MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER
MUSKINGUM COUNTY

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2010

Dave Yost • Auditor of State

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER
MUSKINGUM COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

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

To the Governing Board:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Muskingum Valley Educational Service Center, Muskingum County, Ohio (the Center), as of and for the year ended June 30, 2010, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Muskingum Valley Educational Service Center, Muskingum County, Ohio, as of June 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2011 on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Dave Yost

Dave Yost
Auditor of State

March 8, 2011

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, 2010. 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 2010 are as follows:

- Net assets decreased $556,498, which represents an 18.9% decrease from 2009.
- General revenues accounted for $1,654,358 in revenue or 15.2% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for $9,209,185 or 84.8% of total revenues of $10,863,543.
- The Center had $11,420,041 in expenses related to governmental activities; only $9,209,185 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of $1,654,358 were not adequate to provide for these programs as net assets decreased by $556,498.
- Among major funds, the general fund had $8,672,914 in revenues and $9,031,959 in expenditures. The general fund's fund balance decreased $359,045 to $2,766,887. This decrease is attributable to a decrease in charges for support services and a reduction in Federal funding. The fund balance of the Special Education Fund decreased by $85,114.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

These statements are as follows:

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

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

Government-wide Statements

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

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

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

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

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

> Governmental Activities – Most of the Center's programs and services are reported here including instruction, support services, 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.

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

FINANCIAL ANALYSIS OF THE CENTER AS A WHOLE

The following table provides a comparison of the Center's net assets for 2010 and 2009:

	Governmental Activities	
	2010	2009
Current and other assets	$4,568,381	$5,052,083
Capital assets, Net	185,050	215,772
Total assets	4,753,431	5,267,855
Long-term liabilities outstanding	798,507	840,812
Other liabilities	1,563,150	1,478,771
Total liabilities	2,361,657	2,319,583
Net assets		
Invested in capital assets	185,050	215,772
Restricted	211,610	411,192
Unrestricted	1,995,114	2,321,308
Total net assets	$2,391,774	$2,948,272

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Changes in Net Assets – The following table shows the changes in net assets for the fiscal year 2010 and 2009:

	Governmental Activities	
	2010	2009
Revenues		
Program revenues:		
Charges for Services and Sales	$7,142,351	$7,537,953
Operating Grants and Contributions	2,066,834	3,658,463
General revenues:		
Grants and Entitlements	1,294,208	1,171,032
Other	360,150	74,733
Total revenues	10,863,543	12,442,181
Program Expenses		
Instruction	3,578,487	3,853,398
Support Services:		
Pupils	1,918,684	2,005,631
Instructional Staff	4,290,150	4,934,552
Board of Education	30,173	25,115
Administration	688,555	957,920
Fiscal Services	300,435	309,870
Operation and Maintenance of Plant	63,264	68,360
Pupil Transportation	12,444	15,143
Central	362,748	231,476
Payments to State	123,377	0
Operation of Non-Instructional Services		
Community Services	41,393	9,876
Extracurricular Activities	10,331	12,163
Total expenses	11,420,041	12,423,504
Total Change in Net Assets	(556,498)	18,677
Beginning Net Assets	2,948,272	2,929,595
Ending Net Assets	$2,391,774	$2,948,272

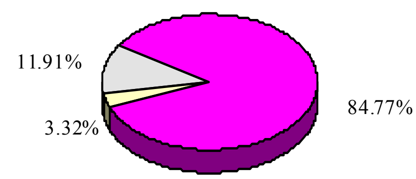
Governmental Activities

Net assets of the Center's governmental activities decreased by $556,498. During fiscal year 2010, the Center was able to decrease expenditures by over $1 million compared to the prior year. However, due to the current economic state, budget shortfalls caused decreases in Federal and State funding the Center received, and low interest rates hampered investment earnings. The loss of revenues exceeded the reduction in expenditures, causing the net assets to decrease.

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010 ***Unaudited***

Program revenues made up 85% of revenues for governmental activities for Muskingum Valley Educational Service Center in fiscal year 2010. The Center's reliance upon these revenues is demonstrated by the following graph:

Revenue Sources	2010	Percent of Total
General Grants	$1,294,208	11.91%
Program Revenues	9,209,185	84.77%
General Other	360,150	3.32%
Total Revenue	$10,863,543	100.00%



FINANCIAL ANALYSIS OF THE CENTER'S FUNDS

The Center's governmental funds reported a combined fund balance of $2,786,021, which is lower than last year's total of $3,318,185. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2010 and 2009.

	Fund Balance June 30, 2010	Fund Balance June 30, 2009	Increase (Decrease)
General	$2,766,887	$3,125,932	($359,045)
Special Education	(12,439)	72,675	(85,114)
Other Governmental	31,573	119,578	(88,005)
Total	$2,786,021	$3,318,185	($532,164)

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

	2010 Revenues	2009 Revenues	Increase (Decrease)
Tuition	$4,191,632	$3,684,887	$506,745
Charges for Services	2,494,905	3,482,899	(987,994)
Investment Earnings	35,158	63,248	(28,090)
Extracurricular Activities	14,878	13,215	1,663
Class Materials and Fees	5,980	0	5,980
Intergovernmental - State	1,184,065	1,210,777	(26,712)
Intergovernmental - Federal	0	275,559	(275,559)
All Other Revenue	746,296	347,647	398,649
Total	$8,672,914	$9,078,232	($405,318)

General Fund revenues decreased in 2010, by 4.5% compared to revenues in fiscal year 2009, due to a decrease in Federal funding support of the Center's Early Childhood programs, a decrease in charges for services, primarily in the curriculum service area due to decreased services provided, and decreases in State and investment income.

