



**Auditor of State
Betty Montgomery**

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**JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Jefferson County Educational Service Center
Jefferson County
2023 Sunset Blvd.
Steubenville, Ohio 43952

To the Board of Education:

We have audited the accompanying general purpose financial statements of the Jefferson County Educational Service Center, Jefferson County, Ohio, (the Center) as of and for the year ended June 30, 2003, as listed in the table of contents. These general purpose financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Jefferson County Educational Service Center, Jefferson County, Ohio, as of June 30, 2003, and the results of its operations and the cash flows of its proprietary fund type and non expendable trust fund for the year in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2005 on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 considering the results of our audit.

A handwritten signature in cursive script that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

February 14, 2005

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**GENERAL PURPOSE
FINANCIAL
STATEMENTS**

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

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2003

	Governmental Fund Types			Proprietary Fund Type
	General	Special Revenue	Capital Projects	Internal Service
ASSETS AND OTHER DEBITS				
ASSETS:				
Equity in pooled cash and cash equivalents.	\$ 86,114	\$ 688,880	\$ 2,241	\$ 344,127
Equity in pooled cash and cash equivalents - nonexpendable trust fund	-	-	-	-
Cash and investments in segregated accounts	-	-	-	-
Receivables (net of allowances of uncollectibles):				
Accrued interest	440	-	-	-
Interfund loan receivable	58,531	-	-	-
Due from other governments	197,574	83,462	-	-
Due from other funds	357,362	-	-	-
Materials and supplies inventory	2,000	-	-	-
Prepayments	11,652	356	-	-
Property, plant and equipment (net of accumulated depreciation where applicable).	-	-	-	-
OTHER DEBITS:				
Amount to be provided for retirement of general long-term obligations	-	-	-	-
Total assets and other debits	\$ 713,673	\$ 772,698	\$ 2,241	\$ 344,127
LIABILITIES, EQUITY AND OTHER CREDITS				
LIABILITIES:				
Accounts payable	\$ 722	\$ -	\$ -	\$ -
Accrued wages and benefits.	140,649	5,648	-	-
Compensated absences payable.	23,864	-	-	-
Due to other governments.	14,950	2,143	-	-
Due to other funds	-	-	-	357,362
Pension obligation payable	15,481	-	-	-
Interfund loan payable	-	58,531	-	1,256
Deferred revenue	27,329	7,350	-	-
Claims payable	-	-	-	29,877
Total liabilities.	222,995	73,672	-	388,495
EQUITY AND OTHER CREDITS:				
Investment in general fixed assets	-	-	-	-
Amount available for individual investment account participants.	-	-	-	-
Retained earnings: unreserved	-	-	-	(44,368)
Fund balances:				
Reserved for encumbrances	40,826	3,501	-	-
Reserved for materials and supplies inventory	2,000	-	-	-
Reserved for prepayments.	11,652	356	-	-
Reserved for principal endowment	-	-	-	-
Unreserved-undesignated	436,200	695,169	2,241	-
Total equity and other credits	490,678	699,026	2,241	(44,368)
Total liabilities, equity and other credits.	\$ 713,673	\$ 772,698	\$ 2,241	\$ 344,127

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
	General Fixed Assets	General Long-Term Obligations	
Trust			
\$ 295,320	\$ -	\$ -	\$ 1,416,682
12,820	-	-	12,820
4,265,990	-	-	4,265,990
13,971	-	-	14,411
1,256	-	-	59,787
-	-	-	281,036
-	-	-	357,362
-	-	-	2,000
-	-	-	12,008
-	347,361	-	347,361
-	-	113,913	113,913
<u>\$ 4,589,357</u>	<u>\$ 347,361</u>	<u>\$ 113,913</u>	<u>\$ 6,883,370</u>
\$ -	\$ -	\$ -	\$ 722
-	-	-	146,297
-	-	110,999	134,863
-	-	-	17,093
-	-	-	357,362
-	-	2,914	18,395
-	-	-	59,787
-	-	-	34,679
-	-	-	29,877
-	-	113,913	799,075
-	347,361	-	347,361
4,576,517	-	-	4,576,517
-	-	-	(44,368)
-	-	-	44,327
-	-	-	2,000
-	-	-	12,008
12,840	-	-	12,840
-	-	-	1,133,610
<u>4,589,357</u>	<u>347,361</u>	<u>-</u>	<u>6,084,295</u>
<u>\$ 4,589,357</u>	<u>\$ 347,361</u>	<u>\$ 113,913</u>	<u>\$ 6,883,370</u>

