

***JEFFERSON COUNTY
EDUCATIONAL SERVICE CENTER***

JEFFERSON COUNTY, OHIO

Audit Report

For the Year Ended June 30, 2007

CHARLES E. HARRIS & ASSOCIATES, INC.
Certified Public Accountants and Government Consultants



Mary Taylor, CPA

Auditor of State

Jefferson County Educational Service Center
2023 Sunset Boulevard
Steubenville, Ohio 43952

We have reviewed the *Report of Independent Accountants* of the Jefferson County Educational Service Center, Jefferson County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Jefferson County Educational Service Center is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 6, 2009

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Jefferson County Educational Service Center
Jefferson County, Ohio
Audit Report
For the Year Ended June 30, 2007

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

INDEPENDENT ACCOUNTANTS' REPORT

Jefferson County Educational Service Center
Jefferson County
2023 Sunset Boulevard
Steubenville, Ohio 43952

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Jefferson County Educational Service Center, Jefferson County, Ohio (the Center), as of and for the year ended June 30, 2007, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these basic 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Center as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 3 through 12 and the supplementary information on pages 45 through 48 are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 19, 2009 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, grants 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 results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

Charles E. Harris & Associates, Inc.

February 19, 2009

**JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED

The management's discussion and analysis of the Jefferson County Educational Service Center's ("the ESC") financial performance provides an overall review of the ESC's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the ESC's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the ESC's financial performance.

Financial Highlights

Key financial highlights for 2007 are as follows:

- In total, net assets of governmental activities increased \$866,931 which represents a 70.06% increase from 2006.
- General revenues accounted for \$862,949 in revenue or 14.57% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$5,059,479 or 85.43% of total revenues of \$5,922,428.
- The ESC had \$5,055,497 in expenses related to governmental activities; \$5,059,479 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (unrestricted grants and entitlements) of \$862,949 were adequate to provide for these programs.
- The ESC's major governmental funds are the general fund and the Miscellaneous State Grants fund. The general fund had \$5,328,319 in revenues and \$4,885,823 in expenditures. During fiscal 2007, the general fund's fund balance increased \$442,496 from \$873,847 to \$1,316,343.
- The Miscellaneous State Grants fund had \$225,000 in revenues and \$59,456 in expenditures. During fiscal 2007, the fund balance increased \$165,544 from \$28,152 to \$193,696.

Using these Basic Financial Statements (BFS)

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole ESC, presenting both an aggregate view of the ESC's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the ESC's most significant funds with all other nonmajor funds presented in total in one column. In the case of the ESC, the general fund and the Miscellaneous State Grants fund are by far the most significant funds, and the only governmental funds reported as major funds.

**JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
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Reporting the ESC as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the ESC to provide programs and activities, the view of the ESC as a whole looks at all financial transactions and asks the question, "How did we do financially during 2007?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the ESC's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the ESC as a whole, the *financial position* of the ESC has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include increased or decreased services desired by school districts, state budget cuts, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the ESC's programs and services, including instruction, support services, and other operations.

The ESC's statement of net assets and statement of activities can be found on pages 13-14 of this report.

Reporting the ESC's Most Significant Funds

Fund Financial Statements

The analysis of the ESC's major governmental funds begins on page 9. Fund financial reports provide detailed information about the ESC's major funds. The ESC uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the ESC's most significant funds. The ESC's major governmental funds are the general fund and the Miscellaneous State Grants fund.

Governmental Funds

Most of the ESC'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* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the ESC'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 basic financial statements. The basic governmental fund financial statements can be found on pages 15-18 of this report.

Proprietary Funds

The ESC maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the ESC's various functions. The ESC's internal service fund accounts for medical/surgical, vision and dental self-insurance. The basic proprietary fund financial statements can be found on pages 19-21 of this report.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
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Reporting the ESC's Fiduciary Responsibilities

The ESC is the fiscal agent of the area A-site, Ohio Mid-Eastern Regional Education Service Agency ("OME-RESA"). This activity is presented as fiduciary funds. The ESC is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The ESC also maintains agency funds to account for monies due to other governments, individuals or private organizations. All of the ESC's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 22 and 23. These activities are excluded from the ESC's other financial statements because the assets cannot be utilized by the ESC to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 24-45 of this report.

The ESC as a Whole

Recall that the Statement of Net Assets provides the perspective of the ESC as a whole.

The table below provides a summary of the ESC's net assets for 2007 and 2006.

	Net Assets	
	Governmental Activities 2007	Governmental Activities 2006
<u>Assets</u>		
Current and other assets	\$ 2,286,473	\$ 1,565,146
Capital assets, net	<u>337,612</u>	<u>287,434</u>
Total assets	<u>2,624,085</u>	<u>1,852,580</u>
<u>Liabilities</u>		
Current liabilities	341,592	424,468
Long-term liabilities	<u>178,157</u>	<u>190,707</u>
Total liabilities	<u>519,749</u>	<u>615,175</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	328,961	275,267
Restricted	265,527	39,886
Unrestricted	<u>1,509,848</u>	<u>922,252</u>
Total net assets	<u>\$ 2,104,336</u>	<u>\$ 1,237,405</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the ESC's assets exceeded liabilities by \$2,104,336. Of this total, \$265,527 is restricted in use.

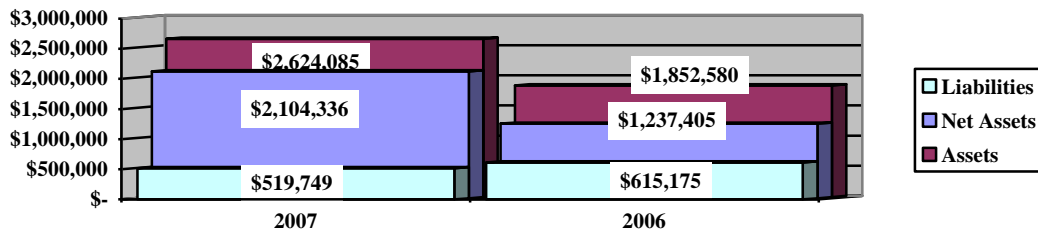
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
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At year-end, capital assets represented 12.87% of total assets. Capital assets include land, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets, at June 30, 2007 were \$328,961. These capital assets are used to provide the ESC's services and are not available for future spending. Although the ESC's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the ESC's net assets, \$265,527, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$1,509,848 may be used to meet the ESC's ongoing obligations to the students and creditors.

Governmental Activities



The table below shows the change in net assets for fiscal year 2007 and 2006.

