

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

***BASIC FINANCIAL STATEMENTS  
(AUDITED)***

***FOR THE FISCAL YEAR ENDED  
JUNE 30, 2012***

**DON DONAHUE, TREASURER**





# Dave Yost • Auditor of State

Board of Education  
Jefferson County Educational Service Center  
2023 Sunset Boulevard  
Steubenville, Ohio 43951

We have reviewed the *Independent Accountants' Report* of the Jefferson County Educational Service Center, Jefferson County, prepared by Julian & Grube, Inc., for the audit period July 1, 2011 through June 30, 2012. 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.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

February 8, 2013

**This page intentionally left blank.**

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

**BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**TABLE OF CONTENTS**

Independent Accountants' Report .....	1 - 2
Management's Discussion and Analysis .....	3 - 12
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets .....	13
Statement of Activities .....	14
Fund Financial Statements:	
Balance Sheet - Governmental Funds .....	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities .....	16
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	18
Statement of Net Assets - Proprietary Fund .....	19
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Fund .....	20
Statement of Cash Flows - Proprietary Fund.....	21
Statement of Fiduciary Net Assets - Fiduciary Funds .....	22
Statement of Changes in Fiduciary Net Assets - Fiduciary Fund.....	23
Notes to the Basic Financial Statements.....	24 - 46
Supplementary Information:	
Budgetary Comparison Schedule:	
General Fund.....	47
Notes to the Supplementary Information.....	48 - 49
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required By <i>Government Auditing Standards</i> .....	50 - 51

**This page intentionally left blank.**



**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

---

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Accountants' Report

Jefferson County Educational Service Center  
2023 Sunset Boulevard  
Steubenville, Ohio 43951

To the Board of Directors:

We have audited the accompanying financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the Jefferson County Educational Service Center, Jefferson County, Ohio, as of and for the fiscal year ended June 30, 2012, which collectively comprise the Jefferson County Educational Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Jefferson County Educational Service Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, its major fund, and the aggregate remaining fund information of the Jefferson County Educational Service Center, Jefferson County, Ohio, as of June 30, 2012, and the respective changes in financial position and where applicable, cash flows, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2012, on our consideration of the Jefferson County Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the Jefferson County Educational Service Center's basic financial statements taken as a whole. The budgetary comparison schedule and notes on pages 47 - 49 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in cursive script that reads "Julian & Grube, Inc." with a period at the end.

Julian & Grube, Inc.  
December 27, 2012



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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, 2012. 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 fiscal year 2012 are as follows:

- In total, net assets of governmental activities decreased \$256,057 which represents a 6.58% decrease from 2011.
- General revenues accounted for \$763,105 in revenue or 14.08% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$4,655,098 or 85.92% of total revenues of \$5,418,203.
- The ESC had \$5,674,260 in expenses related to governmental activities; \$4,655,098 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (unrestricted grants and entitlements) of \$763,105 were not adequate to provide for these programs.
- The ESC's major governmental fund is the general fund. The general fund had \$5,328,852 in revenues and \$5,873,881 in expenditures. During fiscal year 2012, the general fund's fund balance decreased \$545,029 from \$3,015,670 to \$2,470,641.

**Using the 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.

**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 2012?" The statement of net assets and 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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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 statement of activities, the governmental activities include the ESC's programs and services, including instruction, support services, and other operations.

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

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

***Fund Financial Statements***

The analysis of the ESC's major governmental funds begins on page 9. Fund financial reports provide detailed information about the ESC's major funds. The ESC uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the ESC's most significant funds. The ESC's major governmental 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 statement of activities) and governmental funds is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-18 of this report.

***Proprietary Funds***

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

***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 agency funds that, along with other agency funds, account for monies due to other governments, individuals or private organizations. The ESC is also the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. All of the ESC's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets on pages 22 and 23. These activities are excluded from the ESC's other financial statements because the assets cannot be utilized by the ESC to finance its operations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 24-46 of this report.

***Supplementary Information***

The ESC has presented a budgetary comparison schedule for the general fund as supplementary information on pages 47-49 of this report.

**The ESC as a Whole**

The table below provides a summary of the ESC's net assets at June 30, 2012 and June 30, 2011.

	<b>Net Assets</b>	
	Governmental Activities	Governmental Activities
	<u>2012</u>	<u>2011</u>
<b><u>Assets</u></b>		
Current and other assets	\$ 4,277,856	\$ 4,504,851
Capital assets, net	<u>271,873</u>	<u>309,755</u>
Total assets	<u>4,549,729</u>	<u>4,814,606</u>
<b><u>Liabilities</u></b>		
Current liabilities	610,067	689,952
Long-term liabilities	<u>306,735</u>	<u>235,670</u>
Total liabilities	<u>916,802</u>	<u>925,622</u>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	263,629	297,920
Restricted	1,952	8,526
Unrestricted	<u>3,367,346</u>	<u>3,582,538</u>
Total net assets	<u>\$ 3,632,927</u>	<u>\$ 3,888,984</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2012, the ESC's assets exceeded liabilities by \$3,632,927, of this total; \$1,952 is restricted in use.