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

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Governmental Fund Types			Total (Memorandum Only)
	General	Special Revenue	Capital Projects	
Revenues:				
From local sources:				
Services provided to other entities	\$ 1,744,378	\$ -	\$ -	\$ 1,744,378
Earnings on investments	9,162	-	-	9,162
Community service activities	-	404,540	-	404,540
Other local revenues	210,634	-	-	210,634
Other revenue	84,035	-	-	84,035
Intergovernmental - State	812,983	334,214	14,113	1,161,310
Intergovernmental - Federal	221,817	369,980	-	591,797
Total revenue.	<u>3,083,009</u>	<u>1,108,734</u>	<u>14,113</u>	<u>4,205,856</u>
Expenditures:				
Current:				
Instruction:				
Regular	130,106	167,729	-	297,835
Special	316,522	-	-	316,522
Other	4,800	13,895	-	18,695
Support services:				
Pupil	877,941	213,837	-	1,091,778
Instructional staff.	1,005,072	125,167	-	1,130,239
Board of Education.	11,915	-	-	11,915
Administration	510,691	-	-	510,691
Fiscal.	134,661	-	-	134,661
Operations and maintenance	12,961	-	-	12,961
Central	630	266,321	18,467	285,418
Community services	-	5,971	-	5,971
Total expenditures	<u>3,005,299</u>	<u>792,920</u>	<u>18,467</u>	<u>3,816,686</u>
Excess (deficiency) of revenues over (under) expenditures	<u>77,710</u>	<u>315,814</u>	<u>(4,354)</u>	<u>389,170</u>
Other financing sources:				
Pass through payments.	-	(333,952)	-	(333,952)
Total other financing sources	<u>-</u>	<u>(333,952)</u>	<u>-</u>	<u>(333,952)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses) .	77,710	(18,138)	(4,354)	55,218
Fund balances, July 1	412,521	717,164	6,595	1,136,280
Increase in reserve for inventory.	447	-	-	447
Fund balances, June 30	<u>\$ 490,678</u>	<u>\$ 699,026</u>	<u>\$ 2,241</u>	<u>\$ 1,191,945</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

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

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	General			Special Revenue		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:						
From local sources:						
Services provided to other entities	\$ 1,774,681	\$ 1,774,696	\$ 15	\$ -	\$ -	\$ -
Earnings on investments	9,641	9,641	-	-	-	-
Extracurricular activities.	-	-	-	353,360	353,360	-
Other local revenues	231,515	231,515	-	-	-	-
Other revenue	84,035	84,035	-	-	-	-
Intergovernmental - State	812,983	812,983	-	336,137	336,137	-
Intergovernmental - Federal.	212,852	212,852	-	382,064	382,064	-
Total revenues.	3,125,707	3,125,722	15	1,071,561	1,071,561	-
Expenditures:						
Current:						
Instruction:						
Regular.	130,768	130,065	703	169,695	167,662	2,033
Special.	308,308	308,305	3	-	-	-
Other.	4,800	4,800	-	13,750	13,750	-
Support services:						
Pupil.	891,656	891,435	221	210,000	210,000	-
Instructional staff.	1,034,549	1,015,157	19,392	129,227	129,227	-
Board of Education	12,957	12,781	176	-	-	-
Administration	527,862	526,254	1,608	-	-	-
Fiscal.	139,182	135,398	3,784	-	-	-
Operations and maintenance	12,648	12,643	5	-	-	-
Central.	-	-	-	955,794	269,982	685,812
Community services	630	630	-	5,971	5,971	-
Total expenditures	3,063,360	3,037,468	25,892	1,484,437	796,592	687,845
Excess (deficiency) of revenues over (under) expenditures	62,347	88,254	25,907	(412,876)	274,969	687,845
Other financing sources (uses):						
Advances in	24,931	24,931	-	58,531	58,531	-
Advances out.	(58,531)	(58,531)	-	(37,016)	(37,016)	-
Pass through payments.	-	-	-	(625,000)	(333,952)	291,048
Refund of prior year receipts	-	-	-	(1,923)	(1,923)	-
Refund of prior year expenditures.	11,152	11,152	-	-	-	-
Total other financing sources (uses)	(22,448)	(22,448)	-	(605,408)	(314,360)	291,048
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses).	39,899	65,806	25,907	(1,018,284)	(39,391)	978,893
Fund balances, July 1	277,018	277,018	-	679,990	679,990	-
Prior year encumbrances appropriated	59,329	59,329	-	44,780	44,780	-
Fund balances, June 30	\$ 376,246	\$ 402,153	\$ 25,907	\$ (293,514)	\$ 685,379	\$ 978,893