Change in Net Assets

	Governmental Activities 2007	Governmental Activities 2006
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 4,224,342	\$ 2,871,171
Operating grants and contributions	835,137	350,783
General revenues:		
Grants and entitlements	778,276	1,629,768
Investment earnings	84,673	45,885
Other	-	180,000
Total revenues	<u>5,922,428</u>	<u>5,077,607</u>

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
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Change in Net Assets

	<u>Governmental Activities 2007</u>	<u>Governmental Activities 2006</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 299,598	\$ 229,233
Special	384,575	363,752
Other	5,200	5,200
Support services:		
Pupil	1,152,908	1,172,193
Instructional staff	2,287,657	1,809,696
Board of education	18,229	17,705
Administration	717,352	612,249
Fiscal	168,329	165,449
Business	-	61,996
Operations and maintenance	10,901	10,967
Central	5,305	11,193
Operations of non-instructional services	4,597	1,963
Interest and fiscal charges	846	1,116
Total expenses	<u>5,055,497</u>	<u>4,462,712</u>
Change in net assets	866,931	614,895
Net assets at beginning of year	<u>1,237,405</u>	<u>622,510</u>
Net assets at end of year	<u>\$ 2,104,336</u>	<u>\$ 1,237,405</u>

Governmental Activities

Net assets of the ESC's governmental activities increased \$866,931. Total governmental expenses of \$5,055,497 were offset by program revenues of \$5,059,479 and general revenues of \$866,931. Program revenues supported 100.00% of the total governmental expenses.

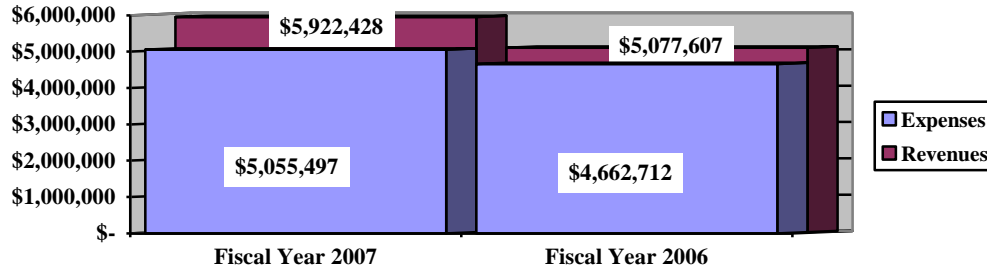
The primary sources of revenue for governmental activities are derived from contracted fees for services provided to other entities. This revenue source represents 71.33% of total governmental revenue.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
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The graph below presents the ESC's governmental activities revenue and expenses for fiscal years 2007 and 2006.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State grants and entitlements, and other general revenues not restricted to a specific program.

Governmental Activities

	Total Cost of Services 2007	Net Cost of Services 2007	Total Cost of Services 2006	Net Cost of Services 2006
Program expenses				
Instruction:				
Regular	\$ 299,598	\$ (180,998)	\$ 229,233	\$ 34,539
Special	384,575	(1,970)	363,752	65,592
Other	5,200	532	5,200	1,545
Support services:				
Pupil	1,152,908	(7,381)	1,172,193	410,733
Instructional staff	2,287,657	154,030	1,809,696	499,793
Board of education	18,229	1,864	17,705	5,268
Administration	717,352	6,946	612,249	180,612
Fiscal	168,329	9,355	165,449	50,612
Business	-	-	61,996	(26,575)
Operations and maintenance	10,901	10,901	10,967	10,967
Central	5,305	(695)	11,193	4,593
Operations of non-instructional services	4,597	2,588	1,963	1,963
Interest and fiscal charges	846	846	1,116	1,116
Total	<u>\$ 5,055,497</u>	<u>\$ (3,982)</u>	<u>\$ 4,462,712</u>	<u>\$ 1,240,758</u>

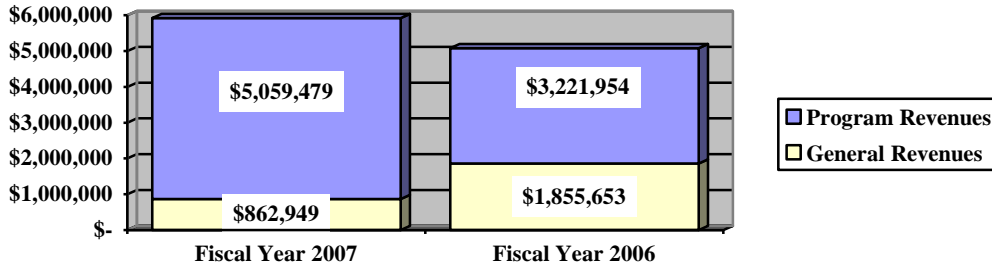
For all governmental activities, program revenue support is 100.00%. The primary support of the ESC is contracted fees for services provided to other districts.

**JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
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The graph below presents the ESC's governmental activities revenue for fiscal years 2007 and 2006.

Governmental Activities - General and Program Revenues



The ESC's Funds

The ESC's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$1,576,700, which is higher than last year's total of \$872,787. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2007 and 2006.

	Fund Balance June 30, 2007	Fund Balance (Deficit) June 30, 2006	Increase
General	\$ 1,316,343	\$ 873,847	\$ 442,496
Miscellaneous state grants	193,696	28,152	165,544
Other Governmental	66,661	(29,212)	95,873
Total	\$ 1,576,700	\$ 872,787	\$ 703,913

General Fund

The ESC's general fund balance increased \$442,496. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
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	<u>2007</u> <u>Amount</u>	<u>2006</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Services provided to other entities	\$ 3,579,405	\$ 2,821,231	26.87 %
Tuition	730,766	-	100.00 %
Earnings on investments	65,998	41,341	59.64 %
Intergovernmental	923,784	1,778,431	(48.06) %
Other revenues	<u>28,366</u>	<u>30,012</u>	(5.48) %
Total	<u>\$ 5,328,319</u>	<u>\$ 4,671,015</u>	14.07 %
<u>Expenditures</u>			
Instruction	\$ 610,209	\$ 592,250	3.03 %
Support services	4,267,273	3,735,167	14.25 %
Operation of non-instructional	3,979	1,963	102.70 %
Debt service	<u>4,362</u>	<u>4,362</u>	-
Total	<u>\$ 4,885,823</u>	<u>\$ 4,333,742</u>	12.74 %

Services provided to other entities increased 26.87% as a result of increasing revenues from the ESC's virtual learning program along with changes in account for customer service revenue during the year. Tuition increased 100.00% due to the change in classification of revenue per AOS Bulletin 2007-005. Earnings on investments increased 59.64% due to increasing interest rates throughout the year. Intergovernmental revenue decreased 48.06% due to a decrease in receivables from other governments compared to the prior year.

