



**Auditor of State
Betty Montgomery**

**MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER
MUSKINGUM COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Muskingum Valley Educational Service Center, Muskingum County, Ohio (the Center), as of and for the year ended June 30, 2004, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Muskingum Valley Educational Service Center, Muskingum County, Ohio, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, during the year ended June 30, 2004, the Center implemented a new financial reporting model as required by the provisions of Governmental Accounting Standards Board Statement No. 34, "*Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments*".

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2005, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the Center's basic financial statements. The Schedule of Federal Awards Receipts and Expenditures is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the Schedule of Federal Awards Receipts and Expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

September 12, 2005

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004***

Unaudited

The discussion and analysis of Muskingum Valley Educational Service Center's financial performance provides an overall review of the Center's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the Center's financial performance as a whole; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the Center's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2004 are as follows:

- ❑ Net assets decreased \$342,504, which represents an 11.1% decrease from 2003.
- ❑ General revenues accounted for \$1,145,241 in revenue or 15.8% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$6,121,763 or 84.2% of total revenues of \$7,267,004.
- ❑ The Center had \$7,609,508 in expenses related to governmental activities; only \$6,121,763 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$1,145,241 and reserved net assets were adequate to provide for these programs.
- ❑ Among major funds, the general fund had \$5,822,734 in revenues and \$6,219,979 in expenditures. The general fund's fund balance decreased \$397,245 to \$2,454,983. This decrease is attributable to decreases in tuition and increases in instruction costs. In addition, increases in payments made to other districts contributed to the decrease in fund balance.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

These statements are as follows:

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

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

Government-wide Statements

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

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004***

Unaudited

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

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

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

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

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

Fund Financial Statements

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

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

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

Fiduciary Funds – The Center's only fiduciary fund is an agency fund. Agency funds are custodial in nature (assets equaling liabilities) and do not involve measurements of results of operations. Agency activities are excluded from the other financial statements because their assets are available to the Center to finance operations. Fiduciary Funds use the accrual basis of accounting.

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004*

Unaudited

FINANCIAL ANALYSIS OF THE CENTER AS A WHOLE

This is the first year for government-wide financial statements using the full accrual basis of accounting, therefore a comparison with prior year's information is not available. A comparative analysis will be provided in future years when prior year's information is available.

	Governmental Activities
	<u>2004</u>
Current and other assets	\$4,004,876
Capital assets, Net	<u>162,114</u>
Total assets	4,166,990
Long-term liabilities outstanding	612,793
Other liabilities	<u>798,824</u>
Total liabilities	<u>1,411,617</u>
Net assets	
Invested in capital assets, net of related debt	162,114
Restricted	101,419
Unrestricted	<u>2,491,840</u>
Total net assets	<u><u>\$2,755,373</u></u>

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MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004*

Unaudited

Changes in Net Assets – The following table shows the changes in net assets for the fiscal year 2004:

	Governmental Activities
	<u>2004</u>
Revenues	
Program revenues:	
Charges for Services and Sales	\$3,894,577
Operating Grants and Contributions	2,227,186
General revenues:	
Grants and Entitlements	1,001,598
Other	143,643
Total revenues	<u>7,267,004</u>
Program Expenses	
Instruction	2,409,606
Support Services:	
Pupils	1,421,322
Instructional Staff	2,309,831
Board of Education	26,537
Administration	733,527
Fiscal Services	146,859
Business	4,529
Operation and Maintenance of Plant	9,404
Pupil Transportation	15,627
Central	70,880
Payments to Districts	431,574
Operation of Non-Instructional Services	
Community Services	28,160
Extracurricular Activities	1,652
Total expenses	<u>7,609,508</u>
Total Change in Net Assets	(342,504)
Restated Beginning Net Assets	<u>3,097,877</u>
Ending Net Assets	<u>\$2,755,373</u>

Governmental Activities

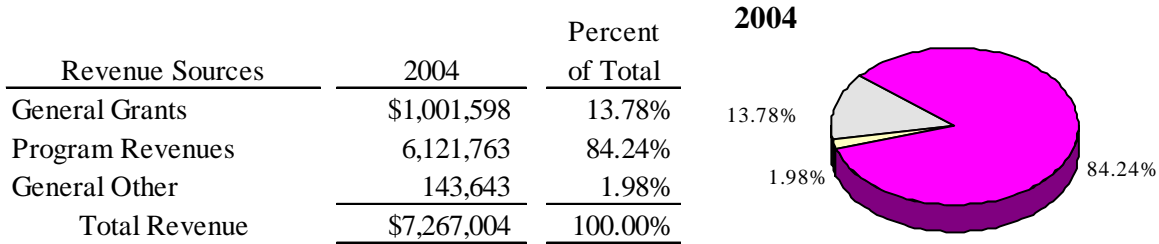
Net assets of the Center's governmental activities decreased by \$342,504. This decrease is attributable to decreases in tuition and increases in instruction costs. In addition, refunds of prior year receipts contributed to this decrease. The payments made to other districts were related to the Community Alternative Funding System.

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004**

Unaudited

Program revenues made up 84.24% of revenues for governmental activities for Muskingum Valley Educational Service Center in fiscal year 2004. The Center's reliance upon these revenues is demonstrated by the following graph:



FINANCIAL ANALYSIS OF THE CENTER'S FUNDS

The Center's governmental funds reported a combined fund balance of \$2,494,081, which is below last year's total of \$3,091,280. The schedule below indicates the fund balance and the total change in fund balance by fund type as of June 30, 2004 and 2003.

