

***JEFFERSON COUNTY
EDUCATIONAL SERVICE CENTER***

JEFFERSON COUNTY, OHIO

Audit Report

For the Year Ended June 30, 2005

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



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Report of Independent Accountants* of the Jefferson County Educational Service Center, Jefferson County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

October 22, 2007

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Jefferson County Educational Service Center
Jefferson County, Ohio
Audit Report
For the Year Ended December 31, 2005

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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, 2005, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Center as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated August 23, 2007 on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance that report describes the scope of our testing of internal control over financial reporting and compliance and results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

Charles E. Harris & Associates, Inc.

August 23, 2007

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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, 2005. 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 2005 are as follows:

- In total, net assets of governmental activities increased \$528,018 which represents a 558.80% increase from 2004.
- General revenues accounted for \$1,207,879 in revenue or 26.59% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,334,697 or 73.41% of total revenues of \$4,542,576.
- The ESC had \$4,014,558 in expenses related to governmental activities; only \$3,334,697 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (unrestricted grants and entitlements) of \$1,207,879 were adequate to provide for these programs.
- The ESC's major governmental fund is the general fund. The general fund had \$4,183,551 in revenues and other financing sources and \$3,934,314 in expenditures. During fiscal 2005, the general fund's fund balance increased \$249,237 from \$287,337 to \$536,574.

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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

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 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

Reporting the ESC's Most Significant Funds

Fund Financial Statements

The analysis of the ESC's major governmental fund begins on page 9. Fund financial reports provide detailed information about the ESC's major funds. The ESC uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the ESC's most significant funds. The ESC's 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 20-22 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

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 23 and 24. 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 25-48 of this report.

The ESC as a Whole

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

The table below provides a summary of the ESC's net assets for 2005 and 2004.

	Net Assets	
	Governmental Activities 2005	Governmental Activities 2004
<u>Assets</u>		
Current and other assets	\$ 945,896	\$ 361,412
Capital assets	<u>303,623</u>	<u>282,904</u>
Total assets	<u>1,249,519</u>	<u>644,316</u>
<u>Liabilities</u>		
Current liabilities	452,190	355,056
Long-term liabilities	<u>174,819</u>	<u>194,768</u>
Total liabilities	<u>627,009</u>	<u>549,824</u>
<u>Net Assets</u>		
Invested in capital assets	288,210	253,262
Restricted	44,276	10,996
Unrestricted (deficit)	<u>290,024</u>	<u>(169,766)</u>
Total net assets	<u>\$ 622,510</u>	<u>\$ 94,492</u>

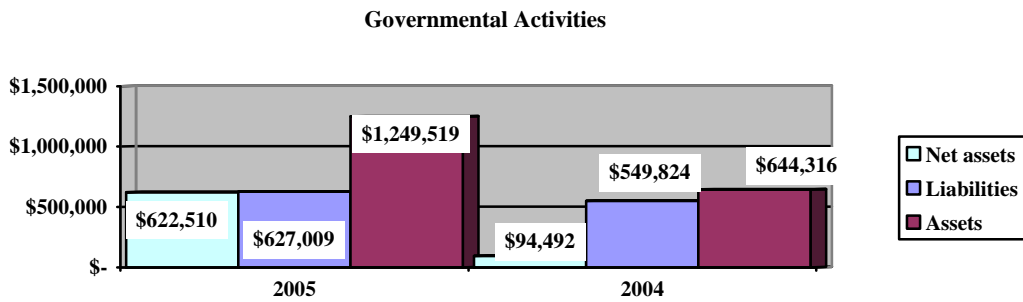
Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the ESC's assets exceeded liabilities by \$622,510. Of this total, \$44,276 is restricted in use.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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At year-end, capital assets represented 24.30% of total assets. Capital assets include land, buildings and improvements, furniture and equipment and vehicles. Capital assets at June 30, 2005 were \$303,623. 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, \$44,276, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$290,024 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 2005 and 2004.

Change in Net Assets

	Governmental Activities 2005	Governmental Activities 2004
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 2,804,603	\$ 2,225,753
Operating grants and contributions	530,094	714,834
General revenues:		
Grants and entitlements	1,184,060	933,758
Investment earnings	10,734	3,250
Other	13,085	14,793
Total revenues	4,542,576	3,892,388

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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Change in Net Assets

