,265,956</u>	<u>\$6,996</u>	<u>\$1,272,952</u>

See accompanying notes to the basic financial statements

**Ohio Valley Educational Service Center, Ohio**

*Reconciliation of the Changes in Fund Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2012*

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**Net Change in Fund Balances - Total Governmental Funds** (\$23,545)

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

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

This is the amount by which depreciation exceeded capital outlays:

Capital Asset Additions	21,847	
Depreciation Expense	<u>(39,109)</u>	(17,262)

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

Contract Services	(1,671)	
Intergovernmental	<u>37,248</u>	35,577

Repayment of capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 6,837

Expenses from compensated absences 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. (1,918)

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the entity-wide statement of activities. The net change of the internal service fund is reported with governmental activities. 287,426

Change in Net Assets of Governmental Activities \$287,115

See accompanying notes to the basic financial statements

**Ohio Valley Educational Service Center, Ohio**

*Statement of Fund Net Assets*

*Health Self-Insurance Internal Service Fund*

*June 30, 2012*

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	Self-Insurance Fund
<b>Current Assets</b>	
Cash and Cash Equivalents with Fiscal Agent	\$202,888
<b>Current Liabilities</b>	
Claims Payable	<u>63,454</u>
<b>Net Assets</b>	
Unrestricted	<u><u>\$139,434</u></u>

See accompanying notes to the basic financial statements

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

	Self-Insurance Fund
<b>Operating Revenues</b>	
Charges for Services	\$1,446,214
Other Revenues	9,927
Total Operating Revenues	1,456,141
<b>Operating Expenses</b>	
Purchased Services	480,235
Claims	692,377
Total Operating Expenses	1,172,612
Operating Income	283,529
<b>Non-Operating Revenue</b>	
Interest	3,897
Change in Net Assets	287,426
Net Assets Beginning of Year	(147,992)
Net Assets End of Year	\$139,434

See accompanying notes to the basic financial statements

**Ohio Valley Educational Service Center, Ohio**

*Statement of Cash Flows*

*Health Self-Insurance Internal Service Fund*

*For the Fiscal Year Ended June 30, 2012*

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	Self-Insurance Fund
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	
<b>Cash Flows from Operating Activities</b>	
Cash Received from Transactions with Other Funds	\$1,446,214
Other Cash Receipts	9,927
Cash Payments for Goods and Services	(480,235)
Cash Payments for Claims	(917,216)
	<hr/>
Net Cash Provided by Operating Activities	58,690
<b>Cash Flows from Investing Activities</b>	
Interest on Investments	3,897
	<hr/>
Net Decrease in Cash and Cash Equivalents	62,587
Cash and Cash Equivalents Beginning of Year	140,301
	<hr/>
Cash and Cash Equivalents End of Year	<u>\$202,888</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>	
Operating Income	\$283,529
Decrease in Claims Payable	(224,839)
	<hr/>
Net Cash Provided by Operating Activities	<u>\$58,690</u>
See accompanying notes to the basic financial statements	

**Ohio Valley Educational Service Center, Ohio**

*Statement of Fiduciary Net Assets*

*Fiduciary Funds*

*June 30, 2012*

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	Private Purpose Trust
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$258,703</u>
<b>Net Assets</b>	
Held in Trust for Scholarships	<u>\$258,703</u>

See accompanying notes to the basic financial statements



**Ohio Valley Educational Service Center, Ohio**

*Statement of Changes in Fiduciary Net Assets*

*Fiduciary Fund*

*For the Fiscal Year Ended June 30, 2012*

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	Private Purpose Trust
<b>Additions</b>	
Gifts and Contributions	\$2,914
Interest	388
Total Additions	3,302
<b>Deductions</b>	
Scholarships Awarded	3,664
Change in Net Assets	(362)
Net Assets Beginning of Year	259,065
Net Assets End of Year	\$258,703

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See accompanying notes to the basic financial statements

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## Ohio 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 Ohio Valley Educational Service Center, Guernsey County, (the “Educational Service Center”) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Educational Service Center is a combined educational service center as defined by Section 3311.053 of the Ohio Revised Code. The Educational Service Center provides supervisory, special education, administrative, and other services to the Belpre City, Caldwell Exempted Village, Cambridge City, East Guernsey Local, Fort Frye Local, Frontier Local, Marietta City, Noble Local, Rolling Hills Local, Switzerland of Ohio Local, Union Local, Wolf Creek Local, and Warren Local School Districts. 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 Educational Service Center operates under a locally-elected Board form of government consisting of eleven elected members. Members are elected to staggered four year terms. The Educational Service Center has 104 certificated and 113 non-certificated employees that provide services to the school districts.