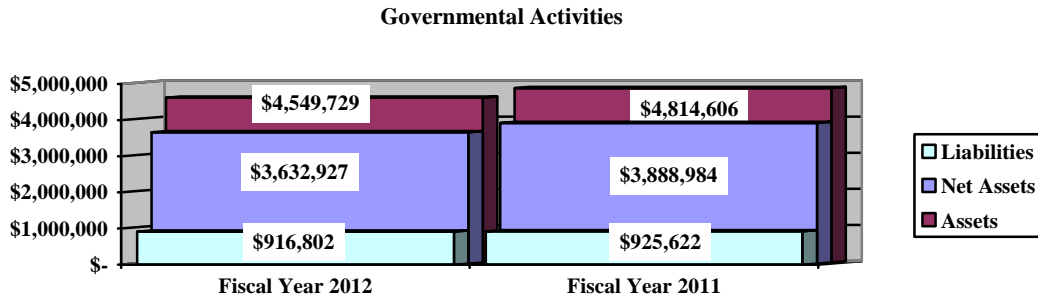
At year-end, capital assets represented 5.98% of total assets. Capital assets include land, buildings, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets, at June 30, 2012 were \$263,629. These capital assets are used to provide the ESC's services and are not available for future spending. Although the ESC's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

A portion of the ESC's net assets, \$1,952, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$3,367,346 may be used to meet the ESC's ongoing obligations to the students and creditors.

The graph below presents the ESC's governmental assets, liabilities and net assets at June 30, 2012 and June 30, 2011.



The table below shows the change in net assets for fiscal years 2012 and 2011.

**Change in Net Assets**

	Governmental Activities 2012	Governmental Activities 2011
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services and sales	\$ 4,533,514	\$ 5,748,688
Operating grants and contributions	121,584	135,632
General revenues:		
Grants and entitlements	744,363	773,204
Investment earnings	<u>18,742</u>	<u>18,963</u>
Total revenues	<u>5,418,203</u>	<u>6,676,487</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**Change in Net Assets**

	<u>Governmental Activities 2012</u>	<u>Governmental Activities 2011</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	\$ 870,875	\$ 1,307,700
Special	498,178	444,053
Other	6,400	6,400
Support services:		
Pupil	1,230,632	1,128,333
Instructional staff	1,818,671	1,969,656
Board of education	16,016	16,270
Administration	891,952	1,172,828
Fiscal	304,601	255,717
Operations and maintenance	27,915	21,070
Central	8,380	23,363
Interest and fiscal charges	<u>640</u>	<u>858</u>
Total expenses	<u>5,674,260</u>	<u>6,346,248</u>
Change in net assets	(256,057)	330,239
Net assets at beginning of year	<u>3,888,984</u>	<u>3,558,745</u>
Net assets at end of year	<u><u>\$ 3,632,927</u></u>	<u><u>\$ 3,888,984</u></u>

**Governmental Activities**

Net assets of the ESC's governmental activities decreased \$256,057. Total governmental expenses of \$5,674,260 were offset only partially by program revenues of \$4,655,098 and general revenues of \$763,105. Program revenues supported 82.04% of the total governmental expenses.

Overall expenses of the ESC decreased \$671,988 or 10.59%. This is primarily due to the ESC's Virtual Learning Academy program operating at a lower volume than in prior years. Also, the classification of various expenses changed in fiscal year 2012 compared to fiscal year 2011. This is due to the ESC's Virtual Learning Academy teachers being paid from the instructional staff support services expense function in fiscal year 2012 and the regular instruction expense function in fiscal year 2011.

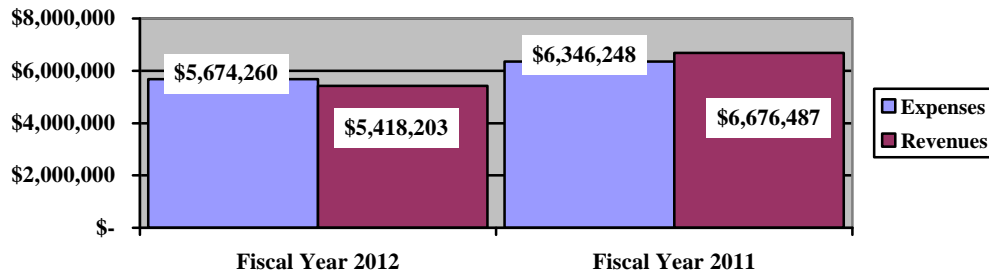
The primary sources of revenue for governmental activities are derived from contracted fees for services provided to other entities. This revenue source represents 83.67% of total governmental revenue.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

The graph below presents the ESC's governmental activities revenue and expenses for fiscal years 2012 and 2011.