	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 212,939	\$ 266,168
Special	335,147	344,067
Adult/continuing	-	5,271
Other	12,764	4,800
Support services:		
Pupil	1,117,399	1,266,529
Instructional staff	1,613,000	1,521,052
Board of education	14,422	15,304
Administration	495,941	539,991
Fiscal	147,162	154,060
Business	37,004	-
Operations and maintenance	9,427	11,944
Central	3,116	21,078
Operations of non-instructional services	15,116	24,098
Interest and fiscal charges	<u>1,121</u>	<u>-</u>
Total expenses	<u>4,014,558</u>	<u>4,174,362</u>
Change in net assets	528,018	(281,974)
Net assets at beginning of year	<u>94,492</u>	<u>376,466</u>
Net assets at end of year	<u>\$ 622,510</u>	<u>\$ 94,492</u>

Governmental Activities

Net assets of the ESC's governmental activities increased \$528,018. Total governmental expenses of \$4,014,558 were offset by program revenues of \$3,334,697 and general revenues of \$1,207,879. Program revenues supported 83.07% of the total governmental expenses.

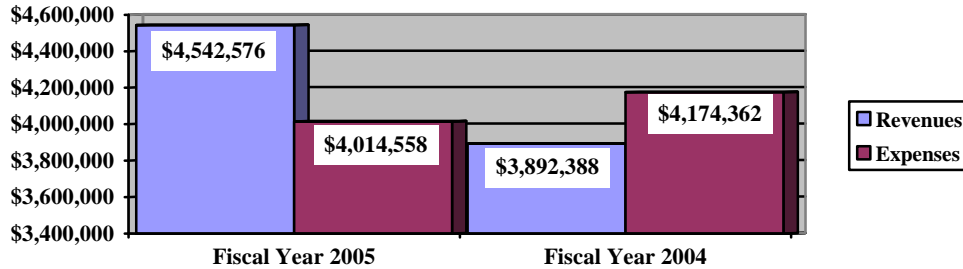
The primary sources of revenue for governmental activities are derived from contracted fees for services provided to other entities. This revenue source represents 61.74% of total governmental revenue.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The graph below presents the ESC's governmental activities revenue and expenses for fiscal years 2005 and 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.

Governmental Activities

	Total Cost of Services 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
Program expenses				
Instruction:				
Regular	\$ 212,939	\$ 119,601	\$ 266,168	\$ 159,795
Special	335,147	(14,031)	344,067	69,310
Adult/continuing	-	-	5,271	5,271
Other	12,764	5,292	4,800	174
Support services:				
Pupil	1,117,399	70,507	1,266,529	324,675
Instructional staff	1,613,000	231,154	1,521,052	338,941
Board of education	14,422	14,422	15,304	15,304
Administration	495,941	71,063	539,991	154,874
Fiscal	147,162	147,162	154,060	154,060
Business	37,004	27,004	-	-
Operations and maintenance	9,427	9,427	11,944	11,944
Central	3,116	716	21,078	(2,332)
Operations of non-instructional services	15,116	(3,577)	24,098	1,759
Interest and fiscal charges	1,121	1,121	-	-
Total	<u>\$ 4,014,558</u>	<u>\$ 679,861</u>	<u>\$ 4,174,362</u>	<u>\$ 1,233,775</u>

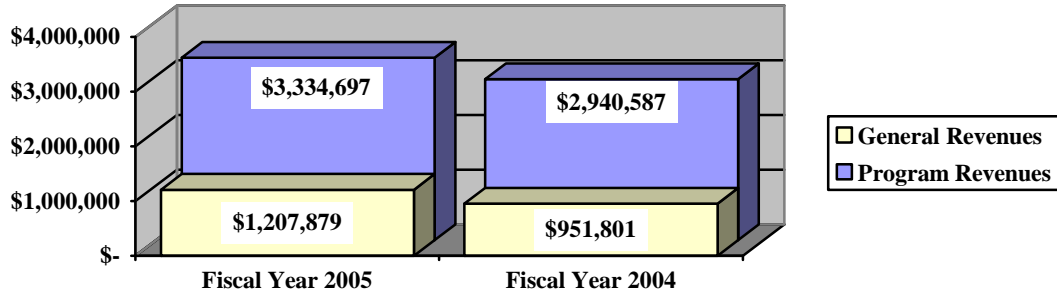
For all governmental activities, program revenue support is 83.07%. The primary support of the ESC is contracted fees for services provided to other districts.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The graph below presents the ESC's governmental activities revenue for fiscal years 2005 and 2004.