#### **Reporting Entity**

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the Educational Service Center. For the Ohio Valley Educational Service Center, this includes general operations and student related activities.

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 entitled to or can otherwise access the organization’s resources; 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.

The Educational Service Center is associated with the Ohio Mid-Eastern Regional Educational Service Agency Information Technology Center Regional Council of Governments (OME-RESA), the Coalition of Rural and Appalachian Schools (CORAS), and the Ohio Coalition of Equity and Adequacy of School Funding which are defined as jointly governed organizations; the Ohio School Boards Association Workers’ Compensation Group Rating Plan (GRP), and the Ohio School Plan (OSP), which are defined as group insurance purchasing pools; and the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) Self-Insurance Program, which is defined as a claims servicing pool. Additional information concerning these organizations is presented in Notes 16, 17, and 18 to the basic financial statements.

## Ohio 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 and internal service fund 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, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. The statements usually distinguish between those activities of the Educational Service Center that are governmental in nature and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The Educational Service Center does not have any business-type funds.

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 and grants, contributions, and interest that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the 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 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. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

## Ohio Valley Educational Service Center, Ohio

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

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### **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. The funds of the Educational Service Center fall within three categories: governmental, proprietary, and fiduciary.

#### Governmental Funds

Governmental funds are those through which most governmental functions of the Educational Service Center are financed. Governmental funds focus 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 General Fund is the Educational Service Center's major fund.

General Fund - The General Fund is the operating fund of the Educational Service Center and is used to account for all financial resources except those required to be accounted for in another fund.

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

#### Proprietary Fund Type

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 Educational Service Center has no enterprise funds.

Internal Service Fund - The Self-Insurance 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 operation of the Educational Service Center's self-insurance program for employee medical, vision, prescription drug, and dental claims.

#### Fiduciary Fund Types

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. Trust funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Educational Service Center's own programs. The Educational Service Center's private purpose trust fund accounts for a college scholarship program

### **C. Measurement Focus**

#### Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the Educational Service Center are included on the Statement of Net Assets. The Statement of Activities presents increases (e.g., revenues)

## Ohio Valley Educational Service Center, Ohio

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

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and decreases (e.g., expenses) in total net assets.

### 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.

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the Statement of Net Assets. The Statement of Changes in Fund Net Assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The Statement of Cash Flows provides information about how the Educational Service Center finances and meets the cash flow needs of its proprietary activity.

The private purpose trust fund is accounted for using a flow of economic resources measurement focus.

### **D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Proprietary and fiduciary funds also use 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. "Measurable" means the amount of the transaction can be determined, and "available" means that the resources are collectible 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 sixty 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. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Educational Service Center must provide local resources to be used for a specified 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.

## Ohio Valley Educational Service Center, Ohio

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

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Under the modified accrual basis, grants and contract services are considered to be both measurable and available at year end.

### Deferred Revenue

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

Grants and entitlements received before the eligibility requirements are met are also 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.

### Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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 the governmental funds.

### **E. Budgetary Data**

No budgetary information is presented because the Board did not approve estimated revenues or adopt appropriations. Under Ohio law, Educational Service Centers are no longer required to prepare a budget.

### **F. Cash and Cash Equivalents**

To improve cash management, cash received by the Educational Service Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the Educational Service Center's records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements. The Educational Service Center participates in the OME-RESA insurance consortium for self-insurance. These monies are held separate from the Educational Service Center's central bank account and are reflected in the financial statements as "Cash and Cash Equivalents with Fiscal Agent".

At fiscal year-end 2012, the Educational Service Center had no investments.

Following Ohio statutes, the Governing Board 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 \$2,678, which includes \$1,042 assigned from other Educational Service Center funds.

### **G. Receivables and Payables**

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

## Ohio Valley Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

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### **H. 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 purchase and an expenditure/expense is recorded in the year in which services are consumed.

### **I. Capital Assets**

All of the Educational Service Center's capital assets are general capital assets resulting 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 are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The Educational Service Center was able to estimate the historical cost for the initial reporting of capital assets by back trending (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 thousand dollars. 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>	<b>Governmental Activities Estimated Lives</b>
Buildings and Improvements	10-40 Years
Machinery, Equipment, Furniture and Fixtures	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 eligible 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 qualifying service credit.