**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 2012	Net Cost of Services 2012	Total Cost of Services 2011	Net Cost of Services 2011
<b>Program expenses</b>				
Instruction:				
Regular	\$ 870,875	\$ 183,326	\$ 1,307,700	\$ 113,475
Special	498,178	(19,195)	444,053	(85,006)
Other	6,400	1,384	6,400	876
Support services:				
Pupil	1,230,632	182,689	1,128,333	(14,281)
Instructional staff	1,818,671	346,921	1,969,656	198,676
Board of education	16,016	2,592	16,270	2,225
Administration	891,952	233,861	1,172,828	210,109
Fiscal	304,601	73,166	255,717	27,261
Operations and maintenance	27,915	7,198	21,070	4,155
Central	8,380	6,580	23,363	3,580
Interest and fiscal charges	640	640	858	858
<b>Total</b>	<b>\$ 5,674,260</b>	<b>\$ 1,019,162</b>	<b>\$ 6,346,248</b>	<b>\$ 461,928</b>

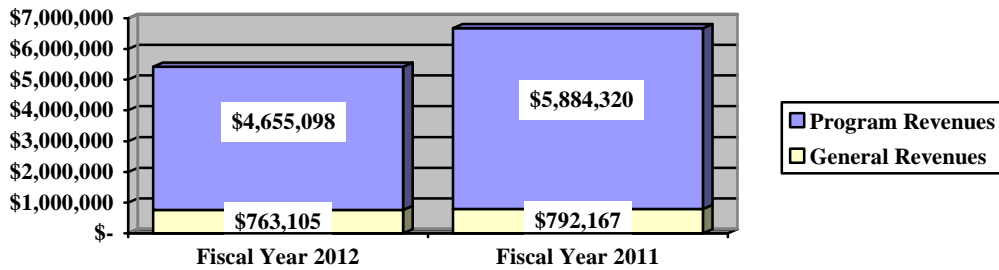
For all governmental activities, program revenue support is 82.04%. The primary support of the ESC is contracted fees for services provided to other districts.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The graph below presents the ESC's governmental activities revenue for fiscal years 2012 and 2011.

**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 \$2,472,586, which is less than last year's total of \$3,024,136. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2012 and 2011.

	<u>Fund Balance June 30, 2012</u>	<u>Fund Balance June 30, 2011</u>	<u>Decrease</u>
General	\$ 2,470,641	\$ 3,015,670	\$ (545,029)
Other governmental	<u>1,945</u>	<u>8,466</u>	<u>(6,521)</u>
<b>Total</b>	<u><u>\$ 2,472,586</u></u>	<u><u>\$ 3,024,136</u></u>	<u><u>\$ (551,550)</u></u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**General Fund**

The ESC's general fund balance decreased \$545,029. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2012</u> <u>Amount</u>	<u>2011</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>			
Services provided to other entities	\$ 3,613,306	\$ 4,783,647	(24.47) %
Tuition	751,450	736,395	2.04 %
Earnings on investments	1,409	3,327	(57.65) %
Intergovernmental	810,889	834,519	(2.83) %
Other revenues	<u>151,798</u>	<u>228,436</u>	(33.55) %
Total	<u>\$ 5,328,852</u>	<u>\$ 6,586,324</u>	(19.09) %
<b><u>Expenditures</u></b>			
Instruction	\$ 1,475,923	\$ 1,900,527	(22.34) %
Support services	4,393,727	4,790,767	(8.29) %
Debt service	<u>4,231</u>	<u>4,231</u>	- %
Total	<u>\$ 5,873,881</u>	<u>\$ 6,695,525</u>	(12.27) %

Services provided to other entities revenues decreased 24.47% mainly due to the ESC's Virtual Learning Academy program operating at a lower volume than in prior years. Earnings on investments revenue decreased 57.65% primarily due a decrease in interest rates earned on investments. Other revenues decreased by 33.55% due to a decrease in reimbursements received by the ESC. Instructional expenditures decreased by 22.34% and Support services expenditures decreased by 8.29% primarily due the ESC's Virtual Learning Academy program operating at a lower volume than in prior years and reclassification of various expenses in fiscal year 2012 compared to fiscal year 2011. This is due to the ESC's Virtual Learning Academy teachers being paid from the instructional staff support services expense function in fiscal year 2012 and the regular instruction expense function in fiscal year 2011. All other revenue and expenditure items remained consistent with the prior fiscal year.



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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**Capital Assets and Debt Administration**

*Capital Assets*

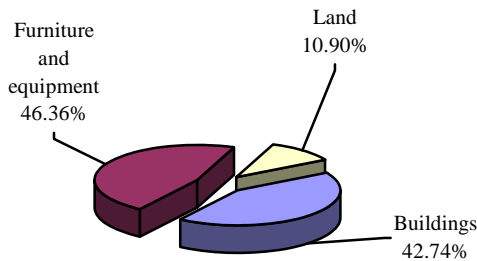
At the end of fiscal year 2012, the ESC had \$271,873 invested in land, buildings, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows June 30, 2012 balances compared to June 30, 2011:

	Governmental Activities	
	2012	2011
Land	\$ 29,642	\$ 29,642
Buildings	116,208	120,109
Furniture and equipment	126,023	160,004
<b>Total</b>	<b>\$ 271,873</b>	<b>\$ 309,755</b>

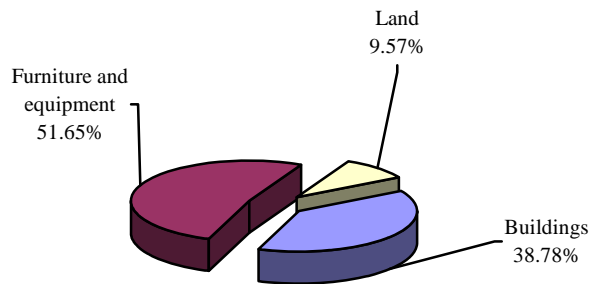
In total capital assets decreased \$37,882 for 2012. A total of \$41,595 in depreciation expense was recognized for fiscal year 2012.

