



**Auditor of State  
Betty Montgomery**



**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 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, 2004, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express 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 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 Jefferson County Educational Service Center, Jefferson County, Ohio, as of June 30, 2004, and the respective changes in financial position and the respective cash flows, where applicable and the applicable budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2004, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis- for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 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.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

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

**Betty Montgomery**  
Auditor of State

March 2, 2005

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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, 2004. 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 2004 are as follows:

- In total, net assets of governmental activities decreased \$281,974 which represents a 74.90% decrease from 2003.
- General revenues accounted for \$951,801 in revenue or 24.45% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,940,587 or 75.55% of total revenues of \$3,892,388.
- The ESC had \$4,174,362 in expenses related to governmental activities; \$2,940,587 of these expenses was offset by program specific charges for services, grants or contributions.
- The ESC's major governmental fund is the general fund. The general fund had \$3,281,638 in revenues and \$3,509,136 in expenditures. During fiscal 2004, the general fund's fund balance decreased \$227,498 from \$514,835 to \$287,337.

**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 is by far the most significant fund, and the only governmental fund reported as a major fund.

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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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 2004?" 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 15-16 of this report.

**Reporting the ESC's Most Significant Funds**

***Fund Financial Statements***

The analysis of the ESC's major governmental fund begins on page 10. 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 only major governmental fund is the general 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 15-19 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 22-24 of this report.



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MANAGEMENT'S DISCUSSION AND ANALYSIS  
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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 25 and 26. 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 27-51 of this report.

**The ESC as a Whole**

Recall that the Statement of Net Assets provides the perspective of the ESC as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting; therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

The table below provides a summary of the ESC's net assets for 2004.

	<b>Net Assets</b>
	Governmental Activities
	<u>2004</u>
<b><u>Assets</u></b>	
Current and other assets	\$ 361,412
Capital assets	<u>282,904</u>
Total assets	<u>644,316</u>
<b><u>Liabilities</u></b>	
Current liabilities	355,056
Long-term liabilities	<u>194,768</u>
Total liabilities	<u>549,824</u>
<b><u>Net Assets</u></b>	
Invested in capital assets	253,262
Restricted	10,996
Unrestricted (deficit)	<u>(169,766)</u>
Total net assets	<u>\$ 94,492</u>

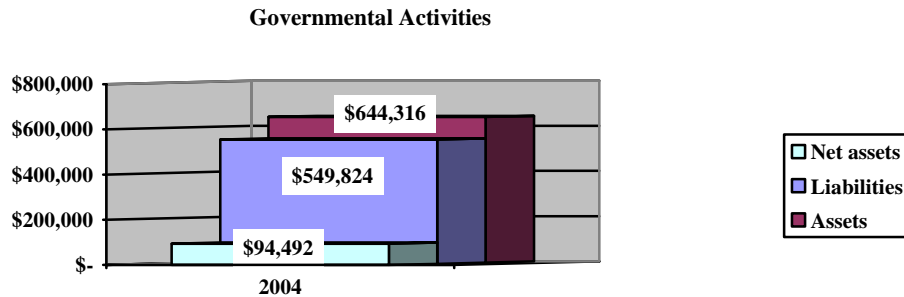
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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the ESC's assets exceeded liabilities by \$94,492. Of this total, \$10,996 is restricted in use.

At year-end, capital assets represented 43.91% of total assets. Capital assets include land, buildings and improvements, furniture and equipment and vehicles. Capital assets at June 30, 2004 were \$253,262. These capital assets are used to provide the ESC's services and are not available for future spending.

A portion of the ESC's net assets, \$10,996, represents resources that are subject to external restriction on how they may be used. The remaining deficit balance of unrestricted net assets of \$169,766 may be used to meet the ESC's ongoing obligations to the students and creditors.



The table below shows the change in net assets for fiscal year 2004. Since this is the first year the ESC has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2003 are not available. A comparative analysis will be provided in future years when prior year information is available.

The table below shows the change in net assets for fiscal years 2004.

	<b>Change in Net Assets</b>
	Governmental Activities 2004
	<hr/>
<b><u>Revenues</u></b>	
Program revenues:	
Charges for services and sales	\$ 2,225,753
Operating grants and contributions	714,834
General revenues:	
Grants and entitlements	933,758
Investment earnings	3,250
Other	<hr/> 14,793
Total revenues	<hr/> 3,892,388

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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**Change in Net Assets**

	Governmental Activities <u>2004</u>
<b><u>Expenses</u></b>	
Program expenses:	
Instruction:	
Regular	\$ 266,168
Special	344,067
Adult/continuing	5,271
Other	4,800
Support services:	
Pupil	1,266,529
Instructional staff	1,521,052
Board of education	15,304
Administration	539,991
Fiscal	154,060
Operations and maintenance	11,944
Central	21,078
Operations of non-instructional services	<u>24,098</u>
Total expenses	<u>4,174,362</u>
Change in net assets	(281,974)
Net assets at beginning of year (restated)	<u>376,466</u>
Net assets at end of year	<u><u>\$ 94,492</u></u>

**Governmental Activities**

Net assets of the ESC's governmental activities decreased \$281,974. Total governmental expenses of \$4,174,362 were offset by program revenues of \$2,940,587 and general revenues of \$951,801. Program revenues supported 70.44% of the total governmental expenses. The decrease in net assets during fiscal 2004 is attributed to start-up costs amounting to approximately \$275,000 - \$300,000 related to the development of a Virtual Learning Academy online curriculum and the contracting for a learning management system to deliver the curriculum.