Governmental Activities - General and Program Revenues



The ESC's Funds

The ESC's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$536,583, which is higher than last year's total of \$326,756. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance <u>June 30, 2005</u>	Fund Balance <u>June 30, 2004</u>	Increase <u>(Decrease)</u>
General	\$ 536,574	\$ 287,337	\$ 249,237
Other Governmental	<u>9</u>	<u>39,419</u>	<u>(39,410)</u>
Total	<u>\$ 536,583</u>	<u>\$ 326,756</u>	<u>\$ 209,827</u>

General Fund

The ESC's general fund balance increased \$249,327. The increase in fund balance can be attributed to revenues increasing faster than expenditures. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

	<u>2005</u> <u>Amount</u>	<u>2004</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Services provided to other entities	\$ 2,784,678	\$ 2,128,330	30.84 %
Earnings on investments	10,694	3,250	229.05 %
Intergovernmental	1,341,556	1,100,626	21.89 %
Other revenues	<u>28,696</u>	<u>49,432</u>	(41.95) %
Total	<u>\$ 4,165,624</u>	<u>\$ 3,281,638</u>	26.94 %
<u>Expenditures</u>			
Instruction	\$ 572,156	\$ 500,108	14.41 %
Support services	3,339,342	3,007,078	11.05 %
Operation of non-instructional	1,254	1,950	(35.69) %
Capital outlay	17,927	-	100.00 %
Debt service	<u>3,635</u>	<u>-</u>	100.00 %
Total	<u>\$ 3,934,314</u>	<u>\$ 3,509,136</u>	12.12 %

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 2005, the ESC did amend its general fund budgeted revenues. For the general fund, original revenues and other financing sources of \$3,455,654 were increased to \$4,057,320 in the final budget. Actual revenues and other financing sources for fiscal 2005 were \$4,054,515. This was \$2,805 less than the final budgeted revenues.

General fund original budgeted expenditures and other financing uses of \$3,311,732 were increased to \$3,882,966 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$3,861,309, which was \$21,657 less than the final budget appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the ESC had \$303,623 invested in land, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2005 balances compared to 2004:

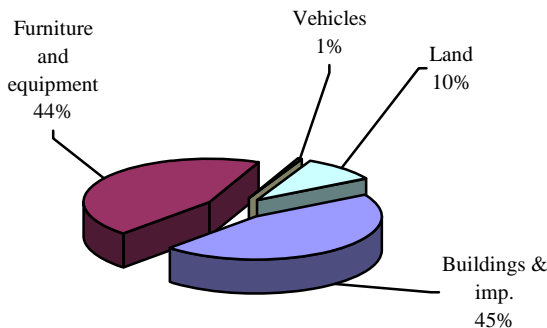
**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2005	2004
Land	\$ 29,642	\$ 29,642
Building and improvements	137,202	140,961
Furniture and equipment	134,985	109,790
Vehicles	1,794	2,511
Total	\$ 303,623	\$ 282,904

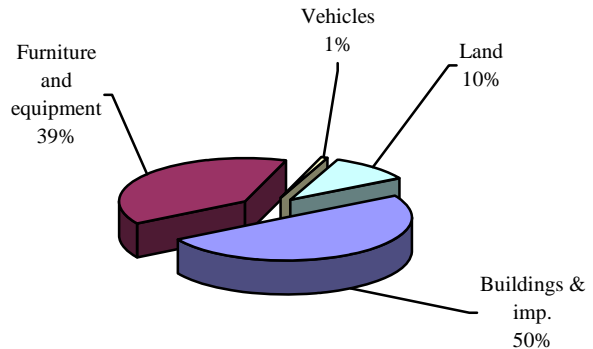
Total additions to capital assets for 2005 were \$53,754. A total of \$33,035 in depreciation expense was recognized for fiscal 2005.

The graphs below present the ESC's capital assets for fiscal 2005 and fiscal 2004.

**Capital Assets - Governmental Activities
2005**



**Capital Assets - Governmental Activities
2004**



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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Debt Administration

At June 30, 2005 the ESC had \$15,413 in capital lease obligations outstanding. Of this total, \$3,246 is due within one year and \$12,167 is due within greater than one year. The following table summarizes the capital lease obligations outstanding.

Outstanding Debt, at Year End

	<u>Governmental Activities 2005</u>	<u>Governmental Activities 2004</u>
Capital lease obligations	\$ 15,413	\$ -
Total	<u>\$ 15,413</u>	<u>\$ -</u>

See Note 9 to the basic financial statements for detail on the ESC's debt administration.

Current Financial Related Activities

The ESC is financially solvent. As the preceding information shows, the ESC relies heavily on contracts with local, city, and JVS school districts in Jefferson and Harrison Counties, as well as state foundation revenue, and grants. The need for additional services from local and city school districts, along with the ESC cash balance, will provide the ESC with necessary funds to meet operating expenses in fiscal year 2006. However, the future financial stability of the ESC is not without concerns.