The graphs below present the ESC's capital assets at June 30, 2012 and June 30, 2011.

**Capital Assets - Governmental  
Activities 2012**



**Capital Assets - Governmental  
Activities 2011**



See Note 6 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, 2012**

***Debt Administration***

At June 30, 2012 the ESC had \$8,244 in capital lease obligations outstanding. The following table summarizes the capital lease obligations outstanding.

**Outstanding Debt, at Year End**

	<u>Governmental Activities 2012</u>	<u>Governmental Activities 2011</u>
Capital lease obligation	\$ 8,244	\$ 11,835
Total	<u>\$ 8,244</u>	<u>\$ 11,835</u>

See Note 8 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, which is paid for by excess costs, State funding and grants will provide the ESC with necessary funds to meet operating expenses in fiscal year 2012. However, the future financial stability of the ESC is not without concerns.

Declining enrollment in Jefferson County remains a concern of the ESC. State funding for the ESC and the districts is based on average daily membership of participating school districts. Continued decline in enrollment will have a direct impact on state revenues received by school districts and the amount of services they will need from the ESC. As district revenues decline, they rely on the ESC for services and personnel they cannot employ at the district level. With no increases from the State, the ESC is forced to try to do more with fewer resources. State funding for ESC's were reduced by 10% for fiscal year 2012 and another 15% for fiscal year 2013.

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 all fifty states and twenty-three countries overseas.

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 citizens supported by the districts, and investors and creditors with a general overview of the ESC's finances and to show the ESC's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Don Donahue, 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, 2012

	<u><b>Governmental Activities</b></u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . .	\$ 2,863,908
Cash with fiscal agent . . . . .	1,265,787
Receivables:	
Intergovernmental . . . . .	90,835
Accrued interest . . . . .	124
Prepayments . . . . .	56,106
Materials and supplies inventory. . . . .	1,096
Capital assets:	
Land . . . . .	29,642
Depreciable capital assets, net. . . . .	242,231
Capital assets, net . . . . .	<u>271,873</u>
 Total assets. . . . .	 <u>4,549,729</u>
<b>Liabilities:</b>	
Accounts payable. . . . .	26,843
Accrued wages and benefits . . . . .	398,116
Pension obligation payable. . . . .	77,518
Intergovernmental payable . . . . .	19,830
Claims payable. . . . .	87,760
Long-term liabilities:	
Due within one year. . . . .	172,053
Due in more than one year. . . . .	134,682
 Total liabilities . . . . .	 <u>916,802</u>
<b>Net Assets:</b>	
Invested in capital assets, net of related debt. . . . .	263,629
Restricted for:	
State funded programs. . . . .	1,952
Unrestricted. . . . .	<u>3,367,346</u>
 Total net assets . . . . .	 <u><u>\$ 3,632,927</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Assets
				Governmental Activities
<b>Governmental activities:</b>				
Instruction:				
Regular . . . . .	\$ 870,875	\$ 625,118	\$ 62,431	\$ (183,326)
Special . . . . .	498,178	509,891	7,482	19,195
Other . . . . .	6,400	4,943	73	(1,384)
Support services:				
Pupil . . . . .	1,230,632	1,032,788	15,155	(182,689)
Instructional staff . . . . .	1,818,671	1,450,465	21,285	(346,921)
Board of education . . . . .	16,016	13,230	194	(2,592)
Administration . . . . .	891,952	648,574	9,517	(233,861)
Fiscal . . . . .	304,601	228,088	3,347	(73,166)
Operations and maintenance . . . . .	27,915	20,417	300	(7,198)
Central . . . . .	8,380	-	1,800	(6,580)
Interest and fiscal charges . . . . .	640	-	-	(640)
<b>Total governmental activities . . . . .</b>	<b>\$ 5,674,260</b>	<b>\$ 4,533,514</b>	<b>\$ 121,584</b>	<b>(1,019,162)</b>

**General Revenues:**

Grants and entitlements not restricted to specific programs . . . . .	744,363
Investment earnings . . . . .	18,742
<b>Total general revenues . . . . .</b>	<b>763,105</b>
Change in net assets . . . . .	(256,057)
<b>Net assets at beginning of year . . . . .</b>	<b>3,888,984</b>
<b>Net assets at end of year . . . . .</b>	<b>\$ 3,632,927</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2012