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



## Ohio Valley Educational Service Center, Ohio

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

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### **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 and compensated absences 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 in the current year.

### **L. 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 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 the 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 balances 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 by the Board of Education.

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

## Ohio Valley Educational Service Center, Ohio

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

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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.

### **M. 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 and 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.

### **N. Interfund Balances/Interfund Transactions**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated on the Statement of Net Assets. Internal allocations of overhead expenses from one program to another or within the same program are eliminated on the Statement of Activities. Payments for interfund goods and services provided and used are not eliminated on the government wide financial statements.

Transfers among governmental activities are eliminated on the Statement of Activities.

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

### **O. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the Educational Service Center, these revenues are charges for services for the self-insurance program. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activities of the fund. Revenues and expenses not meeting this definition are reported as non-operating.

### **P. Estimates**

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

**Ohio Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2012*

**Q. Flow-Through Grants**

The Educational Service Center is the primary recipient of grants which are passed through or spent on behalf of the local, exempted village, and city school districts. When the Educational Service Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures/expenses. For fiscal year 2012, this included the Early Childhood Special Education Grant Special Revenue Fund.

**NOTE 3 – FUND BALANCES**

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned 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 constraints placed on the fund balance for the General Fund and all other governmental funds are presented below:

Fund Balances	General Fund	Other Governmental Funds	Total
Nonspendable:			
Prepays	\$10,602	\$726	\$11,328
Unclaimed Monies	28,613		28,613
Total Nonspendable	<u>39,215</u>	<u>726</u>	<u>39,941</u>
Restricted for:			
State Grant Funds Expenditures	0	4,718	4,718
Federal Grant Funds Expenditures	0	3,257	3,257
Total Restricted	<u>0</u>	<u>7,975</u>	<u>7,975</u>
Assigned to:			
Other Purposes	100,674		100,674
Total Assigned	<u>100,674</u>	<u>0</u>	<u>100,674</u>
Unassigned:			
Total Fund Balances	<u>1,126,067</u>	<u>(1,705)</u>	<u>1,124,362</u>
	<u>\$1,265,956</u>	<u>\$6,996</u>	<u>\$1,272,952</u>

**NOTE 4 – ACCOUNTABILITY**

The Miscellaneous Local, Management Information Systems, Homeless Grant and Preschool Grant Special Revenue Funds had deficit balances in the amount of \$370, \$89, \$139 and \$472, 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 5 - DEPOSITS AND INVESTMENTS**

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

## Ohio Valley Educational Service Center, Ohio

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

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Active deposits are public deposits necessary to meet current demands on the Educational Service Center 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 that 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 can be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security 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 other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations describe 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.

At June 30, 2012, the Educational Service Center's internal service fund had a balance of \$202,888 with OME-RESA, a jointly governed organization (See Note 16). The balance is held by the claims administrator in a pooled account which is representative of numerous entities and therefore cannot be

## Ohio Valley Educational Service Center, Ohio

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

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included in the risk disclosures reported by the Educational Service Center. Disclosures for the OME-RESA Self-Insurance Plan as a whole may be obtained from the Plan's fiscal agent, the Jefferson County Educational Service Center. To obtain financial information, write to the Ohio Mid-Eastern Regional Educational Service Agency Self-Insurance Plan, Treasurer, Jefferson County ESC, Steubenville, Ohio 43695.

**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 possession of an outside party. At year end, \$1,978,548 of the Educational Service Center's bank balance of \$2,228,548 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the Federal Deposit Insurance Corporation.

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

**Investments** As of June 30, 2012, the Educational Service Center had no investments.

### **NOTE 6 - STATE AND LOCAL SCHOOL DISTRICT FUNDING**

The Educational Service Center, under state law, provides supervisory services to school districts within its territory. Each local, 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, city, and exempted village 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 the local and client school districts agree to the services and the apportionment of the costs to all of the local and client 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. However, this amount has been reduced by the state legislature and is no longer \$40.52. 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 district 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

**Ohio Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2012*

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Educational Service Center.

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2012, consisted of contract services, grants and refunds. All receivables are considered collectible in full and will be received within one year. A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
<b>Governmental Activities:</b>	
Alternative Education Challenge Grant	\$21,475
Parent Mentor Grant	12,135
Homeless Grant	5,405
Early Childhood Special Education Grant	7,506
SLO Grant	50,000
Contract Services	35,500
BWC Refund	<u>11</u>
Total Intergovernmental Receivable	<u><u>\$132,032</u></u>

**NOTE 8 – INTERFUND TRANSFERS AND BALANCES**

**A. Interfund Transfers**

	<u>Transfers To</u> <u>Other</u> <u>Nonmajor</u> <u>Governmental Funds</u>
<u>Transfers From</u>	
General Fund	<u><u>\$30,448</u></u>

During fiscal year 2012, the General Fund transferred \$30,448 to the EMIS Fund to cover expenses in excess of the money provided by the State.