Currently, legislation regarding Ohio's Regional Education Delivery System and the implementation of that system by the Ohio Department of Education is in an ongoing process. This system will directly impact education service centers in Ohio, and the method used to fund them. The Ohio Department of Education will submit a recommendation to the state legislature.

Declining enrollment in Jefferson County remains a concern of the ESC. State funding is based on average daily membership of participating school districts. Continued decline in enrollment will have a direct impact on state revenues received by school districts and the amount of services they will need from the ESC.

Each year, school districts need additional services. Therefore, the ESC is constantly collecting data, monitoring program activity, and stepping forward to provide new services while still maintaining a financially solvent operation. The Virtual Learning Academy has added a new dimension for generating revenues, not only throughout the state of Ohio but also throughout thirty-four states and even three countries overseas. In addition, the health benefits plan continues to grow. The plan currently insures nearly 10,000 employee lives and has contracts with sixty-two entities in twenty-six counties.

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

Contacting the ESC's Financial Management

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

**BASIC
FINANCIAL STATEMENTS**

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

STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents . . .	\$ 561,357
Receivables:	
Intergovernmental	358,539
Accrued interest	686
Prepayments	24,218
Materials and supplies inventory	1,096
Capital assets:	
Land	29,642
Depreciable capital assets, net	273,981
	1,249,519
Total assets.	1,249,519
Liabilities:	
Accounts payable	34,369
Accrued wages and benefits	240,860
Pension obligation payable	39,185
Intergovernmental payable	21,604
Claims payable	116,172
Long-term liabilities:	
Due within one year	50,397
Due within more than one year	124,422
	627,009
Total liabilities.	627,009
Net Assets:	
Invested in capital assets	288,210
Restricted for:	
State funded programs	44,264
Federally funded programs	12
Unrestricted	290,024
	622,510
Total net assets.	\$ 622,510

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Revenue and Changes in Net Assets</u>
				<u>Governmental Activities</u>
Governmental activities:				
Instruction:				
Regular	\$ 212,939	\$ 4,293	\$ 89,045	\$ (119,601)
Special	335,147	331,119	18,059	14,031
Other.	12,764	-	7,472	(5,292)
Support services:				
Pupil.	1,117,399	800,312	246,580	(70,507)
Instructional staff	1,613,000	1,266,712	115,134	(231,154)
Board of education	14,422	-	-	(14,422)
Administration.	495,941	402,167	22,711	(71,063)
Fiscal.	147,162	-	-	(147,162)
Business.	37,004	-	10,000	(27,004)
Operations and maintenance.	9,427	-	-	(9,427)
Central.	3,116	-	2,400	(716)
Operation of non-instructional services	15,116	-	18,693	3,577
Interest and fiscal charges	1,121	-	-	(1,121)
Total governmental activities	<u>\$ 4,014,558</u>	<u>\$ 2,804,603</u>	<u>\$ 530,094</u>	<u>(679,861)</u>

General Revenues:

Grants and entitlements not restricted to specific programs	1,184,060
Investment earnings	10,734
Miscellaneous	13,085
Total general revenues	<u>1,207,879</u>
Change in net assets	528,018
Net assets at beginning of year	94,492
Net assets at end of year	<u>\$ 622,510</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents . . .	\$ 512,569	\$ 48,788	\$ 561,357
Receivables:			
Intergovernmental	358,539	-	358,539
Accrued interest	686	-	686
Interfund loan	21,132	-	21,132
Prepayments	24,218	-	24,218
Materials and supplies inventory	1,096	-	1,096
	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 918,240</u>	<u>\$ 48,788</u>	<u>\$ 967,028</u>
Liabilities:			
Accounts payable	\$ 2,853	\$ 31,516	\$ 34,369
Accrued wages and benefits	226,925	13,935	240,860
Pension obligation payable.	37,281	1,904	39,185
Intergovernmental payable	20,180	1,424	21,604
Deferred revenue	94,427	-	94,427
	<hr/>	<hr/>	<hr/>
Total liabilities	<u>381,666</u>	<u>48,779</u>	<u>430,445</u>
Fund Balances:			
Reserved for encumbrances	8,992	62,996	71,988
Reserved for materials and supplies inventory.	1,096	-	1,096
Reserved for prepayments	24,218	-	24,218
Unreserved, undesignated (deficit), reported in:			
General fund	502,268	-	502,268
Special revenue funds.	-	(62,987)	(62,987)
	<hr/>	<hr/>	<hr/>
Total fund balances	<u>536,574</u>	<u>9</u>	<u>536,583</u>
	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	<u>\$ 918,240</u>	<u>\$ 48,788</u>	<u>\$ 967,028</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, 2005