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

Capital Projects			Total (Memorandum only)		
Budget Revised	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)
\$ -	\$ -	\$ -	\$ 1,774,681	\$ 1,774,696	\$ 15
-	-	-	9,641	9,641	-
-	-	-	353,360	353,360	-
-	-	-	231,515	231,515	-
-	-	-	84,035	84,035	-
17,410	17,410	-	1,166,530	1,166,530	-
-	-	-	594,916	594,916	-
<u>17,410</u>	<u>17,410</u>	<u>-</u>	<u>4,214,678</u>	<u>4,214,693</u>	<u>15</u>
-	-	-	300,463	297,727	2,736
-	-	-	308,308	308,305	3
-	-	-	18,550	18,550	-
-	-	-	1,101,656	1,101,435	221
-	-	-	1,163,776	1,144,384	19,392
-	-	-	12,957	12,781	176
-	-	-	527,862	526,254	1,608
-	-	-	139,182	135,398	3,784
-	-	-	12,648	12,643	5
20,707	18,467	2,240	976,501	288,449	688,052
-	-	-	6,601	6,601	-
<u>20,707</u>	<u>18,467</u>	<u>2,240</u>	<u>4,568,504</u>	<u>3,852,527</u>	<u>715,977</u>
<u>(3,297)</u>	<u>(1,057)</u>	<u>2,240</u>	<u>(353,826)</u>	<u>362,166</u>	<u>715,992</u>
-	-	-	83,462	83,462	-
-	-	-	(95,547)	(95,547)	-
-	-	-	(625,000)	(333,952)	291,048
(3,297)	(3,297)	-	(5,220)	(5,220)	-
-	-	-	11,152	11,152	-
<u>(3,297)</u>	<u>(3,297)</u>	<u>-</u>	<u>(631,153)</u>	<u>(340,105)</u>	<u>291,048</u>
(6,594)	(4,354)	2,240	(984,979)	22,061	1,007,040
6,595	6,595	-	963,603	963,603	-
-	-	-	104,109	104,109	-
<u>\$ 1</u>	<u>\$ 2,241</u>	<u>\$ 2,240</u>	<u>\$ 82,733</u>	<u>\$ 1,089,773</u>	<u>\$ 1,007,040</u>

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

COMBINED STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS/FUND BALANCE
PROPRIETARY FUND TYPE AND NONEXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Proprietary Fund Type	Fiduciary Fund Type	
	Internal Service	Nonexpendable Trust	Total (Memorandum Only)
Operating revenues:			
Sales/charges for services	\$ 3,120,218	\$ -	\$ 3,120,218
Investment earnings	<u>-</u>	<u>538</u>	<u>538</u>
Total operating revenues	<u>3,120,218</u>	<u>538</u>	<u>3,120,756</u>
Operating expenses:			
Contract services	3,147,280	-	3,147,280
Claims expense	592,743	-	592,743
Other	<u>62,836</u>	<u>1,000</u>	<u>63,836</u>
Total operating expenses	<u>3,802,859</u>	<u>1,000</u>	<u>3,803,859</u>
Operating loss	(682,641)	(462)	(683,103)
Retained earnings/fund balance, July 1	<u>638,273</u>	<u>13,302</u>	<u>651,575</u>
Retained earnings/fund balance (Accumulated deficit), June 30	<u>\$ (44,368)</u>	<u>\$ 12,840</u>	<u>\$ (31,528)</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