	<b>General</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents. . . . .	\$ 2,861,956	\$ 1,952	\$ 2,863,908
<b>Receivables:</b>			
Intergovernmental. . . . .	90,835	-	90,835
Accrued interest . . . . .	124	-	124
Prepayments. . . . .	56,106	-	56,106
Materials and supplies inventory. . . . .	1,096	-	1,096
Total assets . . . . .	\$ 3,010,117	\$ 1,952	\$ 3,012,069
<b>Liabilities:</b>			
Accounts payable . . . . .	\$ 26,843	\$ -	\$ 26,843
Accrued wages and benefits. . . . .	398,116	-	398,116
Pension obligation payable . . . . .	77,518	-	77,518
Intergovernmental payable . . . . .	19,823	7	19,830
Deferred revenue . . . . .	17,176	-	17,176
Total liabilities. . . . .	539,476	7	539,483
<b>Fund Balances:</b>			
<b>Nonspendable:</b>			
Materials and supplies inventory. . . . .	1,096	-	1,096
Prepays. . . . .	56,106	-	56,106
<b>Restricted:</b>			
Other purposes. . . . .	-	1,952	1,952
<b>Assigned:</b>			
Student instruction . . . . .	231	-	231
Student and staff support. . . . .	2,066	-	2,066
Other purposes. . . . .	293	-	293
Unassigned (deficit) . . . . .	2,410,849	(7)	2,410,842
Total fund balances . . . . .	2,470,641	1,945	2,472,586
Total liabilities and fund balances . . . . .	\$ 3,010,117	\$ 1,952	\$ 3,012,069

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, 2012

<b>Total governmental fund balances</b>		\$	2,472,586
<i>Amounts reported for governmental activities on 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.			271,873
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Accounts receivable	\$	17,170	
Accrued interest receivable		6	
Total		<u>                </u>	17,176
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 on the statement of net assets.			1,178,027
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		(298,491)	
Capital lease obligations payable		(8,244)	
Total		<u>                </u>	<u>(306,735)</u>
<b>Net assets of governmental activities</b>		<u>\$</u>	<u>3,632,927</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, 2012

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
From local sources:			
Services provided to other entities . . . . .	\$ 3,613,306	\$ -	\$ 3,613,306
Tuition . . . . .	751,450	-	751,450
Earnings on investments . . . . .	1,409	-	1,409
Other local revenues . . . . .	151,798	-	151,798
Intergovernmental - intermediate . . . . .	66,526	-	66,526
Intergovernmental - State . . . . .	744,363	55,058	799,421
Total revenues . . . . .	<u>5,328,852</u>	<u>55,058</u>	<u>5,383,910</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular . . . . .	809,355	53,205	862,560
Special . . . . .	660,168	-	660,168
Other . . . . .	6,400	-	6,400
Support services:			
Pupil . . . . .	1,337,177	-	1,337,177
Instructional staff . . . . .	1,877,953	-	1,877,953
Board of education . . . . .	17,129	-	17,129
Administration . . . . .	839,723	-	839,723
Fiscal . . . . .	295,311	-	295,311
Operations and maintenance . . . . .	26,434	-	26,434
Central . . . . .	-	8,374	8,374
Debt service:			
Principal retirement . . . . .	3,591	-	3,591
Interest and fiscal charges . . . . .	640	-	640
Total expenditures . . . . .	<u>5,873,881</u>	<u>61,579</u>	<u>5,935,460</u>
Net change in fund balances . . . . .	(545,029)	(6,521)	(551,550)
<b>Fund balances at beginning of year . . . . .</b>	<u>3,015,670</u>	<u>8,466</u>	<u>3,024,136</u>
<b>Fund balances at end of year . . . . .</b>	<u>\$ 2,470,641</u>	<u>\$ 1,945</u>	<u>\$ 2,472,586</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, 2012

**Net change in fund balances - total governmental funds** \$ (551,550)

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

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

Capital asset additions	\$	4,147	
Current year depreciation		(41,595)	
<b>Total</b>		<b>(37,448)</b>	<b>(37,448)</b>

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. (434)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Services provided to other entities 16,960

Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 3,591

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. (74,656)

An internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-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. 387,480

**Change in net assets of governmental activities** \$ (256,057)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2012

	<b>Governmental Activities - Internal Service Fund</b>
<b>Assets:</b>	
Current assets:	
Cash with fiscal agent . . . . .	\$ 1,265,787
Total current assets . . . . .	<u>1,265,787</u>
<b>Liabilities:</b>	
Claims payable . . . . .	<u>87,760</u>
Total liabilities . . . . .	<u>87,760</u>
<b>Net assets:</b>	
Unrestricted. . . . .	<u>1,178,027</u>
Total net assets . . . . .	<u><u>\$ 1,178,027</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<b>Governmental Activities - Internal Service Fund</b>
<b>Operating revenues:</b>	
Charges for services . . . . .	\$ 1,168,259
Total operating revenues . . . . .	<u>1,168,259</u>
<b>Operating expenses:</b>	
Claims . . . . .	531,005
Other . . . . .	<u>267,107</u>
Total operating expenses. . . . .	<u>798,112</u>
Operating income . . . . .	<u>370,147</u>
<b>Nonoperating revenues:</b>	
Interest revenue . . . . .	<u>17,333</u>
Total nonoperating revenues. . . . .	<u>17,333</u>
Change in net assets. . . . .	387,480
<b>Net assets at beginning of year . . . . .</b>	<u>790,547</u>
<b>Net assets at end of year. . . . .</b>	<u>\$ 1,178,027</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, 2012