Total governmental fund balances	\$	536,583
<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.		303,623
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.		94,427
Long-term liabilities, such as compensated absences, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(159,406)	
Capital lease obligations	(15,413)	
	<hr/>	
Total		(174,819)
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.		(137,304)
		<hr/>
Net assets of governmental activities	\$	<u>622,510</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 BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Services provided to other entities.	\$ 2,784,678	\$ -	\$ 2,784,678
Earnings on investments.	10,694	-	10,694
Community service activities	-	226,686	226,686
Other local revenues.	28,696	-	28,696
Intergovernmental - Intermediate	157,496	-	157,496
Intergovernmental - State	887,083	124,225	1,011,308
Intergovernmental - Federal.	296,977	21,687	318,664
Total revenue	<u>4,165,624</u>	<u>372,598</u>	<u>4,538,222</u>
Expenditures:			
Current:			
Instruction:			
Regular	155,370	89,261	244,631
Special.	411,986	-	411,986
Other	4,800	7,964	12,764
Support Services:			
Pupil.	1,026,313	214,633	1,240,946
Instructional staff	1,626,285	45,909	1,672,194
Board of education	14,422	-	14,422
Administration.	512,349	-	512,349
Fiscal	151,171	-	151,171
Business	-	37,004	37,004
Operations and maintenance.	8,802	-	8,802
Central.	-	3,375	3,375
Operation of non-instructional	1,254	13,862	15,116
Capital outlay	17,927	-	17,927
Debt service:			
Principal retirement	2,514	-	2,514
Interest and fiscal charges	1,121	-	1,121
Total expenditures	<u>3,934,314</u>	<u>412,008</u>	<u>4,346,322</u>
Excess of revenues over (under) expenditures.	<u>231,310</u>	<u>(39,410)</u>	<u>191,900</u>
Other financing sources:			
Capital lease transaction	17,927	-	17,927
Total other financing sources	<u>17,927</u>	<u>-</u>	<u>17,927</u>
Net change in fund balances	249,237	(39,410)	209,827
Fund balances at beginning of year	<u>287,337</u>	<u>39,419</u>	<u>326,756</u>
Fund balances at end of year	<u>\$ 536,574</u>	<u>\$ 9</u>	<u>\$ 536,583</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, 2005

Net change in fund balances - total governmental funds	\$	209,827
 <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 exceeded depreciation expense in the current period.		
Capital asset additions	\$ 53,754	
Current year depreciation	(33,035)	
Total		20,719
 Revenues in the statement of activities, services provided to other entities, that do not provide current financial resources are not reported as revenues in the funds.		
		4,314
 Capital lease transactions are recorded as revenue in the funds, however on the statement of activities, they are not reported as revenues as they increase liabilities in the statement of net assets.		
		(17,927)
 Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
		2,514
 Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		44,867
 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.		
		263,704
Change in net assets of governmental activities	\$	528,018

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, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Services provided to other entities.	\$ 2,266,734	\$ 2,863,002	\$ 2,860,197	\$ (2,805)
Earnings on investments.	2,750	10,008	10,008	-
Other local revenues.	20,065	28,696	28,696	-
Intergovernmental - Intermediate	174,005	142,259	142,259	-
Intergovernmental - State	812,100	887,083	887,083	-
Intergovernmental - Federal.	180,000	109,589	109,589	-
Total revenue	<u>3,455,654</u>	<u>4,040,637</u>	<u>4,037,832</u>	<u>(2,805)</u>
Expenditures:				
Current:				
Instruction:				
Regular	153,008	143,202	142,334	868
Special.	372,370	393,730	386,894	6,836
Other	4,800	4,800	4,800	-
Support Services:				
Pupil.	1,082,445	1,010,594	1,010,594	-
Instructional staff	1,069,281	1,634,703	1,622,804	11,899
Board of education	15,947	14,133	14,133	-
Administration.	466,284	520,060	518,396	1,664
Fiscal	137,568	151,700	151,310	390
Operations and maintenance.	8,985	8,790	8,790	-
Operation of non-instructional services	1,044	1,254	1,254	-
Total expenditures	<u>3,311,732</u>	<u>3,882,966</u>	<u>3,861,309</u>	<u>21,657</u>
Excess of revenues over expenditures.	<u>143,922</u>	<u>157,671</u>	<u>176,523</u>	<u>18,852</u>
Other financing sources:				
Refund of prior year expenditure	-	16,683	16,683	-
Total other financing sources	<u>-</u>	<u>16,683</u>	<u>16,683</u>	<u>-</u>
Net change in fund balance	143,922	174,354	193,206	18,852
Fund balance at beginning of year	293,195	293,195	293,195	-
Prior year encumbrances appropriated	35,966	35,966	35,966	-
Fund balance at end of year	<u>\$ 473,083</u>	<u>\$ 503,515</u>	<u>\$ 522,367</u>	<u>\$ 18,852</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, 2005