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

COMBINED STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE AND NONEXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Proprietary Fund Type	Fiduciary Fund Type	Total (Memorandum Only)
	Internal Service	Nonexpendable Trust	
Cash flows from operating activities:			
Cash received from sales/service charges.	\$ 3,187,073	\$ 567	\$ 3,187,640
Cash payments for contract services	(3,147,280)	-	(3,147,280)
Cash payments for claims.	(653,754)	-	(653,754)
Cash payments for other expenses	(62,836)	(1,000)	(63,836)
Net cash used in operating activities	(676,797)	(433)	(677,230)
Cash flows from noncapital financing activities:			
Cash received from other funds	187,097	-	187,097
Cash used for interfund loans	(1,476)	-	(1,476)
Net cash provided by noncapital financing activities.	185,621	-	185,621
Net decrease in cash and cash equivalents	(491,176)	(433)	(491,609)
Cash and cash equivalents at beginning of year.	835,303	13,253	848,556
Cash and cash equivalents at end of year	\$ 344,127	\$ 12,820	\$ 356,947
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	\$ (682,641)	\$ (462)	\$ (683,103)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Interest reported as operating income	-	29	29
Changes in assets and liabilities:			
Decrease in due from other governments	66,855	-	66,855
Decrease in claims payable	(61,011)	-	(61,011)
Net cash used in operating activities.	\$ (676,797)	\$ (433)	\$ (677,230)

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

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

STATEMENT OF CHANGES IN NET ASSETS
INVESTMENT TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Fiduciary Fund Type
	Investment Trust
Operations:	
Net investment income	\$ 104,789
Net increase in net assets due to operating activities	<u>35,246,707</u>
Increase from operating transactions.	<u>35,351,496</u>
Capital transactions:	
Proceeds of investments sold	5,600,000
Purchase of investments.	(541,967)
Change in fair market value of investments.	<u>(42,055,688)</u>
Decrease from capital transactions.	<u>(36,997,655)</u>
Total decrease in net assets.	(1,646,159)
Net assets at July 1.	<u>6,222,676</u>
Net assets at June 30.	<u>\$ 4,576,517</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

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

STATEMENT OF NET ASSETS
INVESTMENT TRUST FUNDS
JUNE 30, 2003

	Fiduciary Fund Type
	<u>Investment Trust</u>
Assets:	
Cash and investments	\$ 4,561,310
Interfund loans receivable.	1,256
Accrued interest receivable	<u>13,951</u>
 Total assets.	 <u>\$ 4,576,517</u>
 Net assets available to participants.	 <u>\$ 4,576,517</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 1 - DESCRIPTION OF THE ENTITY

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 Governing Board (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, 2003 was 10,894. The Board employed 41 certified employees and 34 non-certified employees.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general purpose financial statements (GPFS) 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 prior to November 30, 1989 to its proprietary activities unless those pronouncements conflict with or contradict GASB pronouncements. The ESC's significant accounting policies are described below.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

A. Reporting Entity

The ESC's reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". When applying GASB Statement No. 14, management has considered all potential component units.

The reporting entity is required to be composed of the primary government, component units and other organizations that are included to ensure that the GPFS 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, service related activities of the ESC and OME-RESA purchasing services.

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 organizations' 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 obligated or has otherwise assumed the responsibility to finance the deficits of or provided financial support to the organization; or 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 these criteria, the ESC has no component units.

The ESC is 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 schools participating in the Program and the Computer Center. These entities are legally separate from the Center. The ESC is fiscal agent and custodian for these entities, but is not accountable; therefore the operations of the Program and the Computer Center have been excluded from the ESC's GPFS. The funds invested on behalf of the Program and the Computer Center have been included in the GPFS as investment trust funds.

Management believes the GPFS includes all of the funds of the ESC over which the ESC has the ability to exercise direct operating control.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

The ESC's operating facilities are owned by the Jefferson County Educational Service Center. The original construction of the facilities was partially paid for by an Appalachian Regional Commission Grant that required the building to be used for educational purposes.

The ESC is associated with two organizations, one which is defined as a jointly governed organization and one as a public entity risk pool. These organizations are described due to their relationship to the ESC:

JOINTLY GOVERNED ORGANIZATION:

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.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

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.