	<u>Fund Balance June 30, 2004</u>	<u>Fund Balance June 30, 2003</u>	<u>Increase (Decrease)</u>
General	\$2,454,983	\$2,852,228	(\$397,245)
Other Governmental	39,098	239,052	(199,954)
Total	<u>\$2,494,081</u>	<u>\$3,091,280</u>	<u>(\$597,199)</u>

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

	<u>2004 Revenues</u>	<u>2003 Revenues</u>	<u>Increase (Decrease)</u>
Tuition	\$1,874,806	\$1,992,803	(\$117,997)
Charges for Services	1,898,851	1,151,461	747,390
Investment Earnings	52,285	52,125	160
Extracurricular Activities	1,246	2,536	(1,290)
Intergovernmental - State	1,729,797	1,689,528	40,269
Intergovernmental - Federal	241,755	553,300	(311,545)
All Other Revenue	23,994	840,936	(816,942)
Total	<u>\$5,822,734</u>	<u>\$6,282,689</u>	<u>(\$459,955)</u>

Certain revenues were better reclassified during the 2004 fiscal year from the All Other Revenue category to the Charges for Services category.

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004**

Unaudited

General Fund revenues decreased in 2004, by approximately 7.3% compared to revenues in fiscal year 2003.

	<u>2004</u> <u>Expenditures</u>	<u>2003</u> <u>Expenditures</u>	<u>Increase</u> <u>(Decrease)</u>
Instruction	\$1,874,417	\$1,754,772	\$119,645
Supporting Services:			
Pupils	1,374,954	1,349,408	25,546
Instructional Staff	1,803,159	2,027,598	(224,439)
Board of Education	26,537	20,915	5,622
Administration	452,940	492,928	(39,988)
Fiscal Services	132,882	162,445	(29,563)
Operation & Maintenance of Plant	1,908	1,427	481
Pupil Transportation	14,965	16,249	(1,284)
Central	64,880	106,870	(41,990)
Payments to Districts	431,574	0	431,574
Extracurricular Activities	1,652	2,623	(971)
Capital Outlay	<u>40,111</u>	<u>60,375</u>	<u>(20,264)</u>
Total	<u>\$6,219,979</u>	<u>\$5,995,610</u>	<u>\$224,369</u>

The expenditures increased by \$224,369 or 3.7% compared to the prior year mostly due to increases in payments to other districts. Instructional staffing decreased as a result of lower payments for materials and supplies as well as purchased services.

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

During the course of fiscal year 2004, the Center amended its General Fund budget several times, none significant.

For the General Fund, final budget basis revenue was \$6.9 million, above original budget estimates of \$6.8 million. The actual revenues of \$6.1 million were significantly below the budget basis. Certain revenues were not received until 2005. Also, the actual results were lower because of over projections of revenues that are based upon estimated costs. The costs used to project these revenues were also over projected for 2004.

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004**

Unaudited

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2004, the Center had \$162,114 net of accumulated depreciation invested in buildings and improvements, and machinery and equipment. The following table shows fiscal year 2003 and 2004 balances:

	Governmental Activities	Restated 2003	Increase (Decrease)
	2004		
Buildings and Improvements	\$645	\$645	\$0
Machinery and Equipment	821,128	856,164	(35,036)
Less: Accumulated Depreciation	(659,659)	(665,833)	6,174
Totals	\$162,114	\$190,976	(\$28,862)

The Center reported a decrease in machinery and equipment, which can be attributed to routine disposals of computers and furniture.

Additional information on the Center's capital assets can be found in Note 7.

Long-Term Liabilities

At June 30, 2004, the Center had \$612,793 in compensated absences, \$51,093 due within one year. The following table summarizes the Center's long-term obligations outstanding as of June 30, 2004:

	2004	2003
Governmental Activities:		
Compensated Absences	\$612,793	\$538,957

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004*

Unaudited

ECONOMIC FACTORS

Overall, the Center continues to be strong financially. As the preceding information shows, the Center relies heavily on contracts with local and city school districts in Coshocton, Morgan, and Muskingum counties. Other significant revenue sources for the Center are state foundation payments and grants. Existing contracts with the Center's partner school districts, as well as the Center's cash balance, will provide the Center with the necessary funds to operate during fiscal year 2005. However, the future financial health of the ESC presents certain challenges.

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

The second challenge regards the financial health of the local school districts served by the Center. Several of the local schools are projecting deficits in their five-year forecasts and have been forced to make staff reductions to balance their budgets. The financial health of the districts may preclude them from obtaining additional or existing Center services.

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

REQUESTS FOR INFORMATION

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

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Statement of Net Assets June 30, 2004

	<u>Governmental Activities</u>
Assets:	
Cash and Cash Equivalents	\$ 1,694,400
Investments	1,300,798
Receivables:	
Accounts	50,054
Intergovernmental	555,686
Interest	2,542
Prepaid Items	401,396
Capital Assets, Net	<u>162,114</u>
Total Assets	<u>4,166,990</u>
Liabilities:	
Accounts Payable	69,232
Accrued Wages and Benefits	576,978
Intergovernmental Payable	152,614
Long Term Liabilities:	
Due Within One Year	51,093
Due in More Than One Year	<u>561,700</u>
Total Liabilities	<u>1,411,617</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	162,114
Restricted For:	
Other Purposes	101,419
Unrestricted (Deficit)	<u>2,491,840</u>
Total Net Assets	<u>\$ 2,755,373</u>

See accompanying notes to the basic financial statements

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Statement of Activities **For the Fiscal Year Ended June 30, 2004**