	Governmental Activities - Internal Service Fund
Liabilities:	
Claims payable	\$ 116,172
Interfund loan payable	21,132
	137,304
Net assets:	
Unrestricted (deficit)	(137,304)
	\$ (137,304)

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, 2005

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services.	\$ 937,244
Total operating revenues	<u>937,244</u>
Operating expenses:	
Claims.	578,786
Other.	<u>94,794</u>
Total operating expenses	<u>673,580</u>
Operating income	<u>263,664</u>
Nonoperating revenues:	
Interest revenue	<u>40</u>
Total nonoperating revenues.	<u>40</u>
Change in net assets	263,704
Net assets (deficit) at beginning of year	<u>(401,008)</u>
Net assets (deficit) at end of year	<u><u>\$ (137,304)</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, 2005

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from charges for services	\$ 937,244
Cash payments for claims.	(599,019)
Cash payments for other expenses	(94,794)
	243,431
Cash flows from noncapital financing activities:	
Cash received from other funds.	21,132
Cash used in repayment of interfund loans	(264,603)
	(243,471)
Cash flows from investing activities:	
Interest received	40
	40
Net cash provided by investing activities	40
Net increase in cash and cash equivalents	-
Cash and cash equivalents at beginning of year. . .	-
Cash and cash equivalents at end of year	\$ -
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 263,664
Changes in assets and liabilities:	
Decrease in claims payable	(20,233)
	(20,233)
Net cash provided by operating activities	\$ 243,431

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, 2005

	Private Purpose Trust	Investment Trust	Agency
Assets:			
Equity in pooled cash and cash equivalents	\$ 12,775	\$ 544,072	\$ 655,968
Cash segregated accounts	-	24,725,268	-
Receivables:			
Accrued interest	27	15,850	-
Loans	-	1,256	-
Total assets	12,802	25,286,446	\$ 655,968
Liabilities:			
Intergovernmental payable	-	-	\$ 654,712
Loans payable	-	-	1,256
Total liabilities	-	-	\$ 655,968
Net Assets:			
Held in trust for scholarships	12,802	-	
Net assets available for pool participants	-	25,286,446	
Total net assets	\$ 12,802	\$ 25,286,446	

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, 2005

	Private Purpose Trust	Investment Trust
	<u> </u>	<u> </u>
Additions:		
Gifts and contributions	\$ 210	\$ -
Capital transactions	-	9,544,579
Interest	27	105,478
	<u> </u>	<u> </u>
Total additions	237	9,650,057
	<u> </u>	<u> </u>
Deductions:		
Distributions to participants	-	106,058
	<u> </u>	<u> </u>
Total deductions	-	106,058
	<u> </u>	<u> </u>
Change in net assets	237	9,543,999
Net assets at beginning of year	<u>12,565</u>	<u>15,742,447</u>
Net assets at end of year	<u>\$ 12,802</u>	<u>\$ 25,286,446</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 1 - DESCRIPTION OF THE ESC

The Jefferson County Educational Service Center (the "ESC") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The ESC is a county school district as defined by Section 3311.05 of the Ohio Revised Code. The ESC operates under an elected Board of Education (five members) and provides no direct educational services to students. The following services are provided to the local school districts and city school districts under contract in Jefferson and Harrison counties:

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

Average daily membership as of June 30, 2005 was 10,522. The Board employed 41 certified employees and 34 non-certified employees.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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 these criteria, the ESC has no component units. The basic financial statements of the reporting entity include only those of the ESC (the primary government). The following organizations are described due to their relationship to the ESC:

JOINTLY GOVERNED ORGANIZATIONS

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

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

PUBLIC ENTITY RISK POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the ESC's major governmental 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, 2005

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

Fund Financial Statements - Fund financial statements report detailed information about the ESC. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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 increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

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

D. Basis of Accounting

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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 Board of Education.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

Appropriations

The annual Appropriation Resolution must be legally enacted by the 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 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 Board.

The 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 original and final appropriation amounts, including all supplemental appropriations that were approved by the Board prior to June 30, 2005. 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 2005, the ESC's investments were limited to investments in non-negotiable certificates of deposits. Investments in nonparticipating investment contracts, such as nonnegotiable certificates of deposit, are recorded at cost.