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 (the "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 accounts of the ESC are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. The ESC has the following fund types and account groups:

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions of the ESC are financed. The acquisition, use and balances of the ESC's expendable financial resources and the related liabilities (except those accounted for in fiduciary funds) are accounted for through governmental funds. The following are the ESC's governmental fund types:

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 to the ESC for any purpose provided it is expended or transferred according to the laws of the State of Ohio.

Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources, other than expendable trusts or major capital projects, that are legally restricted to expenditure for specified purposes.

Capital Projects Fund - The capital projects fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

PROPRIETARY FUNDS

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 type:

Internal Service Funds - The internal service funds are used to account for the financing of goods or services provided by one department or agency to governmental units, on a cost-reimbursement basis.

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by the ESC in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include a nonexpendable trust fund and investment trust funds. The nonexpendable trust fund and investment trust funds are accounted for on the accrual basis of accounting. A separate Statement of Changes in Net Assets and Statement of Net Assets is presented for the investment trust funds.

ACCOUNT GROUPS

The ESC maintains two account groups as described below:

General Fixed Assets Account Group - The general fixed assets account group is used to account for fixed assets acquired principally for general purposes other than those accounted for in proprietary funds.

General Long-Term Obligations Account Group - The general long-term obligations account group is used to account for all unmatured long-term indebtedness of the ESC that is not a specific liability of the proprietary fund.

C. Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

The proprietary funds, nonexpendable trust fund, and 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 operations of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

The modified accrual basis of accounting is followed for governmental funds. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, which for the ESC is sixty days after the June 30 year-end. Revenues accrued at the end of the year include interest, tuition, grants and entitlements, and accounts.

Nonexchange transactions, in which the ESC receives value without directly giving equal value in return, include grants, entitlements and donations. On the modified accrual basis of accounting, revenue from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been met and the resources are available.

Expenditures (decreases in net financial resources) are recognized in the period in which the fund liability is incurred with the following exceptions: general long-term obligation principal and interest are reported only when due; and the costs of accumulated unpaid vacation and sick leave are reported as expenditures in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

The proprietary funds, nonexpendable trust fund, and investment trust funds are accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

On the accrual basis of accounting, revenue from nonexchange transactions, such as grants, entitlements and donations, is recognized in the fiscal year in which all eligibility requirements have been met.

D. Budgets

A County Educational Service Center (County ESC) is required by state statute, Ohio Revised Code Section 3317.11, to submit an annual budget of operating expenses to the State Board of Education for approval.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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

1. Appropriations for the ensuing year for a County ESC are prepared on forms furnished by the State Board of Education which certify the budget to the state, together with such other information as the State Board of Education may require. Said budget shall consist of two parts: Part (A) shall include the cost of the salaries, employers retirement contributions, and travel expenses of supervisory teachers approved by the State Board of Education. Part (B) shall include the cost of all other lawful expenditures of the County ESC. The State Board of Education shall review such budget and may approve, increase, or decrease such budget. A portion of the ESC's operating expenses are apportioned among the various districts in the county on the basis of the total number of pupils in each district and deducted from funds allocated to local districts under the school foundation program. The annual appropriation resolution was legally enacted by the ESC at the fund, function and object level of expenditures, which are the legal levels of budgetary control.
2. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions must be approved by the State Board of Education.
3. Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions. All departments/functions and funds completed the year within the amount of their legally authorized cash basis appropriation.
4. Appropriation amounts are as originally adopted, or as amended by the ESC through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. Supplemental appropriations were legally enacted by the ESC during fiscal 2003. The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual - All Governmental Fund Types presents the final board approved appropriations at June 30, 2003.
5. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund, function and/or object level.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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

Encumbrance accounting is utilized with Board funds in the normal course of operations, for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. For governmental fund Types, encumbrances outstanding at year-end, not recognized as accounts payable, appear as a reserve to the fund balance on a GAAP-basis and as the equivalent of expenditures on a non-GAAP budgetary basis in order to demonstrate legal compliance. Note 12 provides a reconciliation of the budgetary and GAAP-basis of accounting.

E. Cash and Investments

To improve cash management, cash received by the ESC is pooled. Monies for all funds, including proprietary 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 combined balance sheet.

During fiscal 2003, the ESC's investments were limited to investments in non-negotiable certificates of deposits and Federal Agency Securities.