Miscellaneous State Grants Fund

The ESC's miscellaneous state grants fund balance increased \$165,544. The increase in fund balance can be attributed to revenues increasing faster than expenditures.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2007, the ESC had \$337,612 invested in land, buildings, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2007 balances compared to 2006:

**Capital Assets at June 30
(Net of Depreciation)**

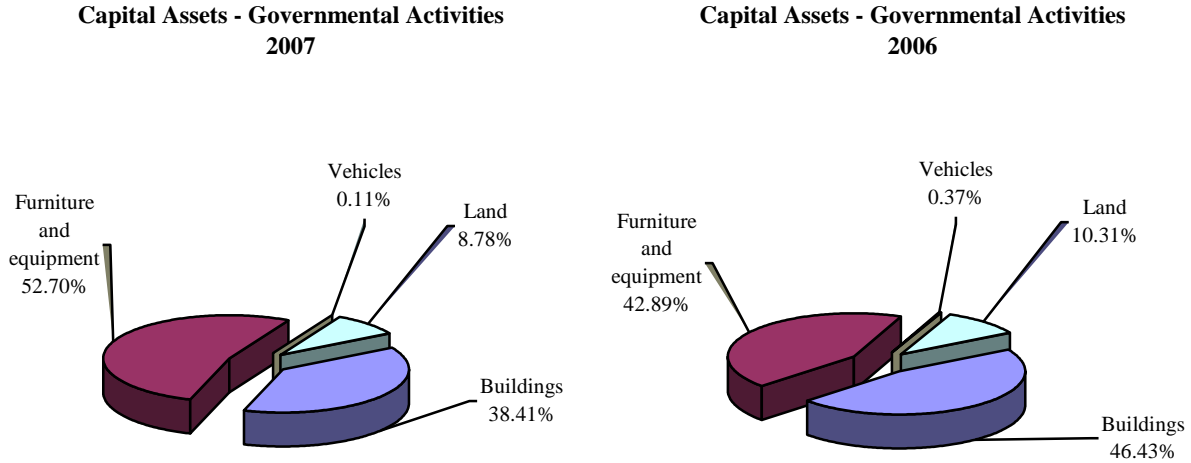
	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
Land	\$ 29,642	\$ 29,642
Building	129,684	133,443
Furniture and equipment	177,926	123,272
Vehicles	<u>360</u>	<u>1,077</u>
Total	<u>\$ 337,612</u>	<u>\$ 287,434</u>

**JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
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MANAGEMENT'S DISCUSSION AND ANALYSIS
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Total additions to capital assets for 2007 were \$92,684. A total of \$42,506 in depreciation expense was recognized for fiscal 2007.

The graphs below present the ESC's capital assets for fiscal 2007 and fiscal 2006.



See Note 6 to the basic financial statements for additional information on the ESC's capital assets.

Debt Administration

At June 30, 2007 the ESC had \$8,651 in capital lease obligations outstanding. Of this total, \$3,807 is due within one year and \$4,844 is due in greater than one year. The following table summarizes the capital lease obligations outstanding.

Outstanding Debt, at Year End

	Governmental Activities <u>2007</u>	Governmental Activities <u>2006</u>
Capital lease obligations	\$ 8,651	\$ 12,167
Total	<u>\$ 8,651</u>	<u>\$ 12,167</u>

See Note 8 to the basic financial statements for detail on the ESC's debt administration.

**JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
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Current Financial Related Activities

The ESC is financially solvent. As the preceding information shows, the ESC relies heavily on contracts with local, city, and JVS school districts in Jefferson and Harrison Counties, as well as state foundation revenue, and grants. The need for additional services from local and city school districts, paid for by excess costs, state funding and grants will provide the ESC with necessary funds to meet operating expenses in fiscal year 2008. However, the future financial stability of the ESC is not without concerns.

Currently, legislation passed regarding Ohio's Regional Education Delivery System and the implementation of that system by the Ohio Department of Education continues as an ongoing process. This system will directly impact education service centers in Ohio, and the method used to fund them.

Declining enrollment in Jefferson County remains a concern of the ESC. State funding on the J404 for the ESC or the SF-3 for the districts is based on average daily membership of participating school districts. Continued decline in enrollment will have a direct impact on state revenues received by school districts and the amount of services they will need from the ESC. As district revenues decline, they rely on the ESC for services and personnel they cannot employ at the district level. With no increases for the State, we are forced to try to do more with fewer resources.

Each year, school districts need additional services. Therefore, the ESC is constantly collecting data, monitoring program activity, and stepping forward to provide new services while still maintaining a financially solvent operation. The Virtual Learning Academy has added a new dimension for generating revenues, not only throughout the state of Ohio but also throughout the United States and fifteen countries overseas. In addition, the health benefits plan continues to grow. The plan currently insures nearly 12,000 employee lives and has contracts with seventy-seven entities in thirty-two counties.

ESC systems of internal control and procedures are reviewed throughout the year to insure a cost efficient operation.

Contacting the ESC's Financial Management

This financial report is designed to provide the citizen's supported by the districts, and investors and creditors with a general overview of the ESC's finances and to show the ESC's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Karen Blake, Treasurer, Jefferson County ESC, 2023 Sunset Boulevard, Steubenville, Ohio 43952.

**JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2007

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents . . .	\$ 1,709,189
Cash with fiscal agent	456,936
Receivables:	
Intergovernmental	89,861
Accrued interest	5,258
Prepayments	23,415
Materials and supplies inventory.	1,814
Capital assets:	
Land	29,642
Depreciable capital assets, net	307,970
Total capital assets, net	<u>337,612</u>
 Total assets.	 <u>2,624,085</u>
Liabilities:	
Accounts payable.	14,152
Accrued wages and benefits	159,502
Compensated absences.	12,328
Pension obligation payable.	32,238
Intergovernmental payable	27,214
Claims payable	94,158
Unearned revenue.	2,000
Long-term liabilities:	
Due within one year.	54,180
Due within more than one year	123,977
 Total liabilities	 <u>519,749</u>
Net Assets:	
Invested in capital assets, net of related debt . .	328,961
Restricted for:	
State funded programs	265,515
Federally funded programs	12
Unrestricted	<u>1,509,848</u>
 Total net assets	 <u>\$ 2,104,336</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Revenue and Changes in Net Assets</u>
				<u>Governmental Activities</u>
Governmental activities:				
Instruction:				
Regular	\$ 299,598	\$ 151,395	\$ 329,201	\$ 180,998
Special	384,575	373,673	12,872	1,970
Other	5,200	4,513	155	(532)
Support services:				
Pupil	1,152,908	976,646	183,643	7,381
Instructional staff	2,287,657	1,865,081	268,546	(154,030)
Board of education	18,229	15,820	545	(1,864)
Administration	717,352	683,534	26,872	(6,946)
Fiscal	168,329	153,680	5,294	(9,355)
Operations and maintenance	10,901	-	-	(10,901)
Central	5,305	-	6,000	695
Operation of non-instructional services	4,597	-	2,009	(2,588)
Interest and fiscal charges	846	-	-	(846)
Total governmental activities	<u>\$ 5,055,497</u>	<u>\$ 4,224,342</u>	<u>\$ 835,137</u>	<u>3,982</u>
		General Revenues:		
		Grants and entitlements not restricted to specific programs		778,276
		Investment earnings		84,673
		Total general revenues		<u>862,949</u>
		Change in net assets		866,931
		Net assets at beginning of year		<u>1,237,405</u>
		Net assets at end of year		<u>\$ 2,104,336</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	<u>General</u>	<u>Miscellaneous State Grants</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents . . .	\$ 1,443,641	\$ 193,696	\$ 71,852	\$ 1,709,189
Receivables:				
Intergovernmental	89,861	-	-	89,861
Accrued interest	5,258	-	-	5,258
Prepayments	23,415	-	-	23,415
Materials and supplies inventory	1,814	-	-	1,814
Total assets	<u>\$ 1,563,989</u>	<u>\$ 193,696</u>	<u>\$ 71,852</u>	<u>\$ 1,829,537</u>
Liabilities:				
Accounts payable	\$ 14,152	\$ -	\$ -	\$ 14,152
Accrued wages and benefits	155,300	-	4,202	159,502
Compensated absences payable	12,328	-	-	12,328
Pension obligation payable	32,173	-	65	32,238
Intergovernmental payable	26,290	-	924	27,214
Deferred revenue	5,403	-	-	5,403
Unearned revenue	2,000	-	-	2,000
Total liabilities	<u>247,646</u>	<u>-</u>	<u>5,191</u>	<u>252,837</u>
Fund Balances:				
Reserved for encumbrances	28,665	158,795	49,168	236,628
Reserved for materials and supplies inventory.	1,814	-	-	1,814
Reserved for prepayments	23,415	-	-	23,415
Unreserved, undesignated, reported in:				
General fund	1,262,449	-	-	1,262,449
Special revenue funds.	-	34,901	17,493	52,394
Total fund balances.	<u>1,316,343</u>	<u>193,696</u>	<u>66,661</u>	<u>1,576,700</u>
Total liabilities and fund balances	<u>\$ 1,563,989</u>	<u>\$ 193,696</u>	<u>\$ 71,852</u>	<u>\$ 1,829,537</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2007

Total governmental fund balances		\$	1,576,700
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			337,612
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.			
Intergovernmental	160		
Accrued interest	5,243		
Total			5,403
Long-term liabilities, such as compensated absences, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences	\$ (169,506)		
Capital lease obligations	(8,651)		
Total			(178,157)
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.			362,778
Net assets of governmental activities		\$	2,104,336

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>Miscellaneous State Grants</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Tuition	\$ 730,766	\$ -	\$ -	\$ 730,766
Services provided to other entities.	3,579,405	-	-	3,579,405
Earnings on investments.	65,998	-	-	65,998
Other local revenues.	28,366	-	150,000	178,366
Intergovernmental - Intermediate	145,508	-	-	145,508
Intergovernmental - State	778,276	225,000	223,941	1,227,217
Intergovernmental - Federal.	-	-	90,688	90,688
Total revenues.	<u>5,328,319</u>	<u>225,000</u>	<u>464,629</u>	<u>6,017,948</u>
Expenditures:				
Current:				
Instruction:				
Regular	174,445	57,589	79,679	311,713
Special.	430,564	-	-	430,564
Other	5,200	-	-	5,200
Support Services:				
Pupil.	1,125,340	-	125,106	1,250,446
Instructional staff	2,148,665	1,477	157,072	2,307,214
Board of education	18,229	-	-	18,229
Administration.	787,669	-	1,421	789,090
Fiscal	177,078	-	-	177,078
Operations and maintenance.	10,292	-	-	10,292
Central.	-	-	5,250	5,250
Operation of non-instructional	3,979	390	228	4,597
Debt service:				
Principal retirement	3,516	-	-	3,516
Interest and fiscal charges	846	-	-	846
Total expenditures	<u>4,885,823</u>	<u>59,456</u>	<u>368,756</u>	<u>5,314,035</u>
Net change in fund balances	442,496	165,544	95,873	703,913
Fund balances (deficit) at beginning of year	<u>873,847</u>	<u>28,152</u>	<u>(29,212)</u>	<u>872,787</u>
Fund balances at end of year	<u>\$ 1,316,343</u>	<u>\$ 193,696</u>	<u>\$ 66,661</u>	<u>\$ 1,576,700</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Net change in fund balances - total governmental funds \$ 703,913

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

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

Capital asset additions	\$ 92,684	
Current year depreciation	(42,506)	
Total		50,178

Revenues in the statement of activities, services provided to
other entities, that do not provide current financial resources
are not reported as revenues in the funds.

Services provided to other entities	(114,355)	
Intergovernmental	160	
Accrued interest	5,243	
Total		(108,952)

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

3,516

Some expenses reported in the statement of activities, such as
compensated absences, do not require the use of current
financial resources and therefore are not reported as
expenditures in governmental funds.

9,034

The internal service fund used by management to charge the costs
of insurance to individual funds is not reported in the government
wide statement of activities. Governmental fund expenditures and
the related internal service fund revenues are eliminated. The net
revenue (expense) of the internal service fund is allocated among
the governmental activities.

209,242

Change in net assets of governmental activities **\$ 866,931**

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO**

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2007

	Governmental Activities - Internal Service Fund
Assets:	
Current assets:	
Cash with fiscal agent	\$ 456,936
Total assets	456,936
Liabilities:	
Claims payable	94,158
Total liabilities	94,158
Net assets:	
Unrestricted	362,778
Total net assets.	\$ 362,778

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services.	\$ 1,046,575
Total operating revenues	<u>1,046,575</u>
Operating expenses:	
Claims	739,411
Other.	<u>111,354</u>
Total operating expenses.	<u>850,765</u>
Operating income	<u>195,810</u>
Nonoperating revenues:	
Interest revenue.	<u>13,432</u>
Total nonoperating revenues	<u>13,432</u>
Change in net assets	209,242
Net assets at beginning of year	<u>153,536</u>
Net assets at end of year	<u><u>\$ 362,778</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from charges for services	\$ 1,046,575
Cash payments for claims.	(736,353)
Cash payments for other expenses	<u>(111,354)</u>
Net cash provided by operating activities	<u>198,868</u>
Cash flows from investing activities:	
Interest received	<u>13,432</u>
Net cash provided by investing activities	<u>13,432</u>
Net increase in cash and cash equivalents	212,300
Cash and cash equivalents at beginning of year. . .	<u>244,636</u>
Cash and cash equivalents at end of year	<u><u>\$ 456,936</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 195,810
Changes in assets and liabilities: Increase in claims payable	<u>3,058</u>
Net cash provided by operating activities	<u><u>\$ 198,868</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2007