**Ohio Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2012*

**B. Interfund Balances**

	<u>Receivable</u>	<u>Payable</u>
General Fund	<u>\$52,000</u>	<u>\$0</u>
Special Revenue Funds:		
Alternative School Grant	0	22,000
Miscellaneous State Grant Fund	0	13,000
Homeless Grant	0	6,000
Preschool Grant	0	11,000
Total Special Revenue Funds	<u>0</u>	<u>52,000</u>
Total All Funds	<u><u>\$52,000</u></u>	<u><u>\$52,000</u></u>

Interfund balances at June 30, 2012, consisted of monies advanced from the General Fund to various Special Revenue funds to cover deficit balances at fiscal year-end.

**NOTE 9 - CAPITAL ASSETS**

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

	<u>Balance</u>			<u>Balance</u>
	<u>June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2012</u>
<b>Nondepreciable Capital Assets</b>				
Land	<u>\$100,344</u>	<u>\$0</u>	<u>\$0</u>	<u>\$100,344</u>
Total Nondepreciable Assets	<u>100,344</u>	<u>0</u>	<u>0</u>	<u>100,344</u>
<b>Depreciable Capital Assets</b>				
Land Improvements	15,115	0	0	15,115
Buildings	974,105	21,847	0	995,952
Machinery, Equipment, Furniture and Fixtures	<u>61,585</u>	<u>0</u>	<u>0</u>	<u>61,585</u>
Total Capital Assets Being Depreciated	<u>1,050,805</u>	<u>21,847</u>	<u>0</u>	<u>1,072,652</u>
Less Accumulated Depreciation:				
Land Improvements	(12,966)	(252)	0	(13,218)
Buildings	(638,431)	(30,084)	0	(668,515)
Machinery, Equipment, Furniture and Fixtures	<u>(34,367)</u>	<u>(8,773)</u>	<u>0</u>	<u>(43,140)</u>
Total Accumulated Depreciation	<u>(685,764)</u>	<u>(39,109)</u> *	<u>0</u>	<u>(724,873)</u>
Total Capital Assets Being Depreciated, Net	<u>365,041</u>	<u>(17,262)</u>	<u>0</u>	<u>347,779</u>
Governmental Activities Capital Assets, Net	<u><u>\$465,385</u></u>	<u><u>(\$17,262)</u></u>	<u><u>\$0</u></u>	<u><u>\$448,123</u></u>

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

## Ohio Valley Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

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Instruction:	
Regular	\$2,242
Special	5,197
Adult/Continuing	490
Support Services:	
Pupils	3,649
Instructional Staff	7,208
Board of Education	7,092
Administration	11,297
Fiscal	1,934
Total Governmental Depreciation	<u>\$39,109</u>

### NOTE 10 - RISK MANAGEMENT

#### A. Insurance

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2012, the Educational Service Center joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP 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 the OSP. (See Note 18)

During fiscal year 2012, the Educational Service Center purchased the following coverage:

#### Ohio School Plan

Fleet Insurance:		
Liability	\$1,000,000	any one accident
Educational General Liability:		
General Aggregate Limit	\$3,000,000	
Employee Benefits Liability:		
Aggregate Limit	\$3,000,000	\$2,500 deductible
Employers' Liability:		
Bodily Injury	\$1,000,000	any one accident
Educational Legal Liability:		
Errors and Omissions Aggregate Limit	\$3,000,000	\$2,500 deductible
Employment Practices Injury Aggregate Limit	\$3,000,000	\$2,500 deductible
Declaratory, Equitable, and Injunctive Relief		
Defense Aggregate	\$100,000	\$2,500 deductible
Violence Coverage:		
Plan Aggregate Limit	\$1,000,000	
Building	\$2,021,652	

Settled claims have not exceeded their commercial coverage in any of the past three years.

#### B. Workers' Compensation Group Rating Plan

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 16). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium



## Ohio Valley Educational Service Center, Ohio

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

rate is applied to all school districts in 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 Comp Management provides administrative, cost control, and actuarial services to the GRP.