Under existing Ohio statute all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board investment earnings are assigned to the general fund, the Self-Insurance internal service fund, (which is maintained by a fiscal agent in an interest bearing account separate from the ESC's internal investment pool), the private-purpose trust fund and the investment trust fund for which the ESC is acting as fiscal agent. Interest revenue credited to the general fund during fiscal 2005 amounted to \$10,694, which includes \$6,551 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
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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

G. Capital Assets

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

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

All reported capital assets 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
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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, accrued liabilities and long-term obligations payable from the internal service fund are reported on the proprietary fund financial statements.

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

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, 2005

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 2005.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2005, the ESC has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 and GASB Technical Bulletin No. 2004-2 did not have an effect on the financial statements of the ESC, however additional note disclosure can be found in Note 4.

B. Deficit Fund Balances

Fund balances at June 30, 2005 included the following individual fund deficits:

	<u>Deficit</u>
<u>Nonmajor Funds</u>	
Summer School Intervention	\$ 16,578
Alternative Schools	685
IDEA Part B Grants	27,004
Employee Benefits Self Insurance Fund	137,304

These funds complied with Ohio state law, which does not permit 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 result from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

A. 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, 2005 was \$24,725,268.

B. Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all ESC deposits was \$1,774,172. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$1,909,470 of the ESC's bank balance of \$2,109,470 was exposed to custodial risk as discussed below, while \$200,000 was covered by Federal Deposit Insurance Corporation.

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

C. Reconciliation of Cash and Investment to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 1,774,172
Cash and investments in segregated accounts	<u>24,725,268</u>
Total	<u>\$ 26,499,440</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 561,357
Private-purpose trust funds	12,775
Investment trust funds	25,269,340
Agency funds	<u>655,968</u>
Total	<u>\$ 26,499,440</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund loans consisted of the following at June 30, 2005, as reported on the fund financial statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Internal Service Fund	\$ 21,132

The purpose of this interfund loan is to cover a negative cash balance at June 30. The amount will be repaid within one year.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2005 consisted of accrued interest and intergovernmental (billings to school districts for user charged services and tuition). All receivables are considered collectible in full. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:	
Accrued interest	\$ 686
Intergovernmental	<u>358,539</u>
	<u>\$ 359,225</u>

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	<u>Balance 06/30/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/05</u>
Governmental Activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 29,642	\$ -	\$ -	\$ 29,642
Total capital assets, not being depreciated	<u>29,642</u>	<u>-</u>	<u>-</u>	<u>29,642</u>
<i>Capital assets, being depreciated:</i>				
Buildings	150,358	-	-	150,358
Furniture and equipment	177,783	53,754	-	231,537
Vehicles	7,172	-	-	7,172
Total capital assets, being depreciated	<u>335,313</u>	<u>53,754</u>	<u>-</u>	<u>389,067</u>
<i>Less: accumulated depreciation:</i>				
Buildings	(9,397)	(3,759)	-	(13,156)
Furniture and equipment	(67,993)	(28,559)	-	(96,552)
Vehicles	(4,661)	(717)	-	(5,378)
Total accumulated depreciation	<u>(82,051)</u>	<u>(33,035)</u>	<u>-</u>	<u>(115,086)</u>
Governmental activities capital assets, net	<u>\$ 282,904</u>	<u>\$ 20,719</u>	<u>\$ -</u>	<u>\$ 303,623</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 8,786
<u>Support Services:</u>	
Pupil	997
Administration	22,616
Operations and maintenance	625
Central	<u>11</u>
Total depreciation expense	<u>\$ 33,035</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 8 - CAPITAL LEASES - LESSEE DISCLOSURE

During fiscal 2005, the ESC entered into a capitalized lease for copier equipment. This lease agreement meets the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of copier equipment have been capitalized in the amount of \$17,927. This amount represents the fair market value of the copiers at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2005 totaled \$2,514 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2005:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2006	\$ 4,362
2007	4,362
2008	4,362
2009	4,362
2010	<u>727</u>
Total minimum lease payments	18,175
Less amount representing interest	<u>(2,762)</u>
Total	<u>\$ 15,413</u>

NOTE 9 - LONG-TERM OBLIGATIONS

During the fiscal year 2005, the following changes occurred in governmental activities long-term obligations:

	<u>Balance Outstanding 06/30/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding 06/30/05</u>	<u>Amounts Due in One Year</u>
Capital lease obligations	\$ -	\$ 17,927	\$ (2,514)	\$ 15,413	\$ 3,246
Compensated absences	<u>194,768</u>	<u>33,942</u>	<u>(69,304)</u>	<u>159,406</u>	<u>47,151</u>
Total	<u>\$ 194,768</u>	<u>\$ 51,869</u>	<u>\$ (71,818)</u>	<u>\$ 174,819</u>	<u>\$ 50,397</u>

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 10 - 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 \$50 comprehensive deductible and \$250 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.