		Program Revenues		Net (Expense)
		Charges for	Operating Grants	Revenue and
		Services and	and	and Changes in
	Expenses	Sales	Contributions	Net Assets
				Governmental
				Activities
Governmental Activities:				
Instruction	\$ 2,409,606	\$ 1,875,646	\$ 631,954	\$ 97,994
Support Services:				
Pupils	1,421,322	1,032,254	195,977	(193,091)
Instructional Staff	2,309,831	977,316	722,764	(609,751)
Board of Education	26,537	0	0	(26,537)
Administration	733,527	1,355	217,514	(514,658)
Fiscal Services	146,859	6,759	7,900	(132,200)
Business	4,529	0	4,530	1
Operation and Maintenance of Plant	9,404	0	6,512	(2,892)
Pupil Transportation	15,627	0	3,162	(12,465)
Central	70,880	1	24,018	(46,861)
Payments to Districts	431,574	0	337,912	(93,662)
Operation of Non-Instructional:				
Food Service Operations	0	0	0	0
Community Services	28,160	0	74,943	46,783
Extracurricular Activities	1,652	1,246	0	(406)
Total Governmental Activities	<u>\$ 7,609,508</u>	<u>\$ 3,894,577</u>	<u>\$ 2,227,186</u>	<u>(1,487,745)</u>
General Revenues				
Grants and Entitlements not Restricted to Specific Programs				1,001,598
Investment Earnings				52,276
Miscellaneous				91,367
Total General Revenues				<u>1,145,241</u>
Change in Net Assets				(342,504)
Net Assets Beginning of Year (As Restated)				<u>3,097,877</u>
Net Assets End of Year				<u>\$ 2,755,373</u>

See accompanying notes to the basic financial statements

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Balance Sheet
Governmental Funds
June 30, 2004

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Cash and Cash Equivalents	\$ 1,258,902	\$ 104,672	\$ 1,363,574
Investments	1,300,798	0	1,300,798
Receivables:			
Accounts	50,054	0	50,054
Intergovernmental	508,066	47,569	555,635
Interest	2,542	0	2,542
Due from Other Funds	34,425	0	34,425
Interfund Loan Receivable	7,875	0	7,875
Prepaid Items	387,109	0	387,109
Total Assets	<u>\$ 3,549,771</u>	<u>\$ 152,241</u>	<u>\$ 3,702,012</u>
Liabilities:			
Accounts Payable	\$ 47,257	\$ 20,184	\$ 67,441
Accrued Wages and Benefits	563,392	4,835	568,227
Intergovernmental Payable	123,339	8,487	131,826
Due to Other Funds	0	34,425	34,425
Interfund Loans Payable	0	7,875	7,875
Deferred Revenue	360,800	37,337	398,137
Total Liabilities	<u>1,094,788</u>	<u>113,143</u>	<u>1,207,931</u>
Fund Balances:			
Reserved for Encumbrances	60,223	5,818	66,041
Reserved for Prepaid Items	387,109	0	387,109
Reserved for Unclaimed Monies	1,412	0	1,412
Unreserved, Undesignated in:			
General Fund (Deficit)	2,006,239	0	2,006,239
Special Revenue Funds	0	33,280	33,280
Total Fund Balances	<u>2,454,983</u>	<u>39,098</u>	<u>2,494,081</u>
Total Liabilities and Funds Balances	<u>\$ 3,549,771</u>	<u>\$ 152,241</u>	<u>\$ 3,702,012</u>

See accompanying notes to the basic financial statements

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Reconciliation Of Total Governmental Fund Balances To Net Assets Of Governmental Activities June 30, 2004

Total Governmental Fund Balances	\$ 2,494,081
<i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital assets used in governmental activities are not resources and therefore are not reported in the funds.	162,114
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.	398,137
The internal service fund is used by management to charge the costs of services provided to individual funds of the Center, or to other governments. The assets and liabilities of the internal service fund is included in governmental activities in the statement of net assets.	332,566
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(631,525)</u>
<i>Net Assets of Governmental Funds</i>	<u><u>\$2,755,373</u></u>
See accompanying notes to the basic financial statements	

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Fiscal Year Ended June 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Local Sources:			
Tuition	\$ 1,874,806	\$ 0	\$ 1,874,806
Charges for Services	1,898,851	0	1,898,851
Investment Earnings	52,285	0	52,285
Extracurricular Activities	1,246	0	1,246
Intermediate Sources	0	94,538	94,538
Intergovernmental - State	1,729,797	766,416	2,496,213
Intergovernmental - Federal	241,755	133,464	375,219
All Other Revenue	23,994	0	23,994
Total Revenue	5,822,734	994,418	6,817,152
Expenditures:			
Current:			
Instruction	1,874,417	500,185	2,374,602
Supporting Services:			
Pupils	1,374,954	21,080	1,396,034
Instructional Staff	1,803,159	370,974	2,174,133
Board of Education	26,537	0	26,537
Administration	452,940	248,102	701,042
Fiscal Services	132,882	7,599	140,481
Business	0	4,529	4,529
Operation & Maintenance of Plant	1,908	7,496	9,404
Pupil Transportation	14,965	662	15,627
Central	64,880	6,000	70,880
Payments to Districts	431,574	0	431,574
Operation of Non-Instructional:			
Community Services	0	27,745	27,745
Extracurricular Activities	1,652	0	1,652
Capital Outlay	40,111	0	40,111
Total Expenditures	6,219,979	1,194,372	7,414,351
Net Change in Fund Balance	(397,245)	(199,954)	(597,199)
Fund Balances at Beginning of Year (As Restated)	2,852,228	239,052	3,091,280
Fund Balances End of Year	\$ 2,454,983	\$ 39,098	\$ 2,494,081

See accompanying notes to the basic financial statements

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

***Reconciliation Of The Statement Of Revenues, Expenditures
And Changes In Fund Balances Of Governmental Funds
To The Statement Of Activities
For The Fiscal Year Ended June 30, 2004***

Net Change in Fund Balances - Total Governmental Funds \$ (597,199)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. (27,480)