	2010 Expenditures	2009 Expenditures	Increase (Decrease)
Instruction	$3,355,607	$3,629,453	($273,846)
Supporting Services:			
Pupils	1,885,322	1,754,486	130,836
Instructional Staff	2,539,585	2,465,790	73,795
Board of Education	30,173	25,115	5,058
Administration	620,833	491,854	128,979
Fiscal Services	232,788	230,001	2,787
Operation & Maintenance of Plant	1,055	1,441	(386)
Pupil Transportation	12,119	14,073	(1,954)
Central	219,355	193,182	26,173
Payments to State	123,377	0	123,377
Extracurricular Activities	10,331	12,163	(1,832)
Capital Outlay	1,414	1,414	0
Total	$9,031,959	$8,818,972	$212,987

The expenditures remained stable increasing by only $212,987 or 2.5% compared to the prior year. During fiscal year 2010, Muskingum Valley ESC operated with the same salary scales as in Fiscal Year 2009 and experienced only a 1% increase in insurance premiums.

Special Education Fund - The fund balance of the Special Education Fund decreased by 117.1%. This decrease was caused by decreased grants monies combined with increased costs for instructional staff and administration services.

CAPITAL ASSETS AND LONG-TERM LIABILITIES ADMINISTRATION

Capital Assets

At the end of fiscal year 2010, the Center had $185,050 net of accumulated depreciation invested in buildings and improvements; and machinery and equipment. The following table shows fiscal year 2010 and 2009 balances:

	Governmental Activities		Increase (Decrease)
	2010	2009	
Buildings and Improvements	$645	$645	$0
Machinery and Equipment	946,107	895,513	50,594
Less: Accumulated Depreciation	(761,702)	(680,386)	(81,316)
Totals	$185,050	$215,772	($30,722)

The Center's primary capital assets are technology equipment. The Center replaces obsolete equipment on a schedule determined by the Director of Technology Services and governing board policy.

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

Long-Term Liabilities

At June 30, 2010, the Center had $798,507 in compensated absences payable, $83,149 due within one year. The following table summarizes the Center's long-term obligations outstanding as of June 30, 2010 and 2009:

	2010	**2009**
Governmental Activities:		
Compensated Absences Payable	$798,507	$840,812

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

ECONOMIC FACTORS

As the preceding information shows, the Center relies heavily on contracts with local and city school districts in Coshocton, Morgan, and Muskingum counties. Other significant revenue sources for the Center are state foundation payments and grants. Existing contracts with the Center's partner school districts, as well as the Center's cash balance, will provide the Center with the necessary funds to operate during fiscal year 2011. However, the future financial health of the Center presents certain challenges.

The first challenge is the Center's state foundation payments. The Center's state funding has been frozen at $40.52 per pupil since fiscal year 2000. The Center relies on the $40.52 per pupil to support fiscal and administrative costs. During fiscal year 2008, the State of Ohio reduced ESC funding. The funding remained at reduced levels during fiscal year 2009. For fiscal year 2010, the Center's State funding has been reduced over 10%.

The second challenge is the financial health of the school districts the Center serves. With the uncertainty of adequate state funding, districts may not be able to continue with existing Center services or obtain additional Center services.

REQUESTS FOR INFORMATION

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

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Statement of Net Assets
June 30, 2010

		Governmental Activities
Assets:		
Cash and Cash Equivalents	$	2,063,912
Investments		1,573,522
Receivables:		
Intergovernmental		753,342
Interest		3,150
Prepaid Items		174,455
Capital Assets, Net		185,050
Total Assets		4,753,431
Liabilities:		
Accounts Payable		127,889
Accrued Wages and Benefits		1,101,169
Intergovernmental Payable		301,258
Vacation Benefits Payable		32,834
Long Term Liabilities:		
Due Within One Year		83,149
Due in More Than One Year		715,358
Total Liabilities		2,361,657
Net Assets:		
Invested in Capital Assets		185,050
Restricted For:		
Other Purposes		211,610
Unrestricted		1,995,114
Total Net Assets	$	2,391,774

See accompanying notes to the basic financial statements

Statement of Activities
For the Fiscal Year Ended June 30, 2010

	Expenses	Program Revenues: Charges for Services and Sales	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities
Governmental Activities:				
Instruction	$ 3,578,487	$ 4,191,632	$ 237,342	$ 850,487
Support Services:				
Pupils	1,918,684	1,073,786	51,375	(793,523)
Instructional Staff	4,290,150	1,862,055	1,411,988	(1,016,107)
Board of Education	30,173	0	0	(30,173)
Administration	688,555	0	109,009	(579,546)
Fiscal Services	300,435	0	67,372	(233,063)
Operation and Maintenance of Plant	63,264	0	42,890	(20,374)
Pupil Transportation	12,444	0	325	(12,119)
Central	362,748	0	108,046	(254,702)
Payments to State	123,377	0	0	(123,377)
Operation of Non-Instructional:				
Community Services	41,393	0	38,487	(2,906)
Extracurricular Activities	10,331	14,878	0	4,547
Totals	$ 11,420,041	$ 7,142,351	$ 2,066,834	$ (2,210,856)