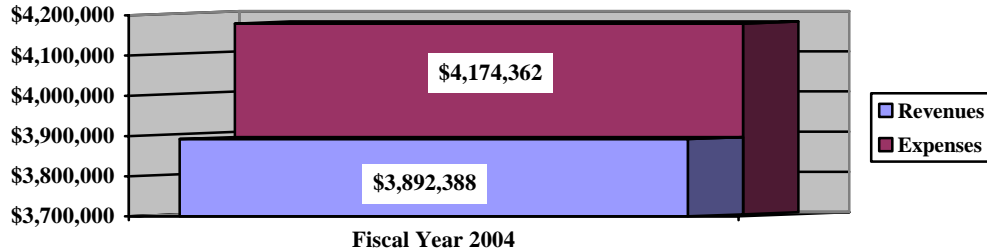
The primary sources of revenue for governmental activities are derived from contracted fees for services provided to other entities. This revenue source represents 57.18% of total governmental revenue.

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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The graph below presents the ESC's governmental activities revenue and expenses for fiscal years 2004.

**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.

	<b>Governmental Activities</b>	
	Total Cost of Services	Net Cost of Services
	<u>2004</u>	<u>2004</u>
<b>Program expenses</b>		
Instruction:		
Regular	\$ 266,168	\$ 159,795
Special	344,067	69,310
Adult/continuing	5,271	5,271
Other	4,800	174
Support services:		
Pupil	1,266,529	324,675
Instructional staff	1,521,052	338,941
Board of education	15,304	15,304
Administration	539,991	154,874
Fiscal	154,060	154,060
Operations and maintenance	11,944	11,944
Central	21,078	(2,332)
Operations of non-instructional services	<u>24,098</u>	<u>1,759</u>
<b>Total</b>	<u>\$ 4,174,362</u>	<u>\$ 1,233,775</u>

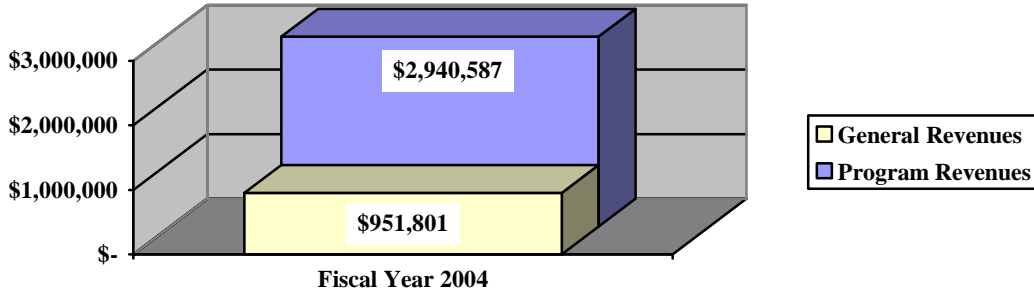
For all governmental activities, program revenue support is 70.44%. The primary support of the ESC is contracted fees for services provided to other districts.

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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The graph below presents the ESC's governmental activities revenue for fiscal years 2004.

**Governmental Activities - General and Program Revenues**



**The ESC's Funds**

The ESC's governmental funds (as presented on the balance sheet on page 17) reported a combined fund balance of \$326,756, which is lower than last year's total of \$565,519. The June 30, 2003 fund balances have been restated as described in Note 3.A to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	Fund Balance <u>June 30, 2004</u>	Fund Balance <u>June 30, 2003</u>	<u>(Decrease)</u>
General	\$ 287,337	\$ 514,835	\$ (227,498)
Other Governmental	<u>39,419</u>	<u>50,684</u>	<u>(11,265)</u>
Total	<u>\$ 326,756</u>	<u>\$ 565,519</u>	<u>\$ (238,763)</u>

**General Fund**

The ESC's general fund balance decreased \$227,498. The decrease in fund balance can be attributed to the decision by the Governing Board for the past eight years to keep excess costs charged to local school districts for special education and related services flat, coupled with the decision in fiscal 2004 to develop online curriculum for a Virtual Learning Academy. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
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	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>			
Services provided to other entities	\$ 2,128,330	\$ 1,744,378	22.01 %
Earnings on investments	3,250	9,162	(64.53) %
Intergovernmental	1,100,626	1,118,835	(1.63) %
Other revenues	<u>49,432</u>	<u>210,634</u>	(76.53) %
Total	<u>\$ 3,281,638</u>	<u>\$ 3,083,009</u>	6.44 %
<b><u>Expenditures</u></b>			
Instruction	\$ 500,108	\$ 451,428	10.78 %
Support services	3,007,078	2,553,871	17.75 %
Operation of non-instructional	<u>1,950</u>	<u>-</u>	100.00 %
Total	<u>\$ 3,509,136</u>	<u>\$ 3,005,299</u>	16.76 %

***General Fund Budgeting Highlights***

The ESC's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances.

During the course of fiscal 2004, the ESC did amend its general fund budgeted revenues. For the general fund, original revenues and other financing sources of \$3,196,373 were increased to \$3,373,848 in the final budget. Actual revenues and other financing sources for fiscal 2004 were \$3,373,848. This equals the final budgeted revenues.

General fund original budgeted expenditures and other financing uses of \$3,301,732 were increased to \$3,622,943 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$3,524,422, which was \$98,521 less than the final budget appropriations.