### **C. Medical/Surgical, Dental, Vision, and Prescription Drug Insurances**

Medical/surgical, dental, vision, and prescription drug insurance is offered through a self-insurance internal service fund. The Educational Service Center pays for 80% of single, family, employee plus spouse or employee plus child coverage premiums for this insurance. The Educational Service Center is a member of a claims servicing pool in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the Educational Service Center's behalf. The claims liability of \$63,454 reported in the internal service fund at June 30, 2012, is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by the incremental claims adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

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	\$222,748	\$1,038,057	\$972,512	\$288,293
2012	288,293	692,377	917,216	63,454

### **NOTE 11 - EMPLOYEE BENEFITS**

#### **A. Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from board policies and State laws. Eligible classified employees earn twelve to twenty days of vacation per year, depending upon length of service. Administrators earn twenty days of vacation per year. Teachers do not earn vacation time. The liability for vacation benefits is recorded as long-term liabilities.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. All employees can accumulate sick leave days up to a maximum of 240 days. Upon retirement, payment is made for twenty-five percent of the employees' accumulated sick leave with a maximum payment being limited to 45 days.

#### **B. Other Employee Benefits**

The Educational Service Center provides term life insurance and accidental death and dismemberment insurance through Colonial Life Insurance Company in the amount of \$30,000 for all of its full time employees.

## Ohio Valley Educational Service Center, Ohio

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2012*

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### 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 defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by 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 at an actuarially determined rate. The current Educational Service Center rate is 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 1.3 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care Funds. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$207,011, \$198,000, and \$220,265, respectively. For fiscal year 2012, 91.01 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 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 Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. 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 or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

## Ohio Valley Educational Service Center, Ohio

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

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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 the recommendation 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 salary. The Education Service Center was required to contribute 14 percent, 13 percent was the portion used to fund pension obligations.

The Educational Service Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011, and 2010 were \$503,750, \$508,470 and \$523,007, respectively. For fiscal year 2012, 89.9 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. Contributions to the DC and Combined Plans for fiscal year 2012 were \$4,374 made by the Educational Service Center and \$3,124 made by the plan members.

### **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 of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2012, the two board members of the Educational Service Center elected Social Security. The contribution rate is 6.2 percent of wages.

## **NOTE 13 - POSTEMPLOYMENT BENEFITS**

### **A. School Employee 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 and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligation to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at [www.ohsers.org](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, .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. During fiscal year 2012, the Educational Service Center paid \$23,871 in surcharge.

**Ohio Valley Educational Service Center, Ohio**

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

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 \$6,794, \$25,835 and \$26,611, respectively. For fiscal year 2012, 96.47 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 \$12,116, \$12,849 and \$12,687, respectively. For fiscal year 2012, 90.93 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 participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which 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 fiscal year 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to post-employment health care. The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$38,750, \$39,113 and \$40,231, respectively. For fiscal year 2012, 89.9 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 - LONG-TERM OBLIGATIONS**

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

	Outstanding 06/30/11	Additions	Deductions	Outstanding 06/30/12	Amount Due Within One Year
<b>Governmental Activities</b>					
Capital Leases Payable	\$16,056	\$0	\$6,837	\$9,219	\$7,527
Compensated Absences	415,062	126,211	124,293	416,980	122,934
Total Governmental Long-Term Liabilities	<u>\$431,118</u>	<u>\$126,211</u>	<u>\$131,130</u>	<u>\$426,199</u>	<u>\$130,461</u>

Capital leases and compensated absences will be paid from the General Fund.

## Ohio Valley Educational Service Center, Ohio

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

### NOTE 15 – CAPITAL LEASES

During fiscal year 2009, the Educational Service Center entered into capitalized lease agreements for two copying machines in the amount of \$17,484 and \$14,500 respectively. These leases meet the criteria of a capital lease as defined by 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 have been reclassified from support service expenditures in the budgetary statements to principal debt service expenditures in the basic financial statements for the General Fund.