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the loss on the disposal of fixed assets net of proceeds received. (1,382)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 378,521

Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represents contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. (78,317)

The internal service fund is used by management to charge the costs of services to individual funds or other governments and is reported in the statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. (16,647)

Change in Net Assets of Governmental Activities \$ (342,504)

See accompanying notes to the basic financial statements

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Fiscal Year Ended June 30, 2004**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Local Sources:				
Tuition	\$ 2,398,936	\$ 2,398,936	\$ 2,002,190	\$ (396,746)
Charges for Services	1,996,313	2,078,679	1,934,992	(143,687)
Investment Earnings	70,500	70,500	53,173	(17,327)
Extracurricular Activities	3,000	3,000	1,246	(1,754)
Intergovernmental - State	1,752,370	1,752,370	1,726,547	(25,823)
Intergovernmental - Federal	580,000	580,000	391,028	(188,972)
All Other Revenues	47,517	55,310	17,192	(38,118)
Total Revenues	<u>6,848,636</u>	<u>6,938,795</u>	<u>6,126,368</u>	<u>(812,427)</u>
Expenditures:				
Current:				
Instruction	2,078,415	2,077,955	1,927,515	150,440
Support Services:				
Pupils	1,556,818	1,556,819	1,391,032	165,787
Instructional Staff	2,051,018	2,108,448	1,858,382	250,066
Board of Education	28,822	28,822	26,187	2,635
Administration	514,050	541,306	458,787	82,519
Fiscal Services	150,674	150,674	139,692	10,982
Operation and Maintenance of Plant	1,512	1,971	1,972	(1)
Pupil Transportation	12,696	20,022	19,924	98
Central	103,245	90,882	73,437	17,445
Extracurricular Activities	3,000	3,000	1,652	1,348
Capital Outlay	26,863	28,525	28,525	0
Total Expenditures	<u>6,527,113</u>	<u>6,608,424</u>	<u>5,927,105</u>	<u>681,319</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	321,523	330,371	199,263	(131,108)
Other Financing Sources (Uses):				
Operating Transfers In	20,000	20,000	20,000	0
Operating Transfers Out	(20,000)	(20,000)	(20,000)	0
Advances Out	0	(7,875)	(7,875)	0
Refund of Prior Year's Expenditures	8,000	8,000	10,728	2,728
Refund of Prior Year's Receipts	(432,497)	(432,497)	(432,250)	247
Total Other Financing Sources (Uses):	<u>(424,497)</u>	<u>(432,372)</u>	<u>(429,397)</u>	<u>2,975</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(102,974)	(102,001)	(230,134)	(128,133)
Fund Balance at Beginning of Year	2,501,318	2,501,318	2,501,318	0
Prior Year Encumbrances	186,517	186,517	186,517	0
Fund Balance at End of Year	<u>\$ 2,584,861</u>	<u>\$ 2,585,834</u>	<u>\$ 2,457,701</u>	<u>\$ (128,133)</u>

See accompanying notes to the basic financial statements

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Statement of Net Assets Proprietary Funds June 30, 2004

	Governmental Activities - Internal Service Funds
Assets:	
<i>Current Assets:</i>	
Cash and Cash Equivalents	\$ 330,826
Receivables:	
Intergovernmental	51
Prepaid Items	14,287
<i>Total Current Assets</i>	<u>345,164</u>
Total Assets	<u>345,164</u>
Liabilities:	
<i>Current Liabilities:</i>	
Accounts Payable	1,791
Accrued Wages and Benefits	8,751
Intergovernmental Payable	2,056
<i>Total Current Liabilities</i>	<u>12,598</u>
Total Liabilities	<u>12,598</u>
Net Assets:	
Unrestricted	<u>332,566</u>
Total Net Assets	<u>\$ 332,566</u>

See accompanying notes to the basic financial statements

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

***Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2004***

	Governmental Activities - Internal Service Funds
Operating Revenues:	
Interfund Charges	\$ 119,252
Total Operating Revenues	<u>119,252</u>
Operating Expenses:	
Salaries and Wages	63,018
Fringe Benefits	16,828
Contractual Services	53,256
Supplies and Materials	2,797
Total Operating Expenses	<u>135,899</u>
Change in Net Assets	(16,647)
Net Assets Beginning of Year	<u>349,213</u>
Net Assets End of Year	<u>\$ 332,566</u>

See accompanying notes to the basic financial statements

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2004

	Governmental Activities - Internal Service Funds
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Charges for Services	\$119,201
Cash Payments for Goods and Services	(77,024)
Cash Payments to Employees for Services and Benefits	(80,607)
Net Cash Used by Operating Activities	<u>(38,430)</u>
Net Decrease in Cash and Cash Equivalents	(38,430)
Cash and Cash Equivalents at Beginning of Year	<u>369,256</u>
Cash and Cash Equivalents at End of Year	<u><u>\$330,826</u></u>
<u>Reconciliation of Operating Loss to Net Cash</u>	
<u>Used by Operating Activities:</u>	
Operating Loss	(\$16,647)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Changes in Assets and Liabilities:	
Increase in Intergovernmental Receivable	(51)
Increase in Prepaids	(14,287)
Decrease in Accounts Payable	(6,785)
Decrease in Accrued Wages and Benefits	(772)
Increase in Intergovernmental Payables	<u>112</u>
Total Adjustments	<u>(21,783)</u>
Net Cash Used by Operating Activities	<u><u>(\$38,430)</u></u>

See accompanying notes to the basic financial statements

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Statement of Net Assets
Fiduciary Funds
June 30, 2004