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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**Capital Assets and Debt Administration**

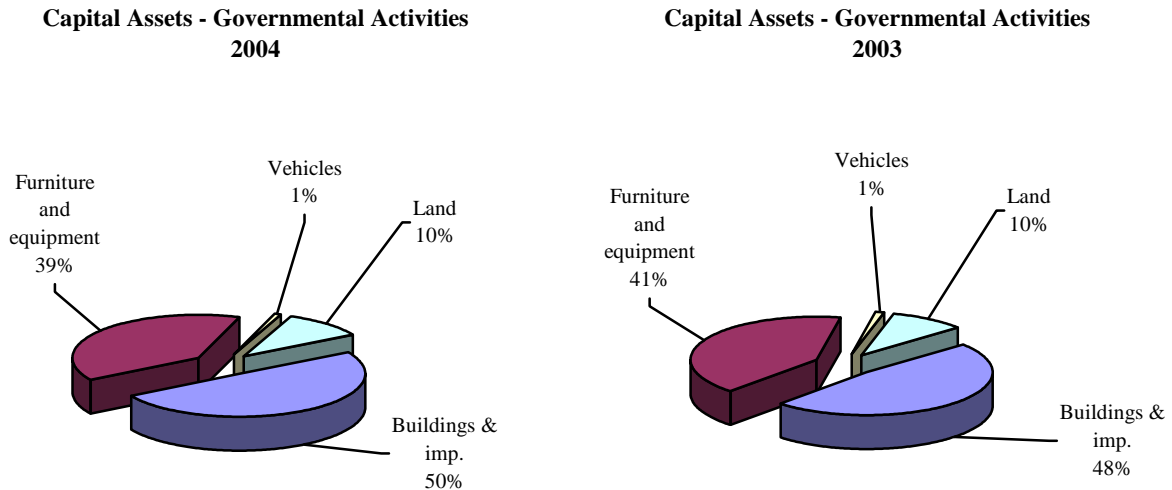
*Capital Assets*

At the end of fiscal 2004, the ESC had \$282,904 invested in land, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2004 balances compared to 2003:

	Capital Assets at June 30 (Net of Depreciation)	
	Governmental Activities	
	2004	2003
Land	\$ 29,642	\$ 29,642
Building and improvements	140,961	144,720
Furniture and equipment	109,790	123,250
Vehicles	2,511	3,228
<b>Total</b>	<b>\$ 282,904</b>	<b>\$ 300,840</b>

Total additions to capital assets for 2004 were \$9,108. A total of \$27,044 in depreciation expense was recognized for fiscal 2004.

The graphs below present the ESC's capital assets for fiscal 2004 and fiscal 2003.



See Note 7 to the basic financial statements for additional information on the ESC's capital assets.

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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**Current Financial Related Activities**

Fiscal 2004 was not a typical year for the ESC and its Governing Board. Three major factors impacted the general fund fiscal year-end balance.

1. Excess Costs

- ◆ The philosophy and past practice of the Jefferson County Governing Board and Superintendent have been to provide as much financial support as possible to local districts.
- ◆ For eight consecutive years, they made a deliberate decision to keep districts' excess costs flat for special education and related services. The compounding effect over those years amounted to \$800,000 never billed back to districts.
- ◆ For fiscal 2005, excess cost billing was adjusted to close the gap between ESC costs and district billings.

2. Virtual Learning Academy (VLA)

- ◆ In early 2004, the Board and Superintendent made another deliberate decision impacting the financial picture. They elected to deficit spend in fiscal 2004 to develop an online curriculum to be utilized locally for a Virtual Learning Academy (VLA) for at-risk students in Jefferson County and to be marketed statewide and nationally.
- ◆ Prior to making the decision to develop the curriculum, the Board was buying from out-of-state vendors a curriculum not aligned with the Ohio Academic Content Standards and not deemed educationally appropriate for our students.
- ◆ First year start-up activities for this project included developing and writing 68 courses and contracting for a learning management system to deliver them. Estimated costs were \$275,000 - \$300,000.
- ◆ For fiscal 2005, the Board appropriated \$600,000 for VLA. To date, we have billed \$580,000 for licenses, training, and technical support, and we still have two additional billings remaining in this fiscal year.
- ◆ Interest and participation in the Virtual Learning Academy continue to grow. The Board currently has contracts with 123 school districts for the virtual learning program. The districts are located in 40 Ohio counties, and to date, 2,413 students are enrolled.
- ◆ We will continue to enhance the courses and the management system. In fall 2005, we will develop and offer 12 additional new courses.
- ◆ However, the financial picture will be brighter: first, costs of the enhancements and new courses will be far less than initial start-up costs in fiscal 2004; and secondly, the program is now up and running and has been generating revenue in fiscal 2005.



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MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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3. Health Benefits

- ◆ The third fiscal issue in fiscal 2004 relates to health benefits. Like many other organizations and businesses, our health insurance began to “run in the red” several years ago.
- ◆ Working together, the Board, administration, and staff have moved the health program in a positive direction by changing the schedule of benefits and increasing employee participation.
- ◆ Fiscal 2005 balances will reflect the positive effects of this correction.

4. Summary

- ◆ We believe the ESC is on a path of strong fiscal stability. For fiscal 2005, we have contracts with 205 school districts located in 52 counties.
- ◆ The chart below indicates our general fund balance at the midway point for three fiscal years:

January 2003	\$430,000
January 2004	\$260,000
January 2005	\$390,000

- ◆ Clearly, the increase of \$130,000 from January 2004 – January 2005 affirms the general fund balance is recovering as anticipated by the Board and Superintendent.

**Contacting the ESC's Financial Management**

This financial report is designed to provide the citizens 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.