Settled claims have not exceeded this commercial coverage in the past two years. There have been no significant reductions in coverage from fiscal year 2004.

B. Worker's Compensation

The ESC participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool (See Note 2.A.). The Plan's business and affairs are conducted by a three member board of directors consisting of the President, the President-Elect and the Immediate Past President of the Ohio School Boards Association. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the plan.

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

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

Medical/surgical, dental, and vision insurance is offered to employees through a self-insurance internal service fund. The ESC is a member of a claims servicing pool, consisting of 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 \$116,172 reported in the internal service fund at June 30, 2005, 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>
2005	\$ 136,405	\$ 578,786	\$ (599,019)	\$ 116,172
2004	29,877	653,126	(546,598)	136,405

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 11 - 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 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 43215-3746, or by calling (614) 222-5853.

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 ESC's current 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 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% 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, 2005, 2004, and 2003 were \$180,339, \$177,938 and \$170,824, respectively; 93.20% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$12,257 represents the unpaid pension contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

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 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at www.strsoh.org.

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

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JEFFERSON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

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.

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 ESC's current 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 2005 and 2004, 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, 2005, 2004, and 2003 were \$274,744, \$249,456, and \$238,427, respectively; 93.20% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$18,673 represents the unpaid pension contribution for fiscal year 2005 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2005 were \$3,932 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement Systems/State Teachers Retirement System. As of June 30, 2005, certain members of the Board of Education have elected Social Security. The ESC's liability is 6.2% of wages paid.

NOTE 12 - 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 fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the ESC, this amount equaled \$19,925 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004 (the latest information available), net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

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 fiscal year 2005, employer contributions to fund health care benefits were 3.43% 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 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) 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 \$53,688 during the 2005 fiscal year.

NOTE 13 - 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 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).

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JEFFERSON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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	\$ 193,206
Net adjustment for revenue accruals	127,792
Net adjustment for expenditure accruals	(84,339)
Net adjustment for other financing sources/(uses)	1,244
Adjustment for encumbrances	11,334
GAAP basis	<u>\$ 249,237</u>

NOTE 14 - 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.

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JEFFERSON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 15 - 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 2005 investments were limited to non-negotiable certificates of deposit. Nonparticipating investment contracts such as non-negotiable certificates of deposit are reported at cost.

Condensed financial information for the investment pool follows:

Statement of Net Assets
June 30, 2005

Assets	
Equity in Cash and Cash Equivalents	\$ 1,774,172
Cash in Segregated Accounts	24,725,268
Accrued Interest Receivable	<u>16,563</u>
<i>Total Assets</i>	<u><u>26,516,003</u></u>
 Net Assets Held in Trust for Pool Participants	
Internal Portion	1,230,813
External Portion	<u>25,285,190</u>
<i>Total Net Assets Held in Trust for Pool Participants</i>	<u><u>\$ 26,516,003</u></u>

Statement of Changes in Net Assets
For Fiscal Year Ended June 30, 2005

Additions	
Interest	\$ 116,449
Capital Transactions	<u>10,037,684</u>
<i>Total Additions</i>	<u>10,154,133</u>
 Deductions	
Distributions to Participants	<u>116,106</u>
<i>Total Deductions</i>	<u>116,106</u>
 <i>Change in Net Assets</i>	 10,038,027
<i>Net Assets, Beginning of Year</i>	<u>16,477,976</u>
<i>Net Assets, End of Year</i>	<u><u>\$ 26,516,003</u></u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 15 - INVESTMENT POOL - (Continued)

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 pool's deposits and investments as defined by GASB Statement No. 40, "Deposits and Investment Risk Disclosures".

NOTE 16 - 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 17 - LOANS RECEIVABLE/PAYABLE

At June 30, 2005, 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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Charles E. Harris & Associates, Inc.
Certified Public Accountants

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Jefferson County Educational Service Center, Jefferson County, (the Center) as of and for the year ended June 30, 2005 which collectively comprises the Center's basic financial statements and have issued our report thereon dated August 23, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion 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 caused by error or fraud 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 other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management in a separate letter dated August 23, 2007.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted certain immaterial instances of noncompliance that we reported to management in a separate letter dated August 23, 2007.

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

Charles E. Harris & Associates, Inc.

August 23, 2007

JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
Jefferson County, Ohio
For the Year Ending June 30, 2005

SCHEDULE OF PRIOR AUDIT'S CITATIONS AND RECOMMENDATIONS

The prior audit report, for the year ended June 30, 2004, reported no material citations or recommendations.



Mary Taylor, CPA
Auditor of State

JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER

JEFFERSON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 8, 2007**