	Private Purpose Trust	Investment Trust Fund	Agency
Assets:			
Cash and Cash Equivalents	\$ 125,174	\$ 188,305	\$ 8,819
Total Assets	<u>125,174</u>	<u>188,305</u>	<u>8,819</u>
Liabilities:			
Accounts Payable	900	0	0
Due to Others	0	0	8,819
Total Liabilities	<u>900</u>	<u>0</u>	<u>8,819</u>
Net Assets:			
Held in Trust for Pool Participants	0	188,305	0
Unrestricted	124,274	0	0
Total Net Assets	<u>\$ 124,274</u>	<u>\$ 188,305</u>	<u>\$ 0</u>

See accompanying notes to the basic financial statements

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Statement of Changes in Net Assets
Fiduciary Funds
For the Year Ended June 30, 2004

	<u>Private Purpose Trust</u>	<u>Investment Trust Fund</u>
Additions:		
Contributions:		
Private Donations	\$ 23,600	\$ 0
Capital Transactions	0	188,305
Total Additions	<u>23,600</u>	<u>188,305</u>
Deductions:		
Administrative Expenses	<u>7,010</u>	<u>0</u>
Total Deductions	<u>7,010</u>	<u>0</u>
Change in Net Assets	16,590	188,305
Net Assets at Beginning of Year	<u>107,684</u>	<u>0</u>
Net Assets End of Year	<u>\$ 124,274</u>	<u>\$ 188,305</u>

See accompanying notes to the basic financial statements

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

The Center is associated with the Ohio Mid-Eastern Regional Education Service Agency, the Ohio School Boards Association Workers' Compensation Group Rating Plan and the Schools of Ohio Risk Sharing Authority, which are defined as a jointly governed organization and insurance purchasing pools. These organizations are presented in Notes 12 and 13.

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

B. Basis of Presentation - Fund Accounting

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

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

The following fund types are used by the Center:

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

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

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

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

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

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

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

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

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

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

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

Fiduciary Funds

Trust and Agency Funds – These funds are used to account for assets held by the Center in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds and are therefore not available to support the Center’s own programs. The Center has a private purpose trust fund which accounts for the activity of the “Susan Award Writing Scholarship Program” for students and the “Mahoney Aspiring Administrator Scholarship Program” for teachers/administrators. The Center also has an investment trust fund that accounts for all the fiscal activities of the “Ohio Coalition for Equity and Adequacy of School Funding”. The Center’s agency fund accounts for the activity of the Southeastern Ohio Title I Consortium, which is a group of school districts that organizes professional development meetings for teachers for which the Center acts as the fiscal agent.

C. Basis of Presentation – Financial Statements

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

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Center’s governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Center, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Center.

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements (Continued)

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

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

Fiduciary funds are reported using the economic resources measurement focus.

D. Basis of Accounting

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

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

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

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

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

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

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

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

E. Budgetary Process

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

The Center legally adopts its budget on or before the start of the new fiscal year. Included in the budget are estimated resources and expenditures for each fund. Upon review by the Center's Board, the annual appropriation resolution is adopted. After the start of the fiscal year, the estimated resources are revised to include the actual beginning of the fiscal year fund balances and accepted by the Board. Both the estimated resources and appropriations may be amended or supplemented throughout the year as circumstances warrant.

In the first quarter of each fiscal year, the Center summarizes and certifies its budget on forms furnished by the State Department of Education, together with such other information as the State Department of Education may require. The summarized budget document consists of three parts. Part (A) includes entitlement funding from the State for the cost of salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Department of Education. Part (B) includes the cost of all other lawful expenditures of the Center. Part (C) includes the adopted appropriation resolution of the Center. The State Board of Education reviews the budget and certifies to each local board of education under the supervision of the Center the amount from part (B) that is to be apportioned to their district.

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

1. Appropriations

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

2. Lapsing of Appropriations

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

3. Budgetary Basis of Accounting

The Center's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on a cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting. Encumbrances are recorded as the equivalent of expenditures (budgetary basis) as opposed to reservations of fund balance (GAAP basis).

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

3. Budgetary Basis of Accounting (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General fund:

	Net Change in Fund Balance
	<u>General Fund</u>
GAAP Basis (as reported)	(\$397,245)
Increase (Decrease):	
Accrued Revenues at June 30, 2004, received during FY 2005	(242,162)
Accrued Revenues at June 30, 2003, received during FY 2004	547,973
Accrued Expenditures at June 30, 2004, paid during FY 2005	733,988
Accrued Expenditures at June 30, 2003, paid during FY 2004	(779,652)
FY 2003 Prepays for FY 2004	396,072
FY 2004 Prepays for FY 2005	(387,109)
Encumbrances Outstanding	<u>(101,999)</u>
Budget Basis	<u><u>(\$230,134)</u></u>

F. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits and investments with original maturities of less than three months.

The Center pools its cash for investment and resource management purposes. Each fund's equity in pooled cash and investments represents the balance on hand as if each fund maintained its own cash and investment account. See Note 4, "Cash, Cash Equivalents and Investments."

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," the Center records all its investments at fair value except for nonparticipating investment contracts (certificates of deposit) which are reported at cost. See Note 4, "Cash, Cash Equivalents and Investments."

The Center had invested funds in the State Treasury Asset Reserve of Ohio during 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2004.