Actual principal payments in fiscal year 2012 totaled \$6,837. The equipment was originally capitalized in the amount of \$31,984, the present value of the minimum lease payments at the inception of the leases. The accumulated depreciation as of June 30, 2012 was \$24,230 and the book value was \$7,754.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2012:

Fiscal Year	Amount
2013	\$8,091
2014	1,718
Total Minimum Lease Payments	9,809
Less: Amount Representing Interest	(590)
Present Value of Minimum Lease Payments	<u>\$9,219</u>

### NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS

#### **A. Ohio Mid-Eastern Regional Educational Service Agency Information Technology Center Regional Council of Governments (OME-RESA)**

OME-RESA was created as a regional council of governments pursuant to State statutes. OME-RESA includes school districts from 12 participating counties consisting of Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Monroe, Muskingum, Noble, and Tuscarawas Counties. OME-RESA provides financial accounting services, educational management information, legal services, and cooperative purchasing services to member districts. OME-RESA is governed by a governing board which is selected by the member districts. OME-RESA possesses its own budgeting authority. The Educational Service Center's payment for computer services to OME-RESA in fiscal year 2012 was \$18,555. To obtain financial information write to the OME-RESA, Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio 43952.

#### **B. Coalition of Rural and Appalachian Schools (CORAS)**

The Coalition of Rural and Appalachian Schools is a jointly governed organization composed of over 136 school districts 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 school district administrative personnel; gathers data regarding the level of education provided to children in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development

## Ohio Valley Educational Service Center, Ohio

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

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programs Educational Service Center personnel. The Council is not dependent on the continued participation of the Educational Service Center and the Educational Service Center does not maintain an equity interest in or financial responsibility for the Council. The School District's membership fee was \$325 for fiscal year 2012. The financial information for the Coalition can be obtained from the Executive Director, at McCracken Hall, Ohio University, Athens, Ohio 45701.

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

The Ohio Coalition of Equity and Adequacy of School Funding is organized as a council of governments pursuant to Chapter 167 of the Ohio Revised Code. The Coalition was organized in 1990 to challenge the constitutionality of the Ohio school funding system. The Coalition is governed by a Steering Committee of 90 school district representatives. Though most of the members are superintendents, some treasurers, board members, and administrators also serve. Several persons serve as ex officio members. The membership of the Coalition includes over 500 school districts throughout the State of Ohio. Member school districts and joint vocational schools pay dues of \$.05 per pupil. School districts and joint vocational schools may also pay supplemental dues in the amount of \$.50 per pupil for K-12 districts and educational service centers pay dues of \$.05 per pupil. The Coalition is not dependent on the continued participation of the Educational Service Center and the Educational Service Center does not maintain an equity interest or financial responsibility for the Coalition. During fiscal year 2012, the Educational Service Center paid \$811 for membership fees to the Coalition.

### **NOTE 17 –CLAIMS SERVICING POOL**

The Educational Service Center participates in the Ohio Mid-Eastern Regional Educational Service Agency Self-Insurance Plan, a claims servicing pool composed of fifty members. The Plan's business and affairs are conducted by a nine member Board of Directors elected by the OME-RESA's assembly. The member pays a monthly premium based on their claims history and a monthly administration fee. All participating members retain their risk. The Plan acts solely as the claims servicing agent.

### **NOTE 18 - INSURANCE PURCHASING POOLS**

#### **A. Ohio SchoolComp: A Program of OSBA & OASBO Workers' Compensation Group Rating Plan (GRP)**

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 Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program. The Educational Service Center's enrollment fee for fiscal year 2012 was \$740.

#### **B. Ohio School Plan (OSP)**

The Educational Service Center participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP 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 provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection,

## **Ohio Valley Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2012*

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risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of directors consisting of school district superintendents and treasurers, as well as the president of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

### **NOTE 19 - CONTINGENCIES**

#### **A. Grants**

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are 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. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the Educational Service Center at June 30, 2012, if applicable, cannot be determined at this time.

#### **B. Litigation**

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

### **NOTE 20 – SUBSEQUENT EVENTS**

Only July 1, 2012, the Educational Service Center changed from a self-insurance program with OME-RESA to a fully insured program with Anthem Blue Cross/Blue Shield for its medical, dental and vision covera

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# Dave Yost • Auditor of State

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

Ohio Valley Educational Service Center  
Guernsey County  
128 East 8<sup>th</sup> Street  
Cambridge, Ohio 43725

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Ohio Valley Educational Service Center, Guernsey County, Ohio (the Educational Service Center), as of and for the year ended June 30, 2012, and the related notes to the financial statements, which collectively comprise the Educational Service Center's basic financial statements, and have issued our report thereon dated March 12, 2014.

### ***Internal Control Over Financial Reporting***

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

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

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

***Compliance and Other Matters***

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

***Purpose of this Report***

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



**Dave Yost**  
Auditor of State

Columbus, Ohio

March 12, 2014



# Dave Yost • Auditor of State

OHIO VALLEY EDUCATIONAL SERVICE CENTER

GUERNSEY 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 25, 2014