	<b>Governmental Activities - Internal Service Fund</b>
<b>Cash flows from operating activities:</b>	
Cash received from charges for services . . . . .	\$ 1,168,259
Cash payments for claims . . . . .	(671,702)
Cash payments for other expenses . . . . .	(267,107)
	229,450
Net cash provided by operating activities . . . . .	229,450
<b>Cash flows from investing activities:</b>	
Interest received . . . . .	17,333
	17,333
Net cash provided by investing activities . . . . .	17,333
Net increase in cash and cash equivalents . . . . .	246,783
<b>Cash and cash equivalents at beginning of year . . .</b>	<b>1,019,004</b>
<b>Cash and cash equivalents at end of year . . . . .</b>	<b>\$ 1,265,787</b>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income . . . . .	\$ 370,147
Changes in assets and liabilities:	
Decrease in claims payable . . . . .	(140,697)
	229,450
Net cash provided by operating activities . . . . .	<b>\$ 229,450</b>

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, 2012

	<u>Private-Purpose Trust</u>	<u>Agency</u>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . . . .	\$ 13,064	\$ 1,315,528
Total assets. . . . .	<u>13,064</u>	<u>\$ 1,315,528</u>
<b>Liabilities:</b>		
Intergovernmental payable . . . . .	-	\$ 1,315,528
Total liabilities . . . . .	<u>-</u>	<u>\$ 1,315,528</u>
<b>Net assets:</b>		
Held in trust for scholarships . . . . .	<u>13,064</u>	
Total net assets . . . . .	<u>\$ 13,064</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>Private-Purpose Trust</u>
<b>Additions:</b>	
Interest. . . . .	\$ 12
Total additions. . . . .	<u>12</u>
Change in net assets. . . . .	12
<b>Net assets at beginning of year . . . . .</b>	<u>13,052</u>
<b>Net assets at end of year. . . . .</b>	<u>\$ 13,064</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**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 defined by Section 3311.05 of the Ohio Revised Code. The ESC operates under an elected Governing Board (five members). 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, 2012 was 11,379. The Governing Board employed 30 certified employees and 43 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) guidance issued on or before November 30, 1989, to its governmental activities and proprietary fund provided it does not conflict with or contradict GASB pronouncements. The ESC's significant accounting policies are described below.

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government and component units. 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, 2012

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

Component units are legally separate organizations for which the ESC is financially accountable. The ESC is financially accountable for an organization if the ESC appoints a voting majority of the organization's Governing Board and (1) the ESC is able to significantly influence the programs or services performed or provided by the organization; or (2) the ESC is legally entitled to or can otherwise access the organization's resources; or (3) the ESC is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the ESC is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the ESC in that the ESC approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary governments financial statements incomplete or misleading. 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-five member school districts in eleven different Ohio counties. The member school districts are comprised of public school districts and educational service centers. 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, 2012

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

*PUBLIC ENTITY RISK POOL*

Workers' Compensation Group Rating Program

The ESC participates in the Ohio Association of School Business Officials (OASBO)/CompManagement, Inc. Workers' Compensation Group Rating Program (GRP). The GRP is sponsored by OASBO and administered by CompManagement, Inc. The intent of the GRP is to achieve the benefit of a reduced premium for the ESC by virtue of its grouping and representation with other participants in the GRP. The ESC pays a fee to the GRP to cover the costs of administering the program. Refer to Note 9.B. for further information on the GRP.

**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 and report all financial resources not accounted for and reported 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.

Other governmental funds of the ESC are used to account for specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects.

*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, 2012

**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 fund is a private-purpose trust which accounts for scholarships. 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. All assets and all liabilities associated with the operation of the ESC are included on the statement of net assets. 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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

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 revenue of the ESC's internal service fund is charges for services. Operating expenses for internal service funds include the claims and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The 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. Proprietary and 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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

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

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

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

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

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

**E. Budgets**

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

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

**F. Cash and Investments**

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

During fiscal year 2012, the ESC's investments were limited to investments in a repurchase agreement and non-negotiable certificates of deposits. Investments in nonparticipating investment contracts, such as nonnegotiable certificates of deposit, are recorded at cost.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Governing Board investment earnings are assigned to the general fund, the Self-Insurance internal service fund, and the private-purpose trust fund. Interest revenue credited to the general fund during fiscal year 2012 amounted to \$1,409, which includes \$424 assigned from other ESC funds.

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

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

**G. Capital Assets**

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

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

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

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

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

**H. 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 column on the statement of net assets. At June 30, 2012 there were no interfund loans.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

**I. Compensated Absences**

Compensated absences of the ESC consist of vacation leave and sick leave to the extent that payments 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. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave 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 total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2012, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

**J. Accrued Liabilities and Long-Term Obligations**

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

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

**K. Inventory**

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

On the fund financial statements, reported material and supplies inventory is equally offset by a nonspendable fund balance in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

Inventory consists of expendable supplies held for consumption.

**L. Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the ESC is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

*Nonspendable* - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

*Restricted* - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

*Committed* - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the ESC Governing Board (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the ESC Governing Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

*Assigned* - Amounts in the assigned fund balance classification are intended to be used by the ESC for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the ESC Governing Board, which includes giving the Treasurer the authority to constrain monies for intended purposes.

*Unassigned* - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The ESC applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

**M. Net Assets**

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

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

**N. 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.

On the fund financial statements, reported prepayments are equally offset by a nonspendable fund balance in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

**O. 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.

**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 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. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements. During fiscal year 2012, no interfund activity was recorded.



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

**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 Governing Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2012.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2012, the ESC has implemented GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an Amendment of GASB Statement No. 53".