Investments in Federal Agency Securities are reported at fair value. Fair value is based on quoted market prices. Investments in nonparticipating investment contracts, such as nonnegotiable certificates of deposits, are reported 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 Governing 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 nonexpendable 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 2003 amounted to \$9,162, which includes \$6,659 assigned from other ESC funds.

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

Based upon the reporting requirements of GASB Statement No. 31, “Accounting and Financial Reporting for Certain Investments and for External Investment Pools”, the ESC is sponsoring individual investment accounts for the Program and the Computer Center. The individual investment accounts represent monies invested by the ESC on behalf of the Program and the Computer Center as their fiscal agent. During fiscal year 2003, the individual investment accounts consisted of investments in nonnegotiable certificates of deposit and Federal Agency Securities. The investment portfolios for the Program and the Computer Center are presented as investment trust funds in the ESC’s GPFS.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, 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.

F. Interfund Transactions

During the course of normal operations, the ESC may have numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not show transfers of resources as operating transfers. The ESC made no operating transfers in fiscal year 2003.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund. Quasi-external transactions are accounted for as revenues, expenditures or expenses.
3. Short-term interfund loans and accrued interfund reimbursements and accrued operating transfers are reflected as “interfund loans receivable or payable”. The ESC had short-term interfund loans receivable and payable at June 30, 2003.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 20032**

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

4. Long-term interfund loans that will not be repaid within the next year are termed “advances” and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources. The ESC had no long-term advances receivable or payable at June 30, 2003.

An analysis of interfund transactions is presented in Note 5.

G. Prepayments

Payments, made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed. At fiscal year-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved for an amount equal to the carrying value of the asset.

H. Fixed Assets and Depreciation

Fixed assets used in governmental fund types of the ESC are recorded in the general fixed assets account group at cost or estimated historical cost if purchased or constructed. Donated fixed assets are recorded at their estimated fair value at the date of donation. Assets in the general fixed assets account group are not depreciated. Interest incurred during construction is not capitalized on general fixed assets. The ESC follows the capitalization policy of not capitalizing assets with a cost of less than \$500 and a useful life of less than three years. The ESC does not possess any infrastructure.

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

I. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgements, compensated absences, contractually required pension contributions, and special termination benefits that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. In general, payments made more than 60 days after year-end are considered not to have been made with current available financial resources.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

J. 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 fifty or greater with at least ten years of service and all employees with at least twenty years of service at any age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

Accumulated vacation and severance of governmental fund type employees meeting the above requirements have been recorded in the appropriate governmental fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The balance of the liability is recorded in the general long-term obligations account group. Vacation and sick leave for employees meeting the above requirements who are paid from proprietary funds is recorded as an expense when earned.

K. Fund Equity

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances for governmental funds represent the amount that has been legally identified for specific purposes. Fund balances are reserved for encumbrances, materials and supplies inventory, prepayments and principal endowment. Although the nonexpendable trust fund uses the total economic resources measurement focus, the fund equity is reserved for the amount of principal endowment. Unreserved retained earnings for proprietary funds represent the net assets available for future operations.

L. Estimates

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

M. Pass-Through Grants

The ESC is the primary recipient of grants, which are passed-through to or spent on behalf of the local school districts within the county. When the ESC has a financial or administrative role in grants, the grants are reported as revenues and intergovernmental expenditures in a special revenue fund. Grants in which the ESC has no financial or administrative role and are passed-through to other entities and local districts in the county are reported as an agency fund.

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

N. Materials and Supplies Inventory

Inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

O. Memorandum Only - Total Columns

Total columns on the GPFS are captioned (Memorandum Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with GAAP. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Compliance

Contrary to Ohio Revised Code Section 5705.10, the ESC had a negative cash balance in the Employee Benefits Self-Insurance internal service fund of \$357,362. For GAAP purposes, this amount has been reported as a fund liability of the Employee Benefits Self-Insurance fund.

B. Deficit Fund Balances/Retained Earnings

Fund balances at June 30, 2003 included the following individual fund deficits:

	<u>Deficit Balance</u>
<u>Special Revenue Fund</u>	
Alternative Schools	\$2,106

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

	<u>Deficit Balance</u>
<u>Internal Service Fund</u>	
Employee Benefits Self Insurance	\$387,239

The deficit in the Alternative Schools special revenue fund is caused by the application of GAAP, namely in the reporting of a liability for accrued wages and benefits attributable to the fiscal year. This fund complied with Ohio state law, which does not permit a cash basis deficit at year-end. This deficit will be eliminated as revenues become available to cover these costs as they are incurred.