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

STATEMENT OF NET ASSETS  
JUNE 30, 2004

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents . . .	\$ 114,474
Receivables:	
Intergovernmental . . . . .	231,038
Prepayments . . . . .	14,637
Materials and supplies inventory . . . . .	1,263
Capital assets:	
Land . . . . .	29,642
Depreciable capital assets, net . . . . .	253,262
Total capital assets, net . . . . .	282,904
 Total assets. . . . .	 644,316
<b>Liabilities:</b>	
Accounts payable. . . . .	12,986
Accrued wages and benefits . . . . .	158,920
Pension obligation payable. . . . .	28,632
Intergovernmental payable . . . . .	18,113
Claims payable . . . . .	136,405
Long-term liabilities:	
Due within one year. . . . .	114,636
Due within more than one year . . . . .	80,132
 Total liabilities . . . . .	 549,824
<b>Net Assets:</b>	
Invested in capital assets . . . . .	253,262
Restricted for:	
Other purposes . . . . .	10,996
Unrestricted . . . . .	(169,766)
 Total net assets . . . . .	 \$ 94,492

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER  
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STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<b>Program Revenues</b>			<b>Net (Expense) Revenue and Changes in Net Assets</b>
<b>Expenses</b>	<b>Charges for Services and Sales</b>	<b>Operating Grants and Contributions</b>	<b>Governmental Activities</b>	
<b>Governmental activities:</b>				
Instruction:				
Regular . . . . .	\$ 266,168	\$ 11,080	\$ 95,293	\$ (159,795)
Special . . . . .	344,067	256,980	17,777	(69,310)
Adult/continuing . . . . .	5,271	-	-	(5,271)
Other. . . . .	4,800	-	4,626	(174)
Support services:				
Pupil. . . . .	1,266,529	737,769	204,085	(324,675)
Instructional staff . . . . .	1,521,052	862,061	320,050	(338,941)
Board of education . . . . .	15,304	-	-	(15,304)
Administration. . . . .	539,991	357,863	27,254	(154,874)
Fiscal. . . . .	154,060	-	-	(154,060)
Operations and maintenance. . . . .	11,944	-	-	(11,944)
Central. . . . .	21,078	-	23,410	2,332
Operation of non-instructional services . . . . .	24,098	-	22,339	(1,759)
<b>Total governmental activities . . . . .</b>	<b>\$ 4,174,362</b>	<b>\$ 2,225,753</b>	<b>\$ 714,834</b>	<b>(1,233,775)</b>
<b>General Revenues:</b>				
Grants and entitlements not restricted to specific programs . . . . .				933,758
Investment earnings . . . . .				3,250
Miscellaneous . . . . .				14,793
<b>Total general revenues . . . . .</b>				<b>951,801</b>
Change in net assets . . . . .				(281,974)
Net assets at beginning of year (restated). . . . .				376,466
Net assets at end of year . . . . .				<b>\$ 94,492</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2004

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents . . .	\$ 61,089	\$ 53,385	\$ 114,474
Receivables:			
Intergovernmental . . . . .	227,119	3,919	231,038
Due from other funds . . . . .	268,072	-	268,072
Prepayments . . . . .	14,637	-	14,637
Materials and supplies inventory . . . . .	1,263	-	1,263
	<u>572,180</u>	<u>57,304</u>	<u>629,484</u>
Total assets . . . . .	<u>\$ 572,180</u>	<u>\$ 57,304</u>	<u>\$ 629,484</u>
<b>Liabilities:</b>			
Accounts payable . . . . .	\$ -	\$ 12,986	\$ 12,986
Accrued wages and benefits . . . . .	158,920	-	158,920
Pension obligation payable. . . . .	19,127	-	19,127
Intergovernmental payable . . . . .	16,683	1,430	18,113
Due to other funds . . . . .	-	3,469	3,469
Deferred revenue . . . . .	90,113	-	90,113
	<u>284,843</u>	<u>17,885</u>	<u>302,728</u>
Total liabilities . . . . .	<u>284,843</u>	<u>17,885</u>	<u>302,728</u>
<b>Fund Balances:</b>			
Reserved for encumbrances . . . . .	35,966	13,765	49,731
Reserved for materials and supplies inventory. . . . .	1,263	-	1,263
Reserved for prepayments . . . . .	14,637	-	14,637
Unreserved, undesignated (deficit), reported in:			
General fund . . . . .	235,471		235,471
Special revenue funds. . . . .		25,654	25,654
	<u>287,337</u>	<u>39,419</u>	<u>326,756</u>
Total fund balances . . . . .	<u>287,337</u>	<u>39,419</u>	<u>326,756</u>
Total liabilities and fund balances . . . . .	<u>\$ 572,180</u>	<u>\$ 57,304</u>	<u>\$ 629,484</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, 2004

<b>Total governmental fund balances</b>	\$	326,756
<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.		282,904
Other long-term assets (services provided to other entities) are not available to pay for current period expenditures and therefore are deferred in the funds.		90,113
Long-term liabilities, including compensated absences and pension obligations payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(194,768)	
Pension obligation payable	(9,505)	
Total		(204,273)
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.		(401,008)
<b>Net assets of governmental activities</b>	<b>\$</b>	<b>94,492</b>