General Revenues	
Grants and Entitlements not Restricted to Specific	1,294,208
Investment Earnings	34,521
Miscellaneous	325,629
Total General Revenues	1,654,358
Change in Net Assets	(556,498)
Net Assets Beginning of Year - Restated, See Note 2	2,948,272
Net Assets End of Year	$ 2,391,774

See accompanying notes to the basic financial statements

Balance Sheet
Governmental Funds
June 30, 2010

	General	Special Education Fund	Other Governmental Funds	Total Governmental Funds
Assets:				
Cash and Cash Equivalents	$ 2,035,503	$ 0	$ 28,409	$ 2,063,912
Investments	1,573,522	0	0	1,573,522
Receivables:				
Intergovernmental	151,161	374,893	227,288	753,342
Interest	3,150	0	0	3,150
Interfund Loan Receivable	92,203	0	0	92,203
Prepaid Items	174,374	55	26	174,455
Total Assets	$ 4,029,913	$ 374,948	$ 255,723	$ 4,660,584
Liabilities:				
Accounts Payable	$ 108,593	$ 8,313	$ 10,983	$ 127,889
Accrued Wages and Benefits	909,848	154,279	37,042	1,101,169
Intergovernmental Payable	243,706	31,153	26,399	301,258
Interfund Loans Payable	0	643	91,560	92,203
Deferred Revenue	879	192,999	58,166	252,044
Total Liabilities	1,263,026	387,387	224,150	1,874,563
Fund Balances:				
Reserved for Encumbrances	205,497	100,831	80,690	387,018
Reserved for Prepaid Items	174,374	55	26	174,455
Unreserved, Undesignated in:				
General Fund	2,387,016	0	0	2,387,016
Special Revenue Funds	0	(113,325)	(49,143)	(162,468)
Total Fund Balances	2,766,887	(12,439)	31,573	2,786,021
Total Liabilities and Fund Balances	$ 4,029,913	$ 374,948	$ 255,723	$ 4,660,584

See accompanying notes to the basic financial statements

Reconciliation Of Total Governmental Fund Balances
To Net Assets Of Governmental Activities
June 30, 2010

Total Governmental Fund Balances	$ 2,786,021
Amounts reported for governmental activities in the statement of net assets are different because	
Capital assets used in governmental activities are not resources and therefore are not reported in the funds.	185,050
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	252,044
Vacation Benefits Payable are recognized for earned vacation benefits that are not expected to be paid with expendable available financial resources and therefore are not reported in the funds.	(32,834)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(798,507)
Net Assets of Governmental Activities	$2,391,774

See accompanying notes to the basic financial statements

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2010

	General	Special Education Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Local Sources:				
Tuition	$ 4,191,632	$ 0	0	4,191,632
Charges for Services	2,494,905	0	0	2,494,905
Investment Earnings	35,158	0	0	35,158
Extracurricular Activities	14,878	0	0	14,878
Class Materials and Fees	5,980	0	0	5,980
Intermediate Sources	0	0	14,289	14,289
Intergovernmental - State	1,184,065	0	691,369	1,875,434
Intergovernmental - Federal	0	1,215,424	299,541	1,514,965
All Other Revenue	746,296	0	0	746,296
Total Revenue	8,672,914	1,215,424	1,005,199	10,893,537
Expenditures:				
Current:				
Instruction	3,355,607	0	187,391	3,542,998
Supporting Services:				
Pupils	1,885,322	26,627	32,110	1,944,059
Instructional Staff	2,539,585	1,021,913	738,508	4,300,006
Board of Education	30,173	0	0	30,173
Administration	620,833	41,176	34,849	696,858
Fiscal Services	232,788	56,746	7,102	296,636
Operation & Maintenance of Plant	1,055	28,818	33,391	63,264
Pupil Transportation	12,119	0	325	12,444
Central	219,355	86,865	56,528	362,748
Payments to State	123,377	0	0	123,377
Operation of Non-Instructional:				
Community Services	0	38,393	3,000	41,393
Extracurricular Activities	10,331	0	0	10,331
Capital Outlay	1,414	0	0	1,414
Total Expenditures	9,031,959	1,300,538	1,093,204	11,425,701
Net Change in Fund Balance	(359,045)	(85,114)	(88,005)	(532,164)
Fund Balances at Beginning of Year, Restated see Note 2	3,125,932	72,675	119,578	3,318,185
Fund Balances End of Year	$ 2,766,887	$ (12,439)	$ 31,573	$ 2,786,021

See accompanying notes to the basic financial statements

Reconciliation Of The Statement Of Revenues, Expenditures And Changes In Fund Balances Of Governmental Funds To The Statement Of Activities For The Fiscal Year Ended June 30, 2010

Net Change in Fund Balances - Total Governmental Funds	$ (532,164)
Amounts reported for governmental activities in the statement of activities are different because	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	(30,722)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(29,994)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.	36,382
Change in Net Assets of Governmental Activities	$ (556,498)

See accompanying notes to the basic financial statements

Statement of Net Assets
Fiduciary Funds
June 30, 2010

	Private Purpose Trust Special Trust Fund	Investment Trust Fund	Agency
Assets:			
Cash and Cash Equivalents	$ 49,046	$ 487,907	$ 2,730,143
Investments	0	0	251,033
Total Assets	49,046	487,907	2,981,176
Liabilities:			
Accounts Payable	0	6,547	0
Due to Others	0	0	2,981,176
Total Liabilities	0	6,547	2,981,176
Net Assets:			
Held in Trust for Scholarships	49,046	0	0
Trust Pool Participants	0	481,360	0
Total Net Assets	$ 49,046	$ 481,360	$ 0