The deficit fund balance in the Employee Benefits Self-Insurance internal service fund is the result of accruing a liability for claims incurred before June 30 but not paid until after that date. This deficit will be eliminated as premiums are received to cover the claims.

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

The ESC maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of 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 the Governing Board has identified as not required for use within the current two 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.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

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

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.

Interim monies may be invested or deposited 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 or 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;

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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 Jefferson County Educational Service Center, 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, 2003 was \$4,265,990.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

Deposits: At fiscal year-end, the carrying amount of the ESC's deposits was \$1,429,502 (including non-negotiable certificates of deposit) and the bank balance was \$1,925,186 (including non-negotiable certificates of deposit). The portion of the bank balance not reflected in the carrying amount included \$7,844 in the payroll clearance account. Of the bank balance:

1. \$212,205 was covered by federal deposit insurance; and
2. \$1,712,981 was uninsured and uncollateralized as defined by GASB because it was secured by collateral held by third party trustees pursuant to section 135.181, Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the ESC. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the ESC to a successful claim by the FDIC.

The ESC had no investments at June 30, 2003.

The classification of cash and cash equivalents and investments on the combined balance sheet is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

	Cash and Cash Equivalents/ Deposits
GASB Statement No. 9	\$ 5,695,492
Cash and investments in segregated accounts	<u>(4,265,990)</u>
GASB Statement No. 3	<u>\$ 1,429,502</u>

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund balances at June 30, 2003, consist of the following individual interfund loans receivable and/or payable:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$58,531	\$ -
<u>Special Revenue Funds</u>		
Other Grant	-	58,531
<u>Internal Service Fund</u>		
Internal Service Rotary	-	1,256
<u>Investment Trust Fund</u>		
OME-RESA Computer Center	<u>1,256</u>	<u>-</u>
Total	<u>\$59,787</u>	<u>\$59,787</u>

- B.** At June 30, 2003, the Employee Benefits Self-Insurance internal service fund had a negative cash balance. The fund overdraft has been reported as a fund liability.

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$357,362	\$ -
<u>Internal Service Fund</u>		
Employee Benefits Self-Insurance	<u>-</u>	<u>357,362</u>
Total	<u>\$357,362</u>	<u>\$357,362</u>

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 6 - RECEIVABLES

Receivables at June 30, 2003 consisted of billed services that are provided to other districts, accrued interest, interfund loans, amounts due from other funds, and intergovernmental grants (to the extent eligibility requirements have been met by fiscal year-end). Intergovernmental grants receivable have been presented as "Due From Other Governments" on the combined balance sheet. Intergovernmental receivables are considered collectible in full due to the stable condition of state programs.

	<u>Amounts</u>
<u>General Fund</u>	
Accrued interest	\$ 440
Interfund loans	58,531
Due from other governments	197,574
Due from other funds	357,362
 <u>Special Revenue Funds</u>	
Due from other governments	83,462
 <u>Investment Trust Funds</u>	
Accrued interest	13,971
Interfund loans	1,256

NOTE 7 - FIXED ASSETS

A summary of the changes in general fixed assets account group during the fiscal year follows:

	<u>Balance</u> <u>July 1, 2002</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2003</u>
Buildings	\$180,000	\$ -	\$ -	\$180,000
Furniture and equipment	83,967	78,125	(1,903)	160,189
Vehicles	<u>7,172</u>	<u>-</u>	<u>-</u>	<u>7,172</u>
Total	<u>\$271,139</u>	<u>\$78,125</u>	<u>\$(1,903)</u>	<u>\$347,361</u>

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 8 - GENERAL LONG-TERM OBLIGATIONS

During the year ended June 30, 2003, the following changes occurred in liabilities reported in the general long-term obligations account groups. Compensated absences will ultimately be paid from the fund from which the employee is paid.