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The implementation of GASB Statement No. 57 did not have an effect on the financial statements of the ESC.

GASB Statement No. 64 clarifies the circumstances in which a hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of GASB Statement No. 64 did not have an effect on the financial statements of the ESC.

**B. Deficit Fund Balances**

Fund balances at June 30, 2012 included the following individual fund deficit:

<u>Nonmajor fund</u>	<u>Deficit</u>
Alternative schools	\$ 7

The general fund is liable for the deficit in this fund and provides transfers when cash is required, not when accruals occur. The deficit fund balance resulted from adjustments for accrued liabilities.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

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

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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

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

**A. Cash With Fiscal Agent**

The ESC is self-insured through a fiscal agent. The money held by the fiscal agent cannot be identified as an investment or deposit, since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2012, was \$1,265,787.

**B. Deposits with Financial Institutions**

At June 30, 2012, the carrying amount of all ESC deposits was \$3,236,936. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2012, \$3,040,165 of the ESC's bank balance of \$3,302,370 was exposed to custodial risk as discussed below, while \$262,205 was covered by the FDIC.

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. The ESC has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the ESC to a successful claim by the FDIC.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

**C. Investments**

As of June 30, 2012, the ESC had the following investments and maturities:

<u>Investment type</u>	<u>Fair value</u>	<u>Investment maturities</u>
		<u>6 months or less</u>
Repurchase agreement	\$ 955,564	\$ 955,564
	<u>\$ 955,564</u>	<u>\$ 955,564</u>

*Interest Rate Risk:* As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the ESC's investment policy limits investment portfolio maturities to five years or less.

*Credit Risk:* The federal agency securities that underlie the ESC's repurchase agreement were rated AA+ and Aaa by Standard & Poor's and Moody's Investor Service, respectively. The ESC's investment policy does not specifically address credit risk beyond requiring the ESC to only invest in securities authorized by State statute.

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the ESC will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the ESC's investment in repurchase agreements, the entire balance is collateralized by underlying securities that are held by the investment's counterparty, not in the name of the ESC. Ohio law requires the market value of the securities subject to repurchase agreement must exceed the principal value of securities subject to a repurchase agreement by 2%. The ESC has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

*Concentration of Credit Risk:* The ESC places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the ESC at June 30, 2012:

<u>Investment type</u>	<u>Fair value</u>	<u>% of Total</u>
Repurchase agreement	\$ 955,564	100.00
	<u>\$ 955,564</u>	<u>100.00</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2012:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 3,236,936
Cash with fiscal agent	1,265,787
Investments	<u>955,564</u>
Total	<u>\$ 5,458,287</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 4,129,695
Private-purpose trust funds	13,064
Agency funds	<u>1,315,528</u>
Total	<u>\$ 5,458,287</u>

**NOTE 5 - RECEIVABLES**

Receivables at June 30, 2012 consisted of intergovernmental (billings to school districts for user charged services, tuition and accrued interest) and accrued interest. All receivables are considered collectible in full. A summary of the principal items of receivables reported on the statement of net assets follows:

**Governmental activities:**

Intergovernmental	\$ 90,835
Accrued interest	<u>124</u>
Total	<u>\$ 90,959</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**NOTE 6 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	<u>Balance</u> <u>06/30/11</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/12</u>
<b>Governmental activities:</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 29,642	\$ -	\$ -	\$ 29,642
Total capital assets, not being depreciated	<u>29,642</u>	<u>-</u>	<u>-</u>	<u>29,642</u>
<i>Capital assets, being depreciated:</i>				
Buildings	156,032	-	-	156,032
Furniture and equipment	421,949	4,147	(23,625)	402,471
Vehicles	<u>7,172</u>	<u>-</u>	<u>-</u>	<u>7,172</u>
Total capital assets, being depreciated	<u>585,153</u>	<u>4,147</u>	<u>(23,625)</u>	<u>565,675</u>
<i>Less: accumulated depreciation:</i>				
Buildings	(35,923)	(3,901)	-	(39,824)
Furniture and equipment	(261,945)	(37,694)	23,191	(276,448)
Vehicles	<u>(7,172)</u>	<u>-</u>	<u>-</u>	<u>(7,172)</u>
Total accumulated depreciation	<u>(305,040)</u>	<u>(41,595)</u>	<u>23,191</u>	<u>(323,444)</u>
Governmental activities capital assets, net	<u>\$ 309,755</u>	<u>\$ (37,448)</u>	<u>\$ (434)</u>	<u>\$ 271,873</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 389
Special	3,485
<u>Support services:</u>	
Pupil	1,602
Instructional staff	365
Administration	34,267
Operations and maintenance	1,481
Central	<u>6</u>
Total depreciation expense	<u>\$ 41,595</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**NOTE 7 - CAPITAL LEASES - LESSEE DISCLOSURE**

In fiscal year 2010, the ESC entered into a capitalized lease with Dollar Leasing Corporation for copier equipment. These lease agreements meet the criteria of a capital lease as defined by GAAP which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of equipment have been capitalized in the amount of \$18,120. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2012 was \$9,060, leaving a current book value of \$9,060. A corresponding liability was recorded in the government-wide financial statements. Principal and interest payments in the 2012 fiscal year totaled \$3,591 and \$640, respectively, 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, 2012:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2013	\$ 4,231
2014	4,232
2015	<u>353</u>
Total minimum lease payments	8,816
Less: Amount representing interest	<u>(572)</u>
Total	<u>\$ 8,244</u>