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, 2004

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
From local sources:			
Services provided to other entities. . . . .	\$ 2,128,330	\$ -	\$ 2,128,330
Earnings on investments. . . . .	3,250	-	3,250
Community service activities . . . . .	-	159,875	159,875
Other local revenues. . . . .	49,432	-	49,432
Other revenue . . . . .	166,868	-	166,868
Intergovernmental - State . . . . .	796,569	129,703	926,272
Intergovernmental - Federal. . . . .	137,189	265,738	402,927
Total revenue . . . . .	<u>3,281,638</u>	<u>555,316</u>	<u>3,836,954</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular . . . . .	158,436	96,906	255,342
Special. . . . .	336,872	5,388	342,260
Adult/continuing . . . . .	-	5,271	5,271
Other . . . . .	4,800	-	4,800
Support Services:			
Pupil. . . . .	1,064,744	168,522	1,233,266
Instructional staff . . . . .	1,244,122	246,962	1,491,084
Board of education . . . . .	15,304	-	15,304
Administration. . . . .	516,466	-	516,466
Fiscal . . . . .	153,575	-	153,575
Operations and maintenance. . . . .	12,867	-	12,867
Central. . . . .	-	21,384	21,384
Operation of non-instructional . . . . .	1,950	22,148	24,098
Total expenditures . . . . .	<u>3,509,136</u>	<u>566,581</u>	<u>4,075,717</u>
Net change in fund balances . . . . .	(227,498)	(11,265)	(238,763)
<b>Fund balances at beginning of year</b>			
(restated) . . . . .	514,835	50,684	565,519
<b>Fund balances at end of year . . . . .</b>	<u>\$ 287,337</u>	<u>\$ 39,419</u>	<u>\$ 326,756</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, 2004

<b>Net change in fund balances - total governmental funds</b>	\$ (238,763)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
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 (\$9,108) were less than depreciation expense (\$27,044) in the current period.	(17,936)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	55,434
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(66,940)
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.	<u>(13,769)</u>
<b>Change in net assets of governmental activities</b>	<u><u>\$ (281,974)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
From local sources:				
Services provided to other entities. . . . .	\$ 2,012,032	\$ 2,136,469	\$ 2,136,469	\$ -
Earnings on investments. . . . .	8,000	3,690	3,690	-
Other local revenues. . . . .	12,220	49,432	49,432	-
Other revenue . . . . .	143,157	153,420	153,420	-
Intergovernmental - State . . . . .	835,964	796,569	796,569	-
Intergovernmental - Federal. . . . .	165,000	175,737	175,737	-
Total revenue . . . . .	<u>3,176,373</u>	<u>3,315,317</u>	<u>3,315,317</u>	<u>-</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	146,102	166,754	162,118	4,636
Special. . . . .	340,310	347,091	342,184	4,907
Other . . . . .	4,800	4,800	4,800	-
Support Services:				
Pupil. . . . .	1,032,091	1,070,168	1,048,662	21,506
Instructional staff . . . . .	1,110,711	1,293,598	1,252,951	40,647
Board of education . . . . .	16,095	16,095	15,288	807
Administration. . . . .	487,903	542,533	532,710	9,823
Fiscal . . . . .	148,298	164,766	150,431	14,335
Operations and maintenance. . . . .	14,864	14,924	13,328	1,596
Operation of non-instructional services . . . . .	558	2,214	1,950	264
Total expenditures . . . . .	<u>3,301,732</u>	<u>3,622,943</u>	<u>3,524,422</u>	<u>98,521</u>
Excess of revenues over (under) expenditures. . . . .	<u>(125,359)</u>	<u>(307,626)</u>	<u>(209,105)</u>	<u>98,521</u>
<b>Other financing sources:</b>				
Refund of prior year expenditure . . . . .	20,000	-	-	-
Advances in. . . . .	-	58,531	58,531	-
Total other financing sources . . . . .	<u>20,000</u>	<u>58,531</u>	<u>58,531</u>	<u>-</u>
Net change in fund balance . . . . .	(105,359)	(249,095)	(150,574)	98,521
<b>Fund balance at beginning of year</b>				
(restated) . . . . .	402,446	402,446	402,446	-
<b>Prior year encumbrances appropriated . . . . .</b>	41,323	41,323	41,323	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 338,410</u>	<u>\$ 194,674</u>	<u>\$ 293,195</u>	<u>\$ 98,521</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2004

	<b>Governmental Activities - Internal Service Fund</b>
<b>Liabilities:</b>	
Claims payable . . . . .	\$ 136,405
Due to other funds . . . . .	<u>264,603</u>
Total liabilities . . . . .	<u>401,008</u>
<b>Net assets:</b>	
Unrestricted. . . . .	<u>(401,008)</u>
Total net assets . . . . .	<u>\$ (401,008)</u>

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, 2004

	<b>Governmental Activities - Internal Service Fund</b>
<b>Operating revenues:</b>	
Charges for services . . . . .	\$ 725,573
Total operating revenues . . . . .	<u>725,573</u>
<b>Operating expenses:</b>	
Claims . . . . .	653,126
Other . . . . .	<u>86,216</u>
Total operating expenses . . . . .	<u>739,342</u>
Change in net assets . . . . .	(13,769)
<b>Net assets (deficit) at beginning of year (restated) . . . . .</b>	<u>(387,239)</u>
<b>Net assets at end of year . . . . .</b>	<u><u>\$ (401,008)</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, 2004

	<b>Governmental Activities - Internal Service Fund</b>
<b>Cash flows from operating activities:</b>	
Cash received from charges for services . . . . .	\$ 725,573
Cash payments for claims. . . . .	(546,598)
Cash payments for other expenses . . . . .	(86,216)
	92,759
Net cash provided by operating activities . . . . .	92,759
<b>Cash flows from noncapital financing activities:</b>	
Cash received from other funds. . . . .	264,603
Cash used in repayment of interfund loans . . . . .	(357,362)
	(92,759)
Net cash provided by noncapital financing activities. . . . .	(92,759)
Net increase in cash and cash equivalents . . . . .	-
<b>Cash and cash equivalents at beginning of year. . .</b>	-
<b>Cash and cash equivalents at end of year . . . . .</b>	\$ -
<b>Reconciliation of operating loss to net cash provided by operating activities:</b>	
Operating loss . . . . .	\$ (13,769)
Changes in assets and liabilities:	
Increase in claims payable . . . . .	106,528
	106,528
Net cash provided by operating activities . . . . .	\$ 92,759