	<u>Private Purpose Trust</u>	<u>Investment Trust</u>	<u>Agency</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 12,462	\$ 747,137	\$ 524,592
Cash segregated accounts	-	64,587,553	-
Receivables:			
Intergovernmental	-	-	3,000
Accrued interest	-	77,671	-
Loans	-	1,256	-
	12,462	65,413,617	\$ 527,592
Liabilities:			
Intergovernmental payable	-	-	\$ 526,336
Loans payable	-	-	1,256
	-	-	\$ 527,592
Net Assets:			
Held in trust for scholarships	12,462	-	
Net assets available for pool participants	-	65,413,617	
	\$ 12,462	\$ 65,413,617	
Total net assets	\$ 12,462	\$ 65,413,617	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Private Purpose Trust	Investment Trust
	<u> </u>	<u> </u>
Additions:		
Capital transactions	\$ -	\$ 19,871,562
Interest	358	2,364,259
	<u> </u>	<u> </u>
Total additions	358	22,235,821
	<u> </u>	<u> </u>
Deductions:		
Distributions to participants.	500	2,305,881
	<u> </u>	<u> </u>
Total deductions.	500	2,305,881
	<u> </u>	<u> </u>
Change in net assets	(142)	19,929,940
Net assets at beginning of year.	<u>12,604</u>	<u>45,483,677</u>
Net assets at end of year	<u>\$ 12,462</u>	<u>\$ 65,413,617</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 1 - DESCRIPTION OF THE ESC

The Jefferson County Educational Service Center (the "ESC") 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 ESC is a county school district as defined by Section 3311.05 of the Ohio Revised Code. The ESC operates under an elected Board of Education (five members) and provides no direct educational services to students. The following services are provided to the local school districts and city school districts under contract in Jefferson and Harrison counties:

- Ohio Mid-Eastern Regional Educational Services Agency (OME-RESA)
- Computer Services
- Vocational Educational Services
- General Instructional Services
- Speech, Hearing and Language Services
- Special Projects Coordination
- Talented and Gifted Program
- Special Educational Services
- Psychological Services
- Administrative Services
- Developmental Handicapped and Disability Classroom Supervision

Average daily membership as of June 30, 2007 was 10,572. The Board employed 41 certified employees and 34 non-certified employees.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the ESC have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The ESC also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities and proprietary funds provided they do not conflict with or contradict GASB pronouncements. The ESC has the option to also apply FASB Statements and Interpretations issued after November 30, 1989 to its business-type activities and enterprise funds, subject to this same limitation. The ESC has elected not to apply these FASB Statements and Interpretations. The ESC's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the ESC are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the ESC. For the ESC, this includes general operations and student related activities of the ESC.

**JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Component units are legally separate organizations for which the ESC is financially accountable. The ESC is financially accountable for an organization if the ESC appoints a voting majority of the organization's governing board and (1) the ESC is able to significantly influence the programs or services performed or provided by the organization; or (2) the ESC is legally entitled to or can otherwise have access to organization's resources; or (3) the ESC is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the ESC is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the ESC in that the ESC approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the ESC has no component units. The basic financial statements of the reporting entity include only those of the ESC (the primary government). The following organizations are described due to their relationship to the ESC:

JOINTLY GOVERNED ORGANIZATIONS

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

The OME-RESA is a not-for-profit computer service organization whose primary function is to provide information technology services to its member school districts with the major emphasis being placed on accounting, payroll and inventory control services. Other areas of service provided by the OME-RESA include pupil scheduling, attendance and grade reporting, career guidance services, special education records, and test scoring.

The OME-RESA is one of twenty-three regional service organizations serving over 600 public school districts in the State of Ohio that make up the Ohio Educational Computer Network (OECN). These service organizations are known as Data Acquisition Sites. The OECN is a collective group of Data Acquisition Sites, authorized pursuant to Section 3301.075 of the Ohio Revised Code, and their member school districts. Such sites, in conjunction with the Ohio Department of Education (ODE), comprise a statewide delivery system to provide comprehensive, cost-efficient accounting and other administrative and instructional computer services for participating Ohio school districts.

Major funding for this network is derived from the State of Ohio. In addition, a majority of the software utilized by the OME-RESA is developed by the ODE.

The OME-RESA is owned and operated by forty-nine member school districts in ten different Ohio counties. The member school districts are comprised of public school districts and county boards of education. Each member district pays an annual fee for services provided by OME-RESA. OME-RESA is governed by a board of directors which is selected by the member school districts. Each member district has one vote in all matters and each member district's control over budgeting and financing of OME-RESA is limited to its voting authority and any representation it may have on the board of directors.

The OME-RESA is located at 2023 Sunset Blvd., Steubenville, Ohio 43952. The ESC acts in the capacity of fiscal agent for OME-RESA.

**JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

PUBLIC ENTITY RISK POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

The ESC participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (Plan) was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

The Plan's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the plan.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

Miscellaneous State Grants Fund - The miscellaneous state grants fund is used to account for various monies received from state agencies which are not classified elsewhere.

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

PROPRIETARY FUND

Proprietary funds are used to account for the ESC's ongoing activities which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. The following is the ESC's proprietary fund:

Internal Service Fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the ESC or to other governments, on a cost-reimbursement basis. The internal service fund of the ESC accounts for a self-insurance program which provides medical benefits to employees.

**JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the ESC under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the ESC's own programs. The ESC's trust funds are a private-purpose trust which accounts for scholarships and two investment trust funds which account for monies held by the ESC as fiscal agent for the OME-RESA Self-Funded Insurance Program and the OME-RESA "A" Site Computer Center. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The ESC's agency funds account for various resources held for other organizations and individuals.

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but 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 segment of the business-type activities of the ESC and for each function or program of the ESC's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are 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 ESC. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the ESC.

Fund Financial Statements - Fund financial statements report detailed information about the ESC. 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. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

**JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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.

The proprietary fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the fund are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the ESC finances and meets the cash flow needs of its proprietary activities.

The proprietary fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the ESC's internal service fund is charges for services. Operating expenses for internal service funds include the claims and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The investment trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of fiduciary net assets. The statement of changes in fiduciary net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

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

Nonexchange transactions, in which the ESC receives value without directly giving equal value in return, include grants, entitlements and donations.

**JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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 ESC must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the ESC on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Revenues received in advance of the fiscal year for which they are intended to finance have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

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

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

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

E. Budgets

Although not legally required, the ESC adopts its budget for all funds. The budget includes the estimated resources and expenditures for each fund and consists of three parts; Part (A) includes entitlement funding from the State, Part (B) includes the cost of all other lawful expenditures of the ESC (which are apportioned by the State Department of Education to each local board of education under the supervision of the ESC), and Part (C) includes the adopted appropriation resolution.

In fiscal year 2004, the ESC requirement to file budgetary information with the Ohio Department of Education was eliminated. Even though the budgetary process for the ESC was discretionary, the ESC continued to have its Board approve appropriations and estimated resources. The ESC's Board adopts an annual appropriation resolution, which is the Board's, authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds. Budgetary information for the general fund has been presented as supplemental information to the basic financial statements.

**JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

F. Cash and Investments

To improve cash management, cash received by the ESC is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the ESC's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

During fiscal 2007, the ESC's investments were limited to investments in non-negotiable certificates of deposits. Investments in nonparticipating investment contracts, such as nonnegotiable certificates of deposit, are recorded at cost.

Under existing Ohio statute all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board investment earnings are assigned to the general fund, the Self-Insurance internal service fund, (which is maintained by a fiscal agent in an interest bearing account separate from the ESC's internal investment pool), the private-purpose trust fund and the investment trust fund for which the ESC is acting as fiscal agent. Interest revenue credited to the general fund during fiscal 2007 amounted to \$65,998, which includes \$39,434 assigned from other ESC funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the ESC are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the ESC's investment account at year-end is provided in Note 4.

G. Capital Assets

General capital assets are those assets specifically related to governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The ESC maintains a capitalization threshold of \$500. The ESC does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except for land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Buildings	40 years
Furniture and equipment	5 - 30 years
Vehicles	10 years

H. Compensated Absences

Compensated absences of the ESC consist of vacation leave and sick leave to the extent that payment to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the ESC and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if (a) the employees' rights to payment are attributable to services already rendered; and (b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age 50 or greater with at least 10 years of service and for all employees with at least 20 years of service at any age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

I. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the internal service fund are reported on the proprietary fund financial statements.

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

J. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

Inventory consists of expendable supplies held for consumption.

K. Fund Balance Reserves

The ESC reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory and prepayments.

L. Net Assets

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

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

M. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

N. Estimates

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

O. 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 basic financial statements. Interfund activities between governmental funds are eliminated in the statement of activities.

P. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the ESC, these revenues are charges for services for a self-insurance program. Operating expenses are necessary costs incurred to provide the goods or service that is the primary activity of the fund.

Q. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund loans receivables/payables". These amounts are eliminated in the governmental activities columns of the statement of net assets.

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2007.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Deficit Fund Balances

Fund balances at June 30, 2007 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Summer School Intervention	\$ 2,748
Alternative Schools	2,422

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the ESC into three categories.

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

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

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

Interim monies are to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above 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;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (State Treasury Asset Reserve of Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Protection of the ESC's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the ESC, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash With Fiscal Agent

The ESC is self-insured through a fiscal agent. The money held by the fiscal agent cannot be identified as an investment or deposit, since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2007, was \$456,936.

B. Cash and Investments in Segregated Accounts

The cash and investments in segregated accounts relates to the OME-RESA Self-Funded Insurance Program. The balance is covered by federal depository insurance, by collateral held by the ESC, or by collateral held by a qualified third-party trustee in the name of the ESC. The amount held in segregated accounts at June 30, 2007 was \$64,587,553.

C. Deposits with Financial Institutions

At June 30, 2007, the carrying amount of all ESC deposits was \$2,993,380. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007, \$3,091,711 of the ESC's bank balance of \$3,291,711 was exposed to custodial risk as discussed below, while \$200,000 was covered by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the ESC's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the ESC.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

D. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2007:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 2,993,380
Cash with fiscal agent	456,936
Cash and investments in segregated accounts	<u>64,587,553</u>
Total	<u>\$ 68,037,869</u>
 <u>Cash and Investments per Statement of Net Assets</u>	
Governmental activities	\$ 2,166,125
Private-purpose trust funds	12,462
Investment trust funds	65,334,690
Agency funds	<u>524,592</u>
Total	<u>\$ 68,037,869</u>

NOTE 5 - RECEIVABLES

Receivables at June 30, 2007 consisted of accrued interest and intergovernmental (billings to school districts for user charged services and tuition). All receivables are considered collectible in full. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:

Intergovernmental	\$ 89,861
Accrued interest	<u>5,258</u>
	<u>\$ 95,119</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected in the subsequent year.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 6 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	<u>Balance</u> <u>06/30/06</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/07</u>
Governmental Activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 29,642	\$ -	\$ -	\$ 29,642
Total capital assets, not being depreciated	<u>29,642</u>	<u>-</u>	<u>-</u>	<u>29,642</u>
<i>Capital assets, being depreciated:</i>				
Buildings	150,358	-	-	150,358
Furniture and equipment	253,521	92,684	-	346,205
Vehicles	<u>7,172</u>	<u>-</u>	<u>-</u>	<u>7,172</u>
Total capital assets, being depreciated	<u>411,051</u>	<u>92,684</u>	<u>-</u>	<u>503,735</u>
<i>Less: accumulated depreciation:</i>				
Buildings	(16,915)	(3,759)	-	(20,674)
Furniture and equipment	(130,249)	(38,030)	-	(168,279)
Vehicles	<u>(6,095)</u>	<u>(717)</u>	<u>-</u>	<u>(6,812)</u>
Total accumulated depreciation	<u>(153,259)</u>	<u>(42,506)</u>	<u>-</u>	<u>(195,765)</u>
Governmental activities capital assets, net	<u>\$ 287,434</u>	<u>\$ 50,178</u>	<u>\$ -</u>	<u>\$ 337,612</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 11,528
<u>Support Services:</u>	
Pupil	1,056
Administration	29,306
Operations and maintenance	609
Central	<u>7</u>
Total depreciation expense	<u>\$ 42,506</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 7 - CAPITAL LEASES - LESSEE DISCLOSURE

The ESC has entered into a capitalized lease for copier equipment. This lease agreement meets the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of equipment have been capitalized in the amount of \$17,927. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2007 was \$6,403, leaving a current book value of \$11,524. A corresponding liability was recorded in the government-wide financial statements. Principal payments in the 2007 fiscal year totaled \$3,516 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2007:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2008	\$ 4,362
2009	4,362
2010	<u>727</u>
Total minimum lease payments	9,451
Less: Amount representing interest	<u>(800)</u>
Total	<u>\$ 8,651</u>

NOTE 8 - LONG-TERM OBLIGATIONS

During the fiscal year 2007, the following activity occurred in governmental activities long-term obligations:

	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>Amounts</u>
	<u>06/30/06</u>			<u>06/30/07</u>	<u>Due in</u>
					<u>One Year</u>
Capital lease obligations	\$ 12,167	\$ -	\$ (3,516)	\$ 8,651	\$ 3,807
Compensated absences	<u>178,540</u>	<u>63,338</u>	<u>(72,372)</u>	<u>169,506</u>	<u>50,373</u>
Total	<u>\$ 190,707</u>	<u>\$ 63,338</u>	<u>\$ (75,888)</u>	<u>\$ 178,157</u>	<u>\$ 54,180</u>

Compensated absences will be paid from the fund from which the employee's salaries are paid, which primarily consist of the general fund and the Summer School Intervention fund (a nonmajor governmental fund).