H. Capital Assets and Depreciation

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

1. Property, Plant, and Equipment – Governmental Activities

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

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

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

***Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004***

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets and Depreciation (Continued)

2. Depreciation

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

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

I. Long-Term Obligations

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

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

J. Compensated Absences

In accordance with GASB Statement No. 16, "Accounting for Compensated Absences," sick leave benefits are accrued as a liability using the vesting method. Employees may earn 15 days of sick leave per year up to a maximum of one hundred and eighty (180) days for employees working one hundred eighty-two days (182), one hundred ninety-two (192) days for employees working one hundred ninety-two days (192), and two hundred and two (202) days for employees working two hundred and two (202) days. The maximum sick leave accumulation for all employees shall be two hundred and two (202) days. Upon retirement, employees will receive a maximum of forty (40) days for employees working one hundred and eighty-two (182) days and forty-five (45) days for those working one hundred and ninety-two (192) days. Additional compensation, to recognize extended service as a career professional, may be awarded by the Board equal to one (1) days per diem of the current base salary at the time of retirement for every year of service to the organization. For governmental funds, that portion of unpaid compensated absences that is expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected in the account "Compensated Absences Payable." In the government wide statement of net assets, "Compensated Absences Payable" is recorded within the "Due within one year" account and the long-term portion of the liability is recorded within the "Due in more than one year" account.

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Center or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

L. Pensions

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

M. Interfund Activity

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

N. Reservations of Fund Balance

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

O. Intergovernmental Revenues

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

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

Entitlements

General Fund

State Foundation Program

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Intergovernmental Revenues (Continued)

Non-Reimbursable Grants

Special Revenue Funds

- Educational Management Information Systems
- Public School Preschool
- Data Communications
- School Net
- Alternative Education/Schools Challenge
- Tech Equity
- Parent Mentor
- Title I ESEA School Support Team Program
- Preschool Grant for Children with Disabilities

Grants and entitlements amounted to approximately 42% of the Center's operating revenue during the 2004 fiscal year.

NOTE 2 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE/NET ASSETS

A. Changes in Accounting Principles

For fiscal year 2004, the Center has implemented GASB Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.*"

GASB 34 creates new basic financial statements for reporting on the Center's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the Center's programs between business-type and governmental activities. The beginning net asset amount for the business-type activities equals fund equity of the enterprise funds from last year. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2003, caused by conversion to the accrual basis of accounting.

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 2 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE/NET ASSETS (Continued)

B. Restatement of Fund Balance

The changes to the beginning fund balance, as well as the transition from fund balance to net assets of the governmental activities are as follows:

	<u>Governmental Activities</u>
Fund Balance June 30, 2003	\$3,198,964
Adjustments:	
Fund Reclassifications	<u>(107,684)</u>
Total Prior Period Adjustments	<u>(107,684)</u>
GASB 34 Adjustments:	
Capital Assets, net	190,976
Internal Service Fund	349,213
Long-Term Liabilities	(553,208)
Long-Term (Deferred) Assets	<u>19,616</u>
Net Assets, June 30, 2003	<u><u>\$3,097,877</u></u>

NOTE 3 - COMPLIANCE AND ACCOUNTABILITY

Fund Deficits - The fund deficits at June 30, 2004 of \$157 in the Public School Preschool Fund, \$169 in the Alternative Education Grant Fund, \$35,502 in the Tech Equity Grant Fund, \$2,039 in the Preschool Handicap Grant Fund, and \$23 in the Federal Grants Fund (special revenue funds) arose from the recognition of expenditures on the modified accrual basis of accounting which are greater than expenditures recognized on the budgetary basis of accounting. Deficits did not exist under the cash basis of accounting.

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash resources of several individual funds are combined to form a pool of cash, cash equivalents and investments. In addition, investments are separately held by a number of individual funds.

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

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

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

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

- United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
- Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and
- The State Treasury Asset Reserve of Ohio (STAR Ohio).
- Certain bankers’ acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time.

Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the Center places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Based upon criteria described in GASB Statement No. 3, "Deposits With Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements," collateral held in single financial institution collateral pools with securities being held by the pledging financial institutions' agent in the pool's name are classified as Category 3.

The Governmental Accounting Standards Board has established risk categories for deposits and investments as follows:

Deposits:

- Category 1 Insured or collateralized with securities held by the Center or by its agent in the Center's name.
- Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent, in the Center's name.
- Category 3 Collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Center's name.

Investments:

- Category 1 Insured or registered, or securities held by the Center or its agent in the Center's name.
- Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Center's name.
- Category 3 Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Center's name.

A. Deposits

At year end the carrying amount of the Center's deposits was \$1,815,182 and the bank balance was \$2,060,981. Of the bank balance, \$300,000 was covered by federal depository insurance and \$1,760,981 was uninsured and uncollateralized.

B. Investments

The Center's investments at June 30, 2004 are summarized below:

	Category 2	Fair Value
<u>Categorized Investments</u>		
U.S. Treasury Notes	\$1,198,344	\$1,198,344
Total Categorized Investments	1,198,344	1,198,344
<u>Non-Categorized Investments</u>		
STAR Ohio	N/A	303,970
Total Non-Categorized Investments	0	303,970
Total Investments	\$1,198,344	\$1,502,314

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

B. Investments (Continued)

Following Ohio statutes, the Governing Board has, by resolution, specified the funds to receive an allocation of interest earnings. All interest revenue was credited to the General Fund during fiscal year 2004. General Fund interest revenue amounted to \$52,285, which includes \$7,263 assigned from other Center funds. STAR Ohio is an uncategorized investment since it is not evidenced by securities that exist in physical or book entry form.

C. Reconciliation of Cash, Cash Equivalents and Investments

The classification of cash, cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9. Certificates of deposit with an original maturity of three months or less are treated as cash equivalents. The classification of cash and cash equivalents (deposits) for purposes of this note are based on criteria set forth in GASB Statement No. 3.

	Cash and Cash Equivalents	Investments
Per Combined Balance Sheet	\$2,016,698	\$1,300,798
Investments:		
Certificates of Deposit (with maturities of more than 3 months)	102,454	(102,454)
STAR Ohio	(303,970)	303,970
Per GASB Statement No. 3	\$1,815,182	\$1,502,314

NOTE 5 - RECEIVABLES

Receivables at June 30, 2004 consisted of interest, accounts receivable and intergovernmental receivables.