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, 2004

	<u>Private Purpose Trust</u>	<u>Investment Trust</u>	<u>Agency</u>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents . . . . .	\$ 12,565	\$ 291,867	\$ 609,746
Cash segregated accounts . . . . .	-	15,432,894	-
Receivables:			
Accrued interest . . . . .	-	16,430	-
Loans . . . . .	-	1,256	-
	<u>12,565</u>	<u>15,742,447</u>	<u>\$ 609,746</u>
Total assets . . . . .	<u>12,565</u>	<u>15,742,447</u>	<u>\$ 609,746</u>
<b>Liabilities:</b>			
Intergovernmental payable . . . . .	-	-	\$ 608,490
Loans payable . . . . .	-	-	1,256
	<u>-</u>	<u>-</u>	<u>\$ 609,746</u>
Total liabilities . . . . .	<u>-</u>	<u>-</u>	<u>\$ 609,746</u>
<b>Net Assets:</b>			
Held in trust for scholarships . . . . .	12,565	-	
Net assets available for pool participants . . . . .	<u>-</u>	<u>15,742,447</u>	
Total net assets . . . . .	<u>\$ 12,565</u>	<u>\$ 15,742,447</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
TRUST FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<b>Private Purpose Trust</b>	<b>Investment Trust</b>
<b>Additions:</b>		
Gifts and contributions . . . . .	\$ 225	\$ -
Capital transactions . . . . .	-	11,166,904
Interest . . . . .	-	100,140
	225	11,267,044
<b>Deductions:</b>		
Scholarships awarded . . . . .	500	-
Distributions to participants . . . . .	-	97,661
Capital transactions . . . . .	-	3,453
	500	101,114
Total deductions . . . . .	500	101,114
Change in net assets . . . . .	(275)	11,165,930
<b>Net assets at beginning of year . . . . .</b>	<b>12,840</b>	<b>4,576,517</b>
<b>Net assets at end of year . . . . .</b>	<b>\$ 12,565</b>	<b>\$ 15,742,447</b>

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, 2004

**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 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, 2004 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 provided they do not conflict with or contradict GASB pronouncements. 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". The reporting entity is composed of the primary government, component units and other organization 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, 2004

**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 organizations' government 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 organizations 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 this 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, 2004

**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 (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 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 fund:

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.

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, 2004

**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 and enterprise 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, 2004

**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 cost of services 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 increase (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.

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**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.

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Contractual services provided by the ESC during the fiscal year for which payment is not received in the available period have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

**E. Budgets**

The budgetary process is prescribed by provisions of the Ohio Revised Code. Annually, on or before of date designated by the State Board of Education, each Educational Service Center prepares a budget of operating expenditures for the ensuing year on forms prepared and furnished by the State Board of Education, together with such other information as the Board may require. The Budget consists of two parts. Part (A) includes the cost of the salaries, employer's retirement contributions and travel costs of supervisory teachers approved by the State Board of Education. Part (B) includes the cost of all other lawful expenditures of the Educational Service Center.

Estimated Resources

After the start of the fiscal year, estimated resources are revised to include any unencumbered balances from the preceding fiscal year. The revised estimated resources represents the maximum amount that may be appropriated from each fund. Estimated resources may be further amended during the year as projected increases or decreases in revenue are identified by the Treasurer or additional grant programs are approved by the Governing Board.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

Appropriations

The annual Appropriation Resolution must be legally enacted by the Governing Board at the fund level of expenditures, which is the legal level of budgetary control. Prior to the passage of the annual appropriation measure, the Governing Board may pass a temporary appropriation measure to meet the ordinary expenses of the ESC. The Appropriation Resolution, by fund, must be within the estimated resources and the total of expenditures and encumbrances may not exceed the appropriation totals at the fund level of control. Any revisions that alter the total of any fund appropriation must be approved by the Governing Board.

The Governing Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Board of Education. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant. The budget figures, which appear in the statement of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations that were approved by the Governing Board prior to June 30, 2004. Formal budgetary integration is employed as a management control device during the year for all funds, other than agency funds, consistent with statutory provisions.

Lapsing of Appropriations

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

**F. Cash and Investments**

To improve cash management, cash received by the ESC is pooled. Monies for all funds, including the proprietary fund, 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 2004, 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 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 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 2004 amounted to \$3,250, which includes \$1,868 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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

An analysis of the Treasurer'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 are depreciated except for land. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities 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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

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 and accrued liabilities from the fiduciary funds are reported on the fiduciary fund 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, and contractually required pension contributions 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.

**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 consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation 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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

**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.

**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 2004.



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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Changes in Accounting Principles and Restatement of Fund Balance**

For fiscal year 2004, the ESC has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements Nos. 37, 38, 39 and 41.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures. GASB Statement No. 39 further defines the guidelines of GASB Statement No. 14, "The Financial Reporting Entity."

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparison for the general and each major special revenue fund.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

The government-wide financial statements show the ESC's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

In addition to implementing GASB Statement No. 34, the ESC switched from the purchase method to the consumption method of accounting for inventory of materials and supplies. This change in accounting principle had no effect on fund balance at June 30, 2003.