See accompanying notes to the basic financial statements

Statement of Changes in Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2010

	Private Purpose Trust Special Trust Fund	Investment Trust Fund
Additions:		
Contributions:		
Private Donations	$ 137	$ 0
Dues	0	224,839
Total Contributions	137	224,839
Investment Earnings:		
Interest	0	1,018
Total Investment Earnings	0	1,018
Total Additions	137	225,857
Deductions:		
Administrative Expenses	6,082	253,664
Total Deductions	6,082	253,664
Change in Net Assets	(5,945)	(27,807)
Net Assets at Beginning of Year, Restated see Note 2	54,991	509,167
Net Assets End of Year	$ 49,046	$ 481,360

See accompanying notes to the basic financial statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Muskingum Valley Educational Service Center (the Center) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Center is an education 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,"* and GASB Statement No. 39 "*Determining Whether Certain Organizations are Component Units"* 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 and GASB Statement No. 39 to be included in the Center's reporting entity. Based on the foregoing, the reporting entity of the Center includes the following services: services to families and children, professional development and teacher support, technical assistance, curriculum services and operational support.

The ESC participates in 3 jointly governed organizations and 3 insurance purchasing pools. These organizations are the Ohio Mid-Eastern Regional Education Service Agency, Coalition of Rural and Appalachian Schools, the Ohio Coalition of Equity and Adequacy of School Funding, the Ohio School Boards Association Workers' Compensation Group Rating Plan, the Schools of Ohio Risk Sharing Authority, and the Ohio School Benefits Cooperative. These organizations are presented in Notes 11 and 12 to the basic financial statements.

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

B. Basis of Presentation - Fund Accounting

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

The following fund types are used by the Center:

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

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

Special Education Fund - This fund is used to account for monies set aside for special education.

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

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

Fiduciary Funds

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

C. Basis of Presentation – Financial Statements

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements (Continued)

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

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

Fiduciary funds are reported using the economic resources measurement focus.

D. Basis of Accounting

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

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

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

E. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits.

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

F. Investments

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Capital Assets and Depreciation

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

1. Property, Plant, and Equipment – Governmental Activities

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

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

2. Depreciation

All capital assets are depreciated. Depreciation has been provided using the straight-line method over the following estimated useful lives:

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

H. Long-Term Obligations

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

Obligation	Fund
Compensated Absences	General Fund

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Compensated Absences

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

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

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

In addition, during fiscal year 2009, the Board approved for the Superintendent to receive compensation at his current rate of pay for current accumulated vacation and sick leave over a period of 4 years. The Center's liability for this compensation is reflected as long term liabilities due in one year and long term liabilities due in more than one year on the government wide financial statements.

In accordance with GASB Statement No. 16, "Accounting for Compensated Absences," sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end. The Center records a liability for accumulated unused sick leave for employees after five years of current service with the Center. Employees may earn 15 days of sick leave per year up to a maximum of one hundred and eighty

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Compensated Absences (Continued)

(180) days for employees working one hundred eighty-two (182) days to one hundred ninety-one (191) days, one hundred ninety-two (192) days for employees working one hundred ninety-two days (192) to two hundred-one (201) days, and two hundred-two (202) days for employees working two hundred-two (202) days. The maximum sick leave accumulation for all employees shall be two hundred and two (202) days. Upon retirement, employees will receive a maximum of forty (40) days for employees working one hundred and eighty-two (182) to one hundred ninety-one (191) days and forty-five (45) days for those working one hundred ninety-two (192) days or more.

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

The Center's liability for the portion of sick leave and extended service benefits which have an average maturity greater than one year are recorded as "long-term liabilities" and are reported in two components, the amount due within one year and the amount due in more than one year. The Center has estimated $83,149 of the total long-term liability to be due within one year based on historical trends and budgeted amounts.

J. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. 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. There was no enabling legislation restricting the Center's assets during the 2010 fiscal year.

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

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

K. Pensions

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Interfund Activity

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

M. Reservations of Fund Balance

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

N. Intergovernmental Revenues

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

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

Entitlements
- *General Fund*
  - State Foundation Program

Non-Reimbursable Grants
- *Special Revenue Funds*
  - Educational Management Information Systems
  - Public School Preschool
  - Data Communications
  - Alternative Education/Schools Challenge
  - School Improvement Grants
  - Literacy/SIRI Regional Services
  - Title VIB Special Education Program
  - Early Learning Initiatives
  - Improving Teacher Quality
  - Family and Civic Engagement
  - Preschool Grant for Children with Disabilities

Grants and entitlements amounted to approximately 30.9% of the Center's operating revenue during the 2010 fiscal year.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Estimates

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

P. Prepaid Items

Payments made to vendors for services or rent that will benefit periods beyond June 30, 2010, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and expenditure/expense is reported in the fiscal year in which services are consumed.

NOTE 2 – COMPLIANCE AND ACCOUNTABILITY

A. Fund Deficits

The fund deficit at June 30, 2010 of $12,439 in the Special Education Fund, and $160 in the EHA Preschool Handicap Grant Fund (special revenue fund) arose from the recognition of liabilities on the modified accrual basis of accounting. Advances are made to cover temporary deficits under the cash basis of accounting.

B. Restatement of Fund Balances / Net Assets

The Center reevaluated the activities being reported in the General Fund, the internal service fund, and two of the fiduciary funds. The Center restated the beginning balance of these funds to more appropriately record the activities of these funds.