NOTE 6 - INTERFUND BALANCES

Individual interfund balances at June 30, 2004, are as follows:

	Due From Other Funds	Due To Other Funds
General Fund	\$34,425	\$0
Nonmajor Governmental Funds		
Tech Equity Grant Fund	0	34,425
Total Nonmajor Governmental Funds	0	34,425
Totals	\$34,425	\$34,425

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 6 - INTERFUND BALANCES (Continued)

	Interfund Loans Receivable	Interfund Loans Payable
General Fund	\$7,875	\$0
Nonmajor Governmental Funds		
Federal Grants Fund	0	7,875
Total Nonmajor Governmental Funds	0	7,875
Totals	\$7,875	\$7,875

NOTE 7 - CAPITAL ASSETS

A. Governmental Activities Capital Assets

Summary by category of changes in governmental activities capital assets at June 30, 2004:

Historical Cost:

Class	Restated June 30, 2003	Additions	Deletions	June 30, 2004
Capital assets being depreciated:				
Buildings and Improvement	\$645	\$0	\$0	\$645
Machinery and Equipment	856,164	64,647	(99,683)	821,128
Total Cost	\$856,809	\$64,647	(\$99,683)	\$821,773

Accumulated Depreciation:

Class	Restated June 30, 2003	Additions	Deletions	June 30, 2004
Buildings and Improvement	(\$274)	(\$65)	\$0	(\$339)
Machinery and Equipment	(665,559)	(92,062)	98,301	(659,320)
Total Depreciation	(\$665,833)	(\$92,127) *	\$98,301	(\$659,659)
Net Value:	\$190,976			\$162,114

* Depreciation expenses were charges to governmental functions as follows:

Instruction	\$13,523
Support Services:	
Pupils	6,577
Instructional Staff	44,427
Administration	25,241
Fiscal Services	2,359
Total Depreciation Expense	\$92,127

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 8 - DEFINED BENEFIT PENSION PLANS

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

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

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

The SERS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. The SERS of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the SERS of Ohio. Interested parties may obtain a copy by making a written request to SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

The Ohio Revised Code provides statutory authority for Center and employee contributions of 14% and 9% respectively. The contribution rates are determined actuarially, and are established and may be amended, up to statutory amounts, by the School Employees Retirement Board (Retirement Board) within the rates allowed by State statute. The required employer contribution rate is allocated to basic retirement benefits and health care by the Retirement Board. At June 30, 2004, 8.17% was allocated to fund the pension benefit and 4.91% to fund health care. The Center's contributions to the SERS of Ohio for the years ending June 30, 2004, 2003, and 2002 were \$156,381, \$154,063, and \$142,340, respectively, which were equal to the required contributions for each year.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989 with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium. The portion of the 2004 employer contribution rate that was used to fund health care for the year 2004 was 4.91%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between minimum pay and the member's pay, prorated for partial service credit. For fiscal year 2004, the minimum pay has been established as \$25,400. The amount contributed to fund health care benefits, including the surcharge amounted to \$65,122.

Health care benefits are financed on a pay-as-you-go basis. The number of retirees and covered dependents currently receiving benefits is approximately 62,000. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. Net assets available for payment of benefits at June 30, 2004 was \$300.8 million.

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 8- DEFINED BENEFIT PENSION PLANS (Continued)

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

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

The STRS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and survivor benefits based on eligible service credit to plan members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. The STRS of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the STRS of Ohio. Interested parties may obtain a copy by making a written request to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

The Ohio Revised Code provides statutory authority for Center and employee contributions of 14% and 10%, respectively. The contribution requirements of plan members and the Center are established and may be amended by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. At June 30, 2004, 13% was allocated to fund the pension benefit and 1% to fund health care. The Center's contributions to the STRS of Ohio for the years ending June 30, 2004, 2003, and 2002 were \$447,853, \$429,616, and \$370,768, respectively, which were equal to the required contributions for each year.

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 8- DEFINED BENEFIT PENSION PLANS (Continued)

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

STRS provides postemployment health care benefits to retirees and their dependents. Coverage includes hospitalization, physician fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Revised Code, the State Teachers Retirement Board has discretionary authority over how much, if any, of the health care cost will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium.

Benefits are funded on a pay-as-you-go basis through an allocation of employer contributions to a Health Care Reserve Fund. For the fiscal year ended June 30, 2004, the board allocated employer contributions are equal to 1% of covered payroll to the Health Care Reserve Fund, which amounted to \$31,990 for the Center. The balance of the Health Care Reserve Fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, the net health care costs paid by STRS were \$268,739,000. There were 111,853 eligible benefit recipients.

NOTE 9 - GENERAL LONG-TERM OBLIGATIONS

Long-Term debt and other long-term obligations of the Center at June 30, 2004 were as follows:

	Balance June 30, 2003	Issued	(Retired)	Balance June 30, 2004	Amount Due Within one Year
General Long-Term Obligations:					
Compensated Absences	\$58,957	\$244,166	(\$170,330)	\$612,793	\$51,093
Total General Long-Term Obligations	<u>\$58,957</u>	<u>\$244,166</u>	<u>(\$170,330)</u>	<u>\$612,793</u>	<u>\$51,093</u>

NOTE 10 – OPERATING LEASE

The Center is obligated under an operating lease to Muskingum County for the rental of office space for a period of twenty years. The Center paid to the County half of the lease obligation (\$400,000) in December of 1996. The next scheduled payment is due in January of 2008. The operating lease does not give rise to property rights or lease obligations, and therefore the results of the lease agreement are not reflected in the Center's financial statements. The following is a schedule by years of future minimum rental payments required under the operating lease that have remaining noncancelable lease terms in excess of one year as of June 30, 2004:

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

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 11 – JOINTLY GOVERNED ORGANIZATIONS

Ohio Mid-Eastern Regional Education Service Agency/(OME-RESA) – OME-RESA was created as a regional council of governments pursuant to State statutes. OME-RESA has 11 participating counties consisting of Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Muskingum, Noble and Tuscarawas Counties. OME-RESA is governed by a governing board which is selected by member districts. OME-RESA possesses its own budgeting and taxing authority. To obtain financial information write to the Ohio Mid-Eastern Regional Education Service Agency, Attn: Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio 43952.