***Governmental Activities - Fund Reclassification and Restatement of Fund Balance*** - Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Standards of GASB Statement No. 34. It was also determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2003.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

The fund reclassifications and the implementation of GASB Interpretation No. 6 had the following effect on the ESC's governmental fund balances as previously reported:

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balance June 30, 2003	\$ 490,678	\$ 701,267	\$ 1,191,945
Fund reclassifications	293	(650,583)	(650,290)
Implementation of GASB Interpretation No. 6	<u>23,864</u>	<u>-</u>	<u>23,864</u>
Restated fund balance, June 30, 2003	<u>\$ 514,835</u>	<u>\$ 50,684</u>	<u>\$ 565,519</u>

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

	<u>Total</u>
Restated fund balance, June 30, 2003	\$ 565,519
GASB 34 adjustments:	
Long-term (deferred) assets	34,679
Capital assets	300,840
Pension obligation	(2,470)
Long-term liabilities	(134,863)
Internal service fund	<u>(387,239)</u>
Governmental activities net assets, June 30, 2003	<u>\$ 376,466</u>

***Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund*** - The general fund unencumbered fund balance at the beginning of the year has been restated from \$402,153 to \$402,446 due to a fund reclassification to properly reflect its intended purpose in accordance with GASB Statement No. 34.

***Internal Service Funds - Fund Reclassification and Restatement of Net Assets*** - Certain funds previously reported as internal service funds are now reported as a component of the general fund and agency funds to properly reflect the intended purpose of the funds.

	<u>Internal Service</u>
Fund equity as previously reported	\$ (44,368)
Fund reclassification	<u>(342,871)</u>
Restated net assets as of July 1, 2003	<u>\$ (387,239)</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

**B. Deficit Fund Balances**

Fund balances at June 30, 2004 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Summer School Intervention	\$ 1,666
Alternative Schools	469

The Alternative Schools fund complied with Ohio state law, which does not permit a cash basis deficit at year-end. The Summer School Intervention fund had a cash-basis deficit at year-end. 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 results from adjustments for accrued liabilities.

**C. Compliance**

The ESC had a negative cash fund balance of \$3,469 in the Summer School Intervention fund indicating that revenue from other sources were used to pay obligations of this fund contrary to Ohio Revised Code Section 5705.10. For GAAP purposes, this amount has been reported as a fund liability in the fund.

**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 basic financial statements as "Equity in Pooled Cash and Investments". 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.

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 finance 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 deposited or invested in the following securities:

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

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 2% 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 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 180 days in an amount not the exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument 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, 2004 was \$15,432,894.

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

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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 \$1,028,652 (including non-negotiable certificates of deposit) and the bank balance was \$1,677,403 (including non-negotiable certificates of deposit). The portion of the bank balance not reflected in the carrying amount included \$19,660 in the payroll clearance account. Of the bank balance:

1. \$212,205 was covered by federal depository insurance; and
2. \$1,465,198 was uninsured and uncollateralized as defined by GASB although 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, 2004.

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>
GASB Statement No. 9	\$ 16,461,546
Cash and investments in segregated accounts	<u>(15,432,894)</u>
GASB Statement No. 3	<u>\$ 1,028,652</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

Due from/to other funds consisted of the following at June 30, 2004, as reported on the fund financial statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor Governmental Funds	\$ 3,469
General	Internal Service Fund	264,603

The purpose of the due from/to other funds is to cover a negative cash balance at June 30. The amount will be repaid within one year.

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**NOTE 6 - RECEIVABLES**

Receivables at June 30, 2004 consisted of 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 \$ 231,038

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

**NOTE 7 - CAPITAL ASSETS**

- A. The capital asset balances of the governmental activities have been restated due to errors and omissions previously reported in capital assets and the depreciation of capital assets in accordance with GASB Statement No. 34.

	<u>Balance</u> <u>06/30/03</u>	<u>Adjustments</u>	<u>Restated</u> <u>Balance</u> <u>06/30/03</u>
<b>Governmental Activities</b>			
<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>29,642</u>
<i>Capital assets, being depreciated:</i>			
Buildings	150,358	-	150,358
Furniture and equipment	160,189	8,486	168,675
Vehicles	<u>7,172</u>	<u>-</u>	<u>7,172</u>
Total capital assets, being depreciated	<u>317,719</u>	<u>8,486</u>	<u>326,205</u>
<i>Less: accumulated depreciation</i>	<u>-</u>	<u>(55,007)</u>	<u>(55,007)</u>
Governmental activities capital assets, net	<u>\$ 347,361</u>	<u>\$ (46,521)</u>	<u>\$ 300,840</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 7 - CAPITAL ASSETS - (Continued)**

**B.** Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	<u>Balance 06/30/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/04</u>
<b>Governmental Activities:</b>				
<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	168,675	9,108	-	177,783
Vehicles	7,172	-	-	7,172
Total capital assets, being depreciated	<u>326,205</u>	<u>9,108</u>	<u>-</u>	<u>335,313</u>
<i>Less: accumulated depreciation:</i>				
Buildings	(5,638)	(3,759)	-	(9,397)
Furniture and equipment	(45,425)	(22,568)	-	(67,993)
Vehicles	(3,944)	(717)	-	(4,661)
Total accumulated depreciation	<u>(55,007)</u>	<u>(27,044)</u>	<u>-</u>	<u>(82,051)</u>
Governmental activities capital assets, net	<u>\$ 300,840</u>	<u>\$ (17,936)</u>	<u>\$ -</u>	<u>\$ 282,904</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular \$ 8,990

Support Services:

Pupil 366  
Administration 17,175  
Operations and maintenance 499  
Central 14

Total depreciation expense \$ 27,044

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 8 - LONG-TERM OBLIGATIONS**