The Center also restated the beginning balance of the General Fund and the Governmental Activities to correct the balance of prepaid operating leases the Center engages in.

These adjustments had the following effects on the Center's fund balances / net assets at June 30, 2010:

	General Fund	Internal Service Fund	Special Trust Fund	Governmental Activities
Fund Balance / Net Assets June 30, 2009	$2,936,039	$119,163	$54,445	$2,877,542
Adjustments:				
Reclassification of Activities	127,293	(119,163)	546	8,130
Restate Prepaid Leases	62,600	0	0	62,600
Total Prior Period Adjustments	189,893	(119,163)	546	70,730
Restated Fund Balance / Net Assets, June 30, 2009	$3,125,932	$0	$54,991	$2,948,272

NOTE 3 – DEPOSITS AND INVESTMENTS

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

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

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

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

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

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

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

A. Deposits

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

Custodial credit risk for deposits is the risk that in the event of bank failure, the Center will not be able to recover deposits or collateral securities that are in possession of an outside party. At year end the carrying amount of the Center's deposits was $6,506,601 and the bank balance was $6,756,294. Federal depository insurance covered $4,512,382 of the bank balance and $2,243,912 was uninsured. Of the remaining uninsured bank balance, the Center was exposed to custodial risk as follows:

	Balance
Uninsured and collateralized with securities held by the pledging institution's trust department not in the Center's name	$2,243,912
Total Balance	$2,243,912

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

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

A. Deposits (Continued)

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

Investment earnings of $18,576 earned by other funds were credited to the General Fund as required by state statute.

B. Investments

The Center's investments at June 30, 2010 were as follows:

		Credit	Investment Maturities (in Years)		
	Fair Value	Rating	less than 1	1-3	3-5
FNMA	$50,000	AAA[1]	$0	$50,000	$0
FHLB	100,000	AAA[1]	0	0	100,000
US Treasury Notes	499,501	*	200,007	99,966	199,528
Total Investments	$649,501		$200,007	$149,966	$299,528

[1] Standard & Poor's
* Guaranteed by the U.S. Government

Interest Rate Risk – The Center's investment policy addresses interest rate risk to the extent that it prohibits the Treasurer from investing in securities which have a remaining term to final maturity of more than five (5) years. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Center, and that an investment must be purchased with the expectation that it will be held to maturity.

Credit Risk – The United States Treasury Notes are guaranteed by the U.S. Government. The Center's investment policy does not limit its investment choices other than to permit only those investments specifically authorized by State statute.

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

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 4 - RECEIVABLES

Receivables at June 30, 2010 consisted of interest and intergovernmental receivables.

NOTE 5 - INTERFUND BALANCES

Individual interfund balances at June 30, 2010, are as follows:

	Interfund Loans Receivable	Interfund Loans Payable
General Fund	$92,203	$0
Special Education Fund	0	643
Nonmajor Governmental Funds		
Alternative Education Grant Fund	0	18,144
Tech Equity Fund	0	29,309
Center of Practice Grant Fund	0	14,084
Federal Grants Fund	0	30,023
Total Nonmajor Governmental Funds	0	91,560
Totals	$92,203	$92,203

The interfund balances are to cover temporary cash deficits in funds.

NOTE 6 - CAPITAL ASSETS - GOVERNMENTAL ACTIVITIES

Summary by category of changes in governmental activities capital assets at June 30, 2010:

Historical Cost:

Class	June 30, 2009	Additions	Deletions	June 30, 2010
Capital assets being depreciated:				
Buildings and Improvements	$645	$0	$0	$645
Machinery and Equipment	895,513	92,121	(41,527)	946,107
Total Cost	$896,158	$92,121	($41,527)	$946,752

Accumulated Depreciation:

Class	June 30, 2009	Additions	Deletions	June 30, 2010
Buildings and Improvements	($645)	$0	$0	($645)
Machinery and Equipment	(679,741)	(122,843)	41,527	(761,057)
Total Depreciation	($680,386)	($122,843) *	$41,527	($761,702)
Net Value:	$215,772			$185,050

NOTE 6 - CAPITAL ASSETS - GOVERNMENTAL ACTIVITIES (Continued)

* Depreciation expenses were charges to governmental functions as follows:

Instruction	$10,209
Support Services:	
Pupils	4,905
Instructional Staff	20,402
Administration	86,212
Fiscal Services	1,115
Total Depreciation Expense	$122,843

NOTE 7- 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 Employee Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current Center rate is 14 percent of annual covered payroll. A portion of the Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2010, 12.78 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were $165,672, $155,622 and $193,083 respectively, which were equal to the required contributions for each year.

NOTE 7- DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

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

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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For the fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salaries. The Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2009, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

NOTE 7- DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

The Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009, and 2008 were $647,032, $595,286, and $565,620 respectively; which were equal to the required contributions for each year. Contributions to the DC and Combined Plans for fiscal year 2010 were $3,760 made by the Center and $2,686 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2010, three members of the Governing Board have elected Social Security. The contribution rate is 6.2 percent of wages.

NOTE 8 - POSTEMPLOYMENT BENEFITS

A. School Employee Retirement System

Plan Description – The Center participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2010, 0.46 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2010, this amount was $35,800.

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

NOTE 8 - POSTEMPLOYMENT BENEFITS (Continued)

A. School Employee Retirement System (Continued)

The Center's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were $107,495, $114,293, and $57,649 respectively; which were equal to the required contributions for each year.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2010, this actuarially required allocation was 0.76 percent of covered payroll. The Center's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were $13,669, $11,299, and $9,102 respectively; which were equal to the required contributions for each year.