	<u>Outstanding July 1, 2002</u>	<u>Additions</u>	<u>Disposals</u>	<u>Outstanding June 30, 2003</u>
Pension obligation payable	\$ 605	\$ 2,914	\$ (605)	\$ 2,914
Compensated absences payable	<u>163,380</u>	<u>7,227</u>	<u>(59,608)</u>	<u>110,999</u>
Total	<u>\$163,985</u>	<u>\$10,141</u>	<u>\$(60,213)</u>	<u>\$113,913</u>

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 \$500 per incident on equipment. All vehicles are also insured and have a \$250 comprehensive deductible and \$1,000 collision 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 \$25,000.

B. Worker's Compensation

The ESC participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (See Note 2.A.). The GRP's business and affairs are conducted by a three member board of directors consisting of the President, the President-Elect and the Immediate Past President of the 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 GRP to cover the costs of administering the plan.

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 9 - RISK MANAGEMENT - (Continued)

The intent of the GRP is to achieve the benefit of a reduced premium for the ESC by virtue of its grouping and representation with other participants in the GRP. 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 GRP. 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 GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

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 several school districts within the County, 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 \$50,000 per individual per year. The claims liability is \$29,877 reported in the internal service fund at June 30, 2003, 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. 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>
2003	\$90,888	\$592,743	\$(653,754)	\$29,877
2002	90,561	580,931	(580,604)	90,888

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 10 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The ESC contributes to the School Employees Retirement System of Ohio (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 State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 9% of their annual covered salary and the ESC is required to contribute at an actuarially determined rate. The current ESC rate is 14% 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 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46% 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 a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The ESC's required contributions to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$170,824, \$172,111, and \$167,720, respectively; 100% has been contributed for fiscal years 2003, 2002 and 2001.

B. State Teachers Retirement System

The ESC contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 9.3% of their annual covered salary and the ESC is required to contribute at an actuarially determined rate. The current ESC rate is 14% 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 2003, 13% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 9.5% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The ESC's required contributions to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$238,427, \$222,542, and \$218,608, respectively; 100% has been contributed for fiscal years 2003, 2002 and 2001.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/STRS. The Board'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 STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 11 - POSTEMPLOYMENT BENEFITS - (Continued)

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the ESC, this amount equaled \$17,031 during fiscal 2003.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.011 billion at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002 (the latest information available), net health care costs paid by STRS were \$354.697 million and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 5.83% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14% 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% of annual health care expenses. Expenses for health care at June 30, 2002 (the latest information available) were \$182.947 million and the target level was \$274.4 million. At June 30, 2002, (the latest information available) SERS had net assets available for payment of health care benefits of \$335.2 million and SERS had approximately 50,000 participants receiving health care benefits. For the ESC, the amount to fund health care benefits, including surcharge, equaled \$71,741 during the 2003 fiscal year.

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 12 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance is done on a GAAP basis, the budgetary basis, as provided by law, is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual - All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for governmental funds (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the governmental funds are as follows:

**Excess of Revenues and Other Financing Sources
Over/(Under) Expenditures and Other Financing Uses**

	<u>Governmental Fund Types</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
Budget basis	\$ 65,806	\$(39,391)	\$(4,354)
Net adjustment for revenue accruals	(42,713)	37,173	(3,297)
Net adjustment for expenditure accruals	(9,154)	171	-
Net adjustment for other financing sources/(uses)	22,448	(19,592)	3,297
Encumbrances (budget basis)	<u>41,323</u>	<u>3,501</u>	<u>-</u>
GAAP basis	<u>\$ 77,710</u>	<u>\$(18,138)</u>	<u>\$(4,354)</u>

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 13 - 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 any of the financial statements of the individual fund types included herein or on the overall financial position of the ESC at June 30, 2003.

B. Litigation

There is no current litigation pending which would have a material effect on the financial statements.

C. State School Funding Decision

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

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

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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.

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.

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL 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 accompanying financial statements of Jefferson County Educational Service Center, Jefferson County, Ohio, (the Center) as of and for the year ended June 30, 2003, and have issued our report thereon dated February 14, 2005. 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.

Compliance

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 and grants, 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*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a certain matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the Center in a separate letter dated February 14, 2005.

This report is intended solely 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.

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

Betty Montgomery
Auditor of State

February 14, 2005



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

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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
MAY 17, 2005**