The balance of the ESC's governmental activities long-term obligations at June 30, 2003 has been restated. The compensated absences liability increased \$23,864 from \$110,999 to \$134,863 due to the implementation of GASB Interpretation No. 6 and due to fund reclassifications described in Note 3.A. In addition, pension obligations of \$2,914 at June 30, 2003 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end. Pension obligations are reported separately on the statement of net assets. The effect on the total governmental activities long-term obligations at July 1, 2003 was an increase of \$20,950 from \$113,913 to \$134,863. During the fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

	Restated Balance Outstanding <u>06/30/03</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/04</u>	Amounts Due in <u>One Year</u>
Compensated absences	\$ 134,863	\$ 134,386	\$ (74,481)	\$ 194,768	\$ 114,636
Total	<u>\$ 134,863</u>	<u>\$ 134,386</u>	<u>\$ (74,481)</u>	<u>\$ 194,768</u>	<u>\$ 114,636</u>

Compensated absences will be paid from the fund from which the employee's salaries are paid.

**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 \$250,000.

**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.

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.



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 9 - RISK MANAGEMENT - (Continued)**

The ESC's insurance program for health care, through the COG, is administered by Mutual Health Services Company and Aultcare Corporation. Payments are made to the COG for monthly premiums, monthly stop-loss premiums and administrative charges. The ESC is fiscal agent for the COG. The Treasurer of the ESC pays Mutual Health Services Company and Aultcare Corporation monthly for all participating districts, the actual amount of claims processed, the stop-loss premium and the administrative charges.

**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 \$136,405 reported in the internal service fund at June 30, 2004, 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>
2004	\$ 29,877	\$ 653,126	\$ (546,598)	\$ 136,405
2003	90,888	592,743	(653,754)	29,877

**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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)**

Plan members are required to contribute 10% 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 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17% 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, 2004, 2003, and 2002 were \$177,938, \$170,824, and \$172,111, respectively; 100% has been contributed for fiscal years 2004, 2003 and 2002.

**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.

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

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

**JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)**

Plan members are required to contribute 10% 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 years 2004 and 2003, 13% 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, 2004, 2003, and 2002 were \$249,456, \$238,427, and \$222,542, respectively; 100% has been for the fiscal years 2004, 2003 and 2002.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2004, certain members of the Board of Education have elected Social Security. The ESC's liability is 6.20 percent 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.

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 \$17,818 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268.739 million and STRS had 111,853 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. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For this fiscal year, employer contributions to fund health care benefits were 4.91% 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 2004, the minimum pay has been established at \$25,400. 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.

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JEFFERSON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 11 - POSTEMPLOYMENT BENEFITS – (Continued)**

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the ESC, the amount to fund health care benefits, including surcharge, equaled \$65,319 during the 2004 fiscal year.

**NOTE 12 - BUDGETARY BASIS OF ACCOUNTING**

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

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund and the 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 the GAAP basis are that:

- (a) Revenues and other sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other uses 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, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

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

**Net Change in Fund Balance**

	<u>General Fund</u>
Budget basis	\$ (150,574)
Net adjustment for revenue accruals	(33,679)
Net adjustment for expenditure accruals	(20,680)
Net adjustment for other sources/uses	(58,531)
Adjustment for encumbrances	35,966
GAAP basis	\$ (227,498)

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**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 the overall financial position of the ESC.

**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.

**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.

**NOTE 14 - 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 2004, 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, 2004

**NOTE 14 - INVESTMENT POOL - (Continued)**

Condensed financial information for the investment pool follows:

Statement of Net Assets  
June 30, 2004

<b>Assets</b>	
Equity in Cash and Cash Equivalents	\$ 1,028,652
Cash in Segregated Accounts	15,432,894
Accrued Interest Receivable	<u>16,430</u>
<i>Total Assets</i>	<u><u>16,477,976</u></u>
<b>Net Assets Held in Trust for Pool Participants</b>	
Internal Portion	735,529
External Portion	<u>15,742,447</u>
<i>Total Net Assets Held in Trust for Pool Participants</i>	<u><u>\$ 16,477,976</u></u>

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

<b>Additions</b>	
Interest	\$ 103,390
Capital Transactions	<u>11,773,177</u>
<i>Total Additions</i>	<u>11,876,567</u>
<b>Deductions</b>	
Distributions to Participants	101,351
Capital Transactions	<u>1,007,143</u>
<i>Total Deductions</i>	<u>1,108,494</u>
<i>Change in Net Assets</i>	10,768,073
<i>Net Assets, Beginning of Year</i>	<u>5,709,903</u>
<i>Net Assets, End of Year</i>	<u><u>\$ 16,477,976</u></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 categories of risk as defined in GASB Statement No. 3, "~~Deposits with Financial Institutions, Investments (Including Repurchase Agreements) and Reverse Repurchase Agreements~~".

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE 15 - 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.

**NOTE 16 - LOANS RECEIVABLE/PAYABLE**

At June 30, 2004, 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	\$ 1,256
Total		<u>\$ 1,256</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.

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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, 2004, and have issued our report thereon dated March 2, 2005, which includes a reference to the implementation of a new reporting model, as required by the provisions of Governmental Accounting Standards Board, Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. 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*. However, we noted immaterial instances of noncompliance that we have reported to management of the Center in a separate letter dated March 2, 2005.

#### 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 certain matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Center in a separate letter dated March 2, 2005.

Jefferson County Educational Service Center  
Jefferson County  
Independent Accountants' Report on Compliance and on Internal Control  
Required by *Government Auditing Standards*  
Page 2

This report is intended solely for the information and use of the audit committee, management and 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

March 2, 2005



**Auditor of State  
Betty Montgomery**

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

**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  
MAY 17, 2005**