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 9 - RISK MANAGEMENT

A. Comprehensive

The ESC is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The ESC has a comprehensive property and casualty policy. The deductible is \$250 per incident on equipment. All vehicles are also insured and have a \$250 deductible. All board members, administrators, and employees are covered under a school district liability policy. The limits of this coverage are \$1,000,000 per occurrence and \$3,000,000 per aggregate. The treasurer is covered under a surety bond in the amount of \$250,000.

Settled claims have not exceeded this commercial coverage in the past three years. There have been no significant reduction in coverage from fiscal year 2006.

B. Workers' Compensation

The ESC participates in the Ohio School Association of School Business Officials Workers' Compensation Group II Risk Management Plan, an insurance purchasing pool (See Note 2.A.). The Plan'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 Ohio School Boards Association. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the plan.

The intent of the Plan is to achieve the benefit of a reduced premium for the ESC by virtue of its grouping and representation with other participants in the Plan. The worker's 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 Plan. Each participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The firm of Sheakley Uniservice, Inc. provides administrative, cost control, and actuarial services to the Plan.

C. Employee Group Life, Medical, Dental and Vision Insurance

Medical/surgical, dental, and vision insurance is offered to employees through a self-insurance internal service fund. The ESC is a member of a claims servicing pool, consisting of school districts and other entities throughout the state, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the ESC's behalf. The plan is administered through OME-RESA and provides stop loss protection of \$250,000 per individual per year. The claims liability is \$94,158 reported in the internal service fund at June 30, 2007, is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling the claims.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 9 - RISK MANAGEMENT - (Continued)

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

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2007	\$ 91,100	\$ 739,411	\$ (736,353)	\$ 94,158
2006	116,972	548,722	(574,594)	91,100

NOTE 10 - PENSION PLANS

A. School Employees Retirement System

The ESC contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 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.

Plan members are required to contribute 10 percent of their annual covered salary and the ESC is required to contribute at an actuarially determined rate. The current ESC rate is 14 percent of annual covered payroll. A portion of the ESC's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 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, up to statutory maximum amounts, by the SERS' Retirement Board. The ESC's required contribution for pension obligations to SERS for fiscal years ended 2007, 2006, and 2005 were \$160,986, \$174,790, and \$136,156, respectively; 93.21 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. \$10,926 represents the unpaid contribution for fiscal year 2007 and is recorded as a liability within the respective funds.

B. State Teachers Retirement System of Ohio

The ESC participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. 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 43215-3371 or by calling (614) 227-4090, or by visiting the STRS Ohio website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 10 - PENSION PLANS - (Continued)

Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The ESC was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal years 2006 and 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation 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.

The ESC's required contributions for fund pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005 were \$338,199, \$307,039, and \$231,638, respectively; 93.21 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. \$22,954 represents the unpaid contribution for fiscal year 2007 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2007 were \$1,582 made by the ESC and \$6,424 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2007, certain members of the Board of Education have elected Social Security. The ESC's liability is 6.2% of wages paid.

NOTE 11 - POSTEMPLOYMENT BENEFITS

The ESC provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 11 - POSTEMPLOYMENT BENEFITS - (Continued)

All STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the ESC, this amount equaled \$26,015 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006 (the latest information available), net health care costs paid by STRS Ohio were \$282.743 million and STRS Ohio had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease of .10 percent from fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. Total surcharge is capped at 2 percent of each employer's SERS salaries. For the 2007 fiscal year, ESC paid \$68,377 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were \$158.751 million. At June 30, 2006 (the latest information available), SERS had net assets available for payment of health care benefits of \$295.6 million. At June 30, 2006 (the latest information available), SERS had 59,492 participants currently receiving health care benefits.

NOTE 12 - CONTINGENCIES

A. Grants

The ESC receives significant financial assistance from numerous federal, state and local 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 effect on the overall financial position of the ESC.

**JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 12 - CONTINGENCIES - (Continued)

B. Litigation

There are no claims or lawsuits pending against the ESC that, upon ultimate disposition, would have a material effect, if any, on the financial condition of the ESC.

NOTE 13 - INVESTMENT POOL

The ESC serves as fiscal agent for the OME-RESA Self-Funded Insurance Program (Program) and the OME-RESA "A" Site Computer Center (Computer Center). The ESC is responsible for receiving and disbursing funds at the direction of the schools participating in the Program and Computer Center. These entities are legally separate from the ESC. The ESC is fiscal agent and custodian for these entities, but is not accountable. These funds invested on behalf of the Program and Computer Center have been included in the basic financial statements as investment trust funds.

Investments are specifically purchased in the name of the Program and Computer Center. The investment pools are not registered with the SEC as investment companies. The fair value of investments is determined annually. The Program and Computer Center earn interest on investments purchased in their name. This activity makes up the external portion of the investment pool.

During fiscal year 2007 investments were limited to non-negotiable certificates of deposit. Nonparticipating investment contracts such as non-negotiable certificates of deposit are reported at cost.

**JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 13 - INVESTMENT POOL - (Continued)

Condensed financial information for the investment pool follows:

Statement of Net Assets June 30, 2007	
Assets	
Equity in Cash and Cash Equivalents	\$ 2,993,380
Cash in Segregated Accounts	65,044,489
Accrued Interest Receivable	<u>82,929</u>
<i>Total Assets</i>	<u>68,120,798</u>
Net Assets Held in Trust for Pool Participants	
Internal Portion	2,708,437
External Portion	<u>65,412,361</u>
<i>Total Net Assets Held in Trust for Pool Participants</i>	<u>\$ 68,120,798</u>

Statement of Changes in Net Assets For Fiscal Year Ended June 30, 2007	
Additions	
Interest	\$ 2,444,047
Capital Transactions	<u>20,694,731</u>
<i>Total Additions</i>	<u>23,138,778</u>
Deductions	
Distributions to Participants	2,372,237
Capital Transactions	<u>142</u>
<i>Total Deductions</i>	<u>2,372,379</u>
<i>Change in Net Assets</i>	20,766,399
<i>Net Assets, Beginning of Year</i>	<u>47,354,399</u>
<i>Net Assets, End of Year</i>	<u>\$ 68,120,798</u>

Deposits and investments of the investment pool mirror those of the ESC. There are no differences between the deposits and investments of the ESC and those of the investment pool. See Note 4 for the investment pools classifications of deposits and investments by GASB Statement No. 40, "Deposits and Investments Risk Disclosures".

NOTE 14 - STATE FUNDING

The ESC is funded by the State Board of Education from State funds for the cost of Part (A) of the budget.

Part (B) of the budget is funded in the following way: \$6.50 times the Average Daily Membership (ADM- the total number of pupils under the ESC's supervision) is apportioned by the State Board of Education from the participating school districts to which the ESC provides services from payments made under the State's foundation program. Simultaneously, \$37.00 times the sum of the ADM is paid by the State Board of Education from State funds to the ESC.

**JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 14 - STATE FUNDING - (Continued)

If additional funding is required and if a majority of the boards of education of the participating school districts approve, the cost of Part (B) of the budget that is in excess of \$43.50 times ADM approved by the State Board of Education is apportioned to the participating school districts through reductions in their state foundation. The State Board of Education initiates and supervises the procedure by which the participating boards approve or disapprove the apportionment.

NOTE 15 - LOANS RECEIVABLE/PAYABLE

At June 30, 2007, the ESC had loans outstanding in the fiduciary funds as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Investment Trust	Agency	<u>\$ 1,256</u>
Total		<u><u>\$ 1,256</u></u>

The primary purpose of these loans is to cover costs where revenues were not received by June 30. These loans will be repaid once the anticipated revenues are received. The loans are expected to be repaid in the subsequent year.

**JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
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SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Tuition	\$ 730,766	\$ 730,766	\$ 730,766	
Services provided to other entities.	2,391,312	3,552,264	3,552,264	\$ -
Earnings on investments.	38,000	70,362	70,362	-
Other local revenues.	21,794	36,268	36,268	-
Intergovernmental - Intermediate	172,000	158,538	158,538	-
Intergovernmental - State	825,000	843,761	843,761	-
Intergovernmental - Federal.	630	-	-	-
Total revenue	<u>4,179,502</u>	<u>5,391,959</u>	<u>5,391,959</u>	<u>-</u>
Expenditures:				
Current:				
Instruction:				
Regular	168,827	170,944	170,944	-
Special.	418,966	431,525	431,525	-
Other	5,200	5,200	5,200	-
Support Services:				
Pupil.	1,107,283	1,132,616	1,132,616	-
Instructional staff	1,772,678	2,255,953	2,245,822	10,131
Board of education	20,861	18,218	18,218	-
Administration.	616,409	788,578	788,578	-
Fiscal	164,524	175,227	174,443	784
Operations and maintenance.	9,393	10,286	10,286	-
Operation of non-instructional services	1,229	3,979	3,979	-
Total expenditures	<u>4,285,370</u>	<u>4,992,526</u>	<u>4,981,611</u>	<u>10,915</u>
Excess (deficiency) of revenues over (under) expenditures.	<u>(105,868)</u>	<u>399,433</u>	<u>410,348</u>	<u>10,915</u>
Other financing sources (uses):				
Refund of prior year expenditure	1,500	4,251	4,251	-
Refund of prior year receipts.	-	(5,902)	(5,902)	-
Advances in.	-	1,806	1,806	-
Advances (out).	-	(1,806)	(1,806)	-
Total other financing sources (uses).	<u>1,500</u>	<u>(1,651)</u>	<u>(1,651)</u>	<u>-</u>
Net change in fund balance	(104,368)	397,782	408,697	10,915
Fund balance at beginning of year.	939,665	939,665	939,665	-
Prior year encumbrances appropriated	52,955	52,955	52,955	-
Fund balance at end of year	<u>\$ 888,252</u>	<u>\$ 1,390,402</u>	<u>\$ 1,401,317</u>	<u>\$ 10,915</u>

**JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO**

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
MISCELLANEOUS STATE GRANTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental - State	-	225,000	225,000	-
Total revenue	-	225,000	225,000	-
Expenditures:				
Current:				
Instruction:				
Regular	-	184,000	183,999	1
Support Services:				
Instructional staff	-	32,225	32,225	-
Administration	-	675	-	675
Fiscal	-	5,000	-	5,000
Operation of non-instructional services	-	3,100	3,100	-
Total expenditures	-	225,000	219,324	5,676
Excess of revenues over expenditures	-	-	5,676	5,676
Other financing sources:				
Refund of prior year expenditure	-	1,073	1,073	-
Total other financing sources	-	1,073	1,073	-
Net change in fund balance	-	1,073	6,749	5,676
Fund balance at beginning of year	28,152	28,152	28,152	-
Fund balance at end of year	\$ 28,152	\$ 29,225	\$ 34,901	\$ 5,676

**JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO**

**NOTES TO THE SUPPLEMENTAL INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 1 - BUDGETARY PROCESS

The ESC is no longer required under State statute to file budgetary information with the State Department of Education. However, the ESC Board does follow the budgetary process for control purposes.

The ESC's Governing Board budgets for resources estimated to be received during the fiscal year. The estimated revenues may be amended during the fiscal year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts of the estimated revenues when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts of the estimated revenues in effect at the time final appropriations were passed by the Governing Board.

The ESC Governing Board adopts an annual appropriation resolution, which is the Board's authorization to spend resources and sets annual limits on expenditures at the level of control selected by the Governing Board. The level of control has been established by the Governing Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds.

Throughout the fiscal year, appropriations may be amended or supplemented as circumstances warrant. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts on the budgetary statements represent the final appropriation amounts passed by the Governing Board during the fiscal year.

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING

While the ESC is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Budget Basis) - for the General Fund and Miscellaneous State Grants Fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Advances In and Advance Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

**JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO**

NOTES TO THE SUPPLEMENTAL INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund and Miscellaneous State Grants Fund fund:

	<u>General</u>	<u>Miscellaneous State Grants</u>
Budget basis	\$ 408,697	\$ 6,749
Net adjustment for revenue accruals	(63,640)	-
Net adjustment for expenditure accruals	53,464	1,073
Net adjustment for other sources/(uses)	1,651	(1,073)
Adjustment for encumbrances	<u>42,324</u>	<u>158,795</u>
GAAP basis	<u>\$ 442,496</u>	<u>\$ 165,544</u>

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

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

Jefferson County Educational Service Center
Jefferson County
2023 Sunset Boulevard
Steubenville, Ohio 43952

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Jefferson County Educational Service Center, Jefferson County, (the Center) as of and for the year ended June 30, 2007 which collectively comprise the Center's basic financial statements and have issued our report thereon dated February 19, 2009. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls 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 auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Center's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the Center's financial statements that is more than inconsequential will not be prevented or detected by the Center's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Center's internal control.

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 significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted certain other matters that we reported to management in a separate letter dated February 19, 2009.

This report is intended for the information and use of the audit committee, management, and the Board of Education and is not intended to be and should not be used by anyone other than these specified parties.

Charles E. Harris & Associates, Inc.

February 19, 2009

JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
Jefferson County, Ohio
For the Year Ending June 30, 2007

SCHEDULE OF PRIOR AUDIT'S CITATIONS AND RECOMMENDATIONS

The prior audit report, for the year ended June 30, 2006, reported no material citations or recommendations.



Mary Taylor, CPA
Auditor of State

JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER

JEFFERSON 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
APRIL 16, 2009**