NOTE 12 – INSURANCE PURCHASING POOL

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

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

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MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 13 - RISK MANAGEMENT

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and injuries to employees. During fiscal year 2004 the Center contracted with one insurance provider for various insurance coverages, as follows:

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

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

For fiscal year 2004, the Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

NOTE 14 - CONTINGENCIES

A. Grants

The Center receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Center at June 30, 2004.

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 14 - CONTINGENCIES (Continued)

B. Litigation

The Center is currently not party to any litigation.

C. State School Funding

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed, 'the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient.' The Center is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

NOTE 15 – STATE FUNDING

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

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

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

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 16 – INVESTMENT TRUST FUND

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

Statement of Net Assets June 30, 2004

Assets:	
Equity Pooled in Cash and Cash Equivalents	\$2,016,698
Accrued Interest Receivable	2,542
Total Assets:	\$2,019,240
Net Assets Held in Trust for Pool Participants:	
Internal Portion	\$1,830,935
External Portion	188,305
Total Net Assets Held in Trust for Pool Participants	\$2,019,240

Statement of Changes in Net Assets For the Fiscal Year Ended June 30, 2004

Additions:	
Interest Income	\$52,276
Deductions:	
Operating Deductions	0
Net Increase in Assets Resulting from Operations	52,276
Distributions Paid to Participants	(53,173)
Capital Transactions	(179,391)
Total Decrease in Net Assets	(180,288)
Net Assets - Beginning of Year	2,199,528
Net Assets - End of Year	\$2,019,240

The Center has investments in U.S. Treasury Notes, which are not pooled for investment purposes and are excluded from the investment trust fund. The investments are captioned on the Center's financial statements as "Investments". Cash and cash equivalents reported for the investment trust fund are the same as total cash and cash equivalents for the Center based upon GASB 9 (see note 4).

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**MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER
MUSKINGUM COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004**

FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program Title	Federal CFDA Number	Pass-Through Entity Number	Receipts	Disbursements
U. S. DEPARTMENT OF EDUCATION				
<i>Passed-Through Ohio Department of Education:</i>				
Title I Grants to Local Educational Agencies	84.010	125252-C1ST-2003-P	\$13,248	\$56,885
		125252-C1ST-2003-P	6,633	12,693
Total Title I Grants to Local Educational Agencies			<u>19,881</u>	<u>69,578</u>
Special Education Cluster:				
Special Education - Grants to States	84.027	125252-6BPM-2003-P		5,781
		125252-6BPM-2004-P	25,000	15,287
		125252-6BSA-2003-P	(1,686)	15,821
		125252-6BSA-2004-P	9,000	5,655
Total Special Education - Grants to States			<u>32,314</u>	<u>42,544</u>
Special Education Preschool Grant	84.173	125252-PGS1-2004-P	<u>62,058</u>	<u>62,058</u>
Total Special Education Cluster			94,372	104,602
Safe and Drug Free Schools and Communities - National Programs	84.184	125252-T4S1-2003	(904)	75
		125252-T4S1-2004	11,096	18,020
		125252-T4S1-2004	7,782	8,734
Total Safe and Drug Free Schools and Communities - National Programs			<u>17,974</u>	<u>26,829</u>
Total U. S. Department of Education			132,227	201,009
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>				
Medical Assistance Program	93.778	N/A	<u>361,028</u>	<u>361,028</u>
Total U. S. Department of Health and Human Services			<u>361,028</u>	<u>361,028</u>
Total Federal Awards Receipts and Expenditures			<u>\$493,255</u>	<u>\$562,037</u>

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

**MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER
MUSKINGUM COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
JUNE 30, 2004**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – MATCHING REQUIREMENTS

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



**Auditor of State
Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Muskingum Valley Educational Service Center, Muskingum County, Ohio (the Center), as of and for the year ended June 30, 2004, which collectively comprise the Center's basic financial statements and have issued our report thereon dated September 12, 2005, wherein we noted the Center adopted Governmental Accounting Standards Board Statement 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

743 E. State St. / Athens Mall Suite B / Athens, OH 45701
Telephone: (740) 594-3300 (800) 441-1389 Fax: (740) 594-2110
www.auditor.state.oh.us

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

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

Betty Montgomery
Auditor of State

September 12, 2005



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

We have audited the compliance of Muskingum Valley Educational Service Center, Muskingum County, Ohio (the Center), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2004. The summary of auditor's results section of the accompanying schedule of findings identifies the Center's major federal program. The Center's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its major federal program. Our responsibility is to express an opinion on the Center's compliance based on our audit.

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

In our opinion, the Center complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2004.

Internal Control Over Compliance

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

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

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

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

Betty Montgomery
Auditor of State

September 12, 2005

**MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Medical Assistance Program, CFDA # 93.778
(d)(1)(viii)	Dollar Threshold: Type AIB Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

No findings to report.

3. FINDINGS FOR FEDERAL AWARDS

No findings to report.



**Auditor of State
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

MUSKINGUM COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 10, 2005**