B. State Teachers Retirement System

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Center's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were $49,772, $45,791, and $40,401 respectively; which were equal to the required contributions for each year.

NOTE 9 - GENERAL LONG-TERM OBLIGATIONS

Long-term obligations of the Center at June 30, 2010 were as follows:

	Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010	Amount Due Within one Year
General Long-Term Obligations:					
Compensated Absences	$840,812	$38,104	($80,409)	$798,507	$83,149
Total General Long-Term Obligations	$840,812	$38,104	($80,409)	$798,507	$83,149

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 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, 2010:

Fiscal Year Ending June 30,	Amounts
2011	$42,960
2012	44,460
2013	45,960
2014	46,010
2015	46,020
2016-2017	69,030
Total Minimum Payments	$294,440

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. The Center's payments to OME-RESA for computer services for fiscal year 2010 were $27,778. To obtain financial information write to the Ohio Mid-Eastern Regional Education Service Agency, Attn: Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio 43952.

Coalition of Rural and Appalachian Schools - The Coalition of Rural and Appalachian Schools is a jointly governed organization composed of over 130 school districts and other educational institutions in the 29-county region of Ohio designated as Appalachia. The Coalition is operated by a Board which is composed of seventeen members. One elected and one appointed from each of the seven regions into which the 29 Appalachian counties are divided; and three from Ohio University College of Education. The Council provides various in-service training programs for school district administrative personnel; gathers data regarding the level of education provided to children in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel.

The Council is not dependent on the continued participation of the Center and the Center does not maintain an equity interest in or financial responsibility for the Council. The Center's membership and seminar fees were $300 for fiscal year 2010.

NOTE 11 – JOINTLY GOVERNED ORGANIZATIONS (Continued)

Ohio Coalition for Equity and Adequacy of School Funding – The Ohio Coalition for Equity and Adequacy of School Funding is a regional council of governments established in January 1991. The purpose of the Coalition is to bring about greater equity and adequacy of public school funding in Ohio. The Coalition is governed by a steering committee consisting of representatives from the membership group. The steering committee consist of not more than 78 representatives, who are Superintendents of Boards of Education that are Coalition members, plus an additional 12 representatives may be appointed by the Chairperson. The Center's membership fee was $1,000 for fiscal year 2010. The Center serves as the fiscal agent of the Coalition and financial activity of the Coalition is reported as an investment trust fund as discussed in Note 16.

NOTE 12 – INSURANCE PURCHASING POOL

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

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

Ohio School Benefits Cooperative - The ESC participates in and serves as fiscal agent for the Ohio School Benefits Cooperative, a claims servicing and group purchasing pool comprised of fourteen school districts as of June 30, 2010. The Ohio School Benefits Cooperative (OSBC) was created and organized pursuant to and as authorized by Section 9.833 of the Ohio Revised Code. OSBC is governed by a nine member Board of Directors, all of whom must be school district and/or educational service center administrators. OSBC is an unincorporated, non-profit association of its members which was created for the purpose of enabling members of the OSBC to maximize benefits and/or reduce costs of medical, prescription drug, vision, dental, life and/or other group insurance coverage for their employees, and the eligible dependents and designated beneficiaries of such employees.

NOTE 12 – INSURANCE PURCHASING POOL (Continued)

Participants pay a $500 membership fee to OSBC. OSBC offers two options to participants. Participants may enroll in the joint insurance purchasing program for medical, prescription drug, vision, dental and/or life insurance. A second option is available for self-insured participants that provides for the purchase of stop loss insurance coverage through OSBC's third party administrator. The OSBC's business and affairs are conducted by a nine member Board of Directors consisting of school district superintendents and treasurers elected by the members of the OSBC. Medical Mutual/Antares is the administrator of the OSBC. On October 1, 2006, the ESC elected to participate in the fully funded purchasing program for medical, prescription drug, dental, and vision coverage.

NOTE 13 - RISK MANAGEMENT

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and injuries to employees. During fiscal year 2010 the Center contracted with one insurance provider for various insurance coverages, as follows:

Insurance Provider	Coverage	Deductible
Schools of Ohio Risk Sharing Authority	Property	$0
Schools of Ohio Risk Sharing Authority	Earthquake / Flood	$50,000
Schools of Ohio Risk Sharing Authority	Crime Coverage (includes Employee Dishonesty)	$0
Schools of Ohio Risk Sharing Authority	General Liability	$0
Schools of Ohio Risk Sharing Authority	Automobile Physical Damage	$0
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 2010, 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 ensures 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 CompManagement Inc. 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, 2010.

B. Litigation

The Center is currently not party to any litigation.

NOTE 15 – STATE FUNDING

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

Part (B) of the budget is provided by the school districts to which the Center provides services and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by $6.50. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the school district's served by the Center by $40.52. This amount is provided from State resources. The Center funding was reduced by 10% during fiscal year 2010.

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

NOTE 16 – INVESTMENT TRUST FUND

Effective June 25, 2004 the Center began to serve as 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, 2010

Assets:	
Equity Pooled in Cash and Cash Equivalents	$2,584,660
Total Assets:	$2,584,660
Net Assets Held in Trust for Pool Participants:	
Internal Portion	$2,096,753
External Portion	487,907
Total Net Assets Held in Trust for Pool Participants	$2,584,660

Statement of Changes in Net Assets
For the Fiscal Year Ended June 30, 2010

Additions:	
Interest Income	$4,769
Deductions:	
Operating Deductions	0
Net Increase in Assets Resulting from Operations	4,769
Distributions Paid to Participants	4,769
Capital Transactions	349,692
Total Decrease in Net Assets	(349,692)
Net Assets - Beginning of Year	2,934,352
Net Assets - End of Year	$2,584,660

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

SUPPLEMENTAL INFORMATION

Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) General Fund For the Fiscal Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Local Sources:				
Tuition	$ 4,313,799	$ 4,313,799	$ 4,372,883	$ 59,084
Services Provided to Other Entities	2,741,812	2,886,891	2,773,624	(113,267)
Investment Earnings	65,000	65,000	35,158	(29,842)
Extracurricular Activities	12,999	12,999	14,878	1,879
Class Material and Fees	0	0	5,980	5,980
Intergovernmental - State	1,213,004	1,213,004	1,184,065	(28,939)
Intergovernmental - Federal	3,888	3,888	3,888	0
All Other Revenues	429,357	610,357	695,958	85,601
Total Revenues	8,779,859	9,105,938	9,086,434	(19,504)
Expenditures:				
Current:				
Instruction	3,411,938	3,411,938	3,381,123	30,815
Support Services:				
Pupils	1,954,009	1,954,008	1,927,814	26,194
Instructional Staff	2,676,242	2,712,242	2,658,874	53,368
Board of Education	40,090	40,090	26,377	13,713
Administration	702,744	702,744	669,372	33,372
Fiscal Services	240,185	240,185	231,121	9,064
Operation and Maintenance of Plant	3,650	3,650	1,136	2,514
Pupil Transportation	19,685	19,685	20,896	(1,211)
Central	304,009	304,009	242,072	61,937
Extracurricular Activities	12,999	12,999	10,586	2,413
Total Expenditures	9,365,551	9,401,550	9,169,371	232,179
Excess (Deficiency) of Revenues Over (Under) Expenditures	(585,692)	(295,612)	(82,937)	212,675
Other Financing Sources (Uses):				
Refund of Prior Year's Receipts	(123,377)	(123,377)	(123,377)	0
Total Other Financing Sources (Uses)	(123,377)	(123,377)	(123,377)	0
Net Change in Fund Balance	(709,069)	(418,989)	(206,314)	212,675
Fund Balance at Beginning of Year	3,269,718	3,269,718	3,269,718	0
Prior Year Encumbrances	258,640	258,640	258,640	0
Fund Balance at End of Year	$ 2,819,289	$ 3,109,369	$ 3,322,044	$ 212,675

See accompanying notes to the supplemental information

Schedule of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
Special Revenue Fund – Special Education Fund
For the Fiscal Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Intergovernmental - Federal	$ 1,599,531	$ 1,614,531	$ 1,233,945	$ (380,586)
Total Revenues	1,599,531	1,614,531	1,233,945	(380,586)
Expenditures:				
Current:				
Support Services:				
Instructional Staff	1,276,912	1,204,601	1,146,127	58,474
Administration	82,129	95,261	92,947	2,314
Fiscal Services	87,070	87,070	76,598	10,472
Operation and Maintenance of Plant	37,174	56,474	52,367	4,107
Pupil Transportation	2,200	0	0	0
Central	100,839	142,720	138,647	4,073
Community Services	35,113	50,313	44,532	5,781
Total Expenditures	1,621,437	1,636,439	1,551,218	85,221
Net Change in Fund Balance	(21,906)	(21,908)	(317,273)	(295,365)
Fund Balance at Beginning of Year	(199,579)	(199,579)	(199,579)	0
Prior Year Encumbrances	221,485	221,485	221,485	0
Fund Balance at End of Year	$ 0	$ (2)	$ (295,367)	$ (295,365)

See accompanying notes to the supplemental information

Notes to the Supplemental Information
For the Fiscal Year Ended June 30, 2010

NOTE 1 BUDGETARY PROCESS

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

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

1. Appropriations

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

2. Lapsing of Appropriations

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

NOTE 1 BUDGETARY PROCESS (Continued)

3. Budgetary Basis of Accounting

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

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

Net Change in Fund Balance		
	General Fund	Special Education
GAAP Basis (as reported)	($359,045)	($85,114)
Increase (Decrease):		
Accrued Revenues at June 30, 2010, received during FY 2011	(153,432)	(181,894)
Accrued Revenues at June 30, 2009, received during FY 2010	566,952	200,415
Accrued Expenditures at June 30, 20010, paid during FY 2011	1,262,147	193,745
Accrued Expenditures at June 30, 2009, paid during FY 2010	(1,126,418)	(149,754)
FY 2009 Prepaids for FY 2010	157,040	108
FY 2010 Prepaids for FY 2011	(174,374)	(55)
Encumbrances Outstanding	(379,184)	(294,724)
Budget Basis	($206,314)	($317,273)

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MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER
MUSKINGUM COUNTY

FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

FEDERAL GRANTOR/ *Pass Through Grantor* Program Title	Grant Year	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF EDUCATION				
Passed Through Ohio Department of Education:				
Special Education Cluster:				
Special Education Grants to States	2009	84.027	$ 204,055	$ 225,961
	2010		1,029,887	1,030,530
Total Special Education Grants to States			1,233,942	1,256,491
Special Education Preschool Grants	2010	84.173	61,451	57,246
ARRA - Special Education Preschool Grants, Recovery Act	2010	84.392	51,460	51,859
Total Special Education Cluster			1,346,853	1,365,596
Twenty - First Century Community Learning Centers	2010	84.287	15,585	40,711
Special Education - State Personnel Development	2009	84.323	22,257	22,985
	2010		15,086	19,982
Total Special Education - State Personnel Development			37,343	42,967
Improving Teacher Quality State Grants	2010	84.367	57,103	71,186
Title I Cluster:				
Title I Grants to Local Education Agencies	2010	84.010	10,000	10,000
ARRA - Title I Grants to Local Education Agencies, Recovery A	2010	84.389	1,071	1,071
Total Title I Cluster			11,071	11,071
Total U.S. Department of Education			1,467,955	1,531,531
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed Through Muskingum County Department of Job and Family Services:				
Temporary Assistance for Needy Families	2010	93.558	10,313	11,272
Passed Through Coshocton County Department of Job and Family Services:				
Temporary Assistance for Needy Families	2010	93.558	322	
Total U.S. Department of Health and Human Services			10,635	11,272
Total Federal Awards Receipts and Expenditures			**$ 1,478,590**	**$ 1,542,803**

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

NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2010

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

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

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

To the Governing Board:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Muskingum Valley Educational Service Center, Muskingum County, Ohio (the Center), as of and for the year ended June 30, 2010, which collectively comprise the Center's basic financial statements and have issued our report thereon dated March 8, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the Center's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Center's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings that we consider a significant deficiency in internal control over financial reporting. We consider Finding 2010-01 to be a significant deficiency. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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*.

The Center's response to the finding identified in our audit is described in the accompanying Schedule of Findings. We did not audit the Center's response and, accordingly, we express no opinion on it.

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

Dave Yost

Dave Yost
Auditor of State

March 8, 2011

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

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

To the Governing Board:

Compliance

We have audited the compliance of the Muskingum Valley Educational Service Center, Muskingum County, Ohio (the Center), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Center's major federal programs for the year ended June 30, 2010. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the Center's major federal programs. The Center's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Center's compliance with 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 could directly and materially affect each of its major federal programs for the year ended June 30, 2010.

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www.auditor.state.oh.us

Internal Control Over Compliance

The Center's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Center's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Center's internal control over compliance.

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

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

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

Dave Yost

Dave Yost
Auditor of State

March 8, 2011

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER
MUSKINGUM COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	**Type of Financial Statement Opinion**	Unqualified
(d)(1)(ii)	**Were there any material control weaknesses reported at the financial statement level (GAGAS)?**	No
(d)(1)(ii)	**Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?**	Yes
(d)(1)(iii)	**Was there any reported material noncompliance at the financial statement level (GAGAS)?**	No
(d)(1)(iv)	**Were there any material internal control weaknesses reported for major federal programs?**	No
(d)(1)(iv)	**Were there any significant deficiencies in internal control reported for major federal programs?**	No
(d)(1)(v)	**Type of Major Programs' Compliance Opinion**	Unqualified
(d)(1)(vi)	**Are there any reportable findings under § .510(a)?**	No
(d)(1)(vii)	**Major Programs (list):**	Special Education Cluster: Special Education Grants to States – CFDA No. 84.027 Special Education Preschool Grants – CFDA No. 84.173 ARRA – Special Education Preschool Grants, Recovery Act – CFDA No. 84.392
(d)(1)(viii)	**Dollar Threshold: Type A\B Programs**	Type A: > $ 300,000 Type B: all others
(d)(1)(ix)	**Low Risk Auditee?**	No

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010
(Continued)

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

Finding Number 2010-01

Significant Deficiency

The Center should identify, assemble, analyze, classify, record, and report all of its assets, liabilities, and equity interests within its basic financial statements in accordance with generally accepted accounting principles.

During our audit of the Center's basic financial statements, we noted the following material misstatements:

- The Center recorded amounts paid for an operating lease as a reduction of prepaid items (an asset). Although the lease was previously being paid in advance by the Center, and therefore appropriately recorded as a prepaid item, the prepaid balance of the lease was exhausted in previous fiscal years and the Center began paying its lease obligations when they became due, in accordance with the terms of the lease. This resulted in prepaid items being understated by $105,560 as of June 30, 2010. This also resulted in the Center's beginning net assets for governmental activities and beginning General Fund fund balance being understated by $62,600.

- The Center failed to record accrued retirement contributions as of June 30, 2010, totaling $178,899, as a liability on the basic financial statements. Although journal entries were prepared to record this liability, the journal entries were not posted to the trial balances. This resulted in intergovernmental payables of the Center to be understated by $178,899 for the governmental activities, $144,259 for the General Fund, $27,509 for the Special Education Fund and $7,131 for Other Governmental Funds.

The Center agreed to adjustments for the aforementioned amounts and subsequently posted the adjustments to the financial statements. These adjustments are accurately reflected in the accompanying financial statements.

We recommend the Center take the necessary steps to ensure that all assets and liabilities of the Center are properly presented and disclosed in the Center's basic financial statements.

Official's Response:

It is common practice for many Ohio Schools to use an independent consultant to prepare financial statements on the basis of Generally Accepted Accounting Principles. Muskingum Valley ESC also relies on an independent consultant to prepare these statements and has used the same consultant since fiscal year 1998. Based upon the excessive number of audit adjustments required to file the fiscal year 2010 annual report, Muskingum Valley ESC will seek a new independent consultant for the fiscal year 2011 GAAP conversion.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

MUSKINGUM COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 22, 2011