**NOTE 8 - LONG-TERM OBLIGATIONS**

During the fiscal year 2012, the following activity occurred in governmental activities long-term obligations:

	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>Amounts</u>
	<u>06/30/11</u>			<u>06/30/12</u>	<u>Due in</u>
					<u>One Year</u>
Capital lease obligations	\$ 11,835	\$ -	\$ (3,591)	\$ 8,244	\$ 3,823
Compensated absences	<u>223,835</u>	<u>165,061</u>	<u>(90,405)</u>	<u>298,491</u>	<u>168,230</u>
Total	<u>\$ 235,670</u>	<u>\$ 165,061</u>	<u>\$ (93,996)</u>	<u>\$ 306,735</u>	<u>\$ 172,053</u>

Compensated absences will be paid from the fund from which the employees' salaries are paid, which primarily consist of the general fund.

Capital lease obligations will be paid from the general fund. See Note 7 for detail.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**NOTE 9 - RISK MANAGEMENT**

**A. Comprehensive**

The ESC is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The ESC has a comprehensive property and casualty policy through Schools of Ohio Risk Sharing Authority. There is no deductible on any occurrences except \$50,000 on Earth Movement and Floods. All vehicles are also insured with no deductible. All Board members, administrators, and employees are covered under a school district liability policy. The limits of this coverage are \$2,000,000 per occurrence and \$4,000,000 per aggregate. The treasurer is covered under a surety bond in the amount of \$250,000.

Settled claims have not exceeded this commercial coverage in the past three years. There has been no significant reduction in coverage from fiscal year 2011.

**B. Group Workers' Compensation Rating Plan**

For fiscal year 2012, the ESC participated in the OASBO/CompManagement, Inc. Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the ESC by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is tiered into groups based upon past workers' compensation experience. Within each tiered group, a common premium rate is applied to all school districts within that group. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of their tiered group. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the GRP.

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

Medical/surgical, dental, and vision insurance is offered to employees through a self-insurance internal service fund. The ESC is a member of a claims servicing pool, consisting of school districts and other entities throughout the state, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the ESC's behalf. The plan is administered through OME-RESA and provides stop loss protection of claims over \$500,000 per individual per year. The claims liability of \$87,760 as reported in the internal service fund at June 30, 2012, 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>
2012	\$ 228,457	\$ 531,005	\$ (671,702)	\$ 87,760
2011	223,340	503,430	(498,313)	228,457



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**NOTE 10 - PENSION PLANS**

**A. School Employees Retirement System**

Plan Description - The ESC contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under "*Employers/Audit Resources*".

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the ESC is required to contribute at an actuarially determined rate. The current ESC rate is 14 percent of annual covered payroll. A portion of the ESC's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2012, 12.65 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The ESC's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$218,404, \$191,730 and \$205,177, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

**B. State Teachers Retirement System of Ohio**

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**NOTE 10 - 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2012, plan members were required to contribute 10 percent of their annual covered salaries. The ESC was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The ESC's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011 and 2010 were \$331,100, \$402,590 and \$348,177, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010. Contributions to the DC and Combined Plans for fiscal year 2012 were \$12,325 made by the ESC and \$8,803 made by the plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2012, certain members of the Governing Board have elected Social Security. The ESC's liability is 6.2 percent of wages paid.

**NOTE 11 - POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

Plan Description - The ESC participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 (latest information available) was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under "Employers/Audit Resources".

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2012, 0.55 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The ESC's contributions for health care (including surcharge) for the fiscal years ended June 30, 2012, 2011 and 2010 were \$39,463, \$31,924 and \$16,166, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The ESC's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$12,898, \$12,338 and \$12,201, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

**B. State Teachers Retirement System of Ohio**

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The ESC's contributions for health care for the fiscal years ended June 30, 2012, 2011 and 2010 were \$25,469, \$30,968 and \$26,783, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**NOTE 12 - CONTINGENCIES**

**A. Grants**

The ESC receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are 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.

**NOTE 13 - 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 local school ESCs to which the ESC provides services from payments made under the State's foundation program. Simultaneously, \$37.00 times the sum of the ADM is paid by the State Board of Education from State funds to the ESC.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**NOTE 14 - COMMITMENTS**

The ESC utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year-end are reservations of fund balance for subsequent-year expenditures and may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the ESC's commitments for encumbrances in the governmental funds were as follows:

<u>Fund</u>	<u>Year-End Encumbrances</u>
General fund	\$ <u>2,297</u>

**SUPPLEMENTARY INFORMATION**

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

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
From local sources:				
Services provided to other entities . . . . .	\$ 4,061,650	\$ 3,658,068	\$ 3,658,068	\$ -
Tuition . . . . .	751,450	751,450	751,450	-
Earnings on investments . . . . .	2,850	1,441	1,441	-
Other local revenues . . . . .	55,000	152,105	152,105	-
Intergovernmental - intermediate . . . . .	61,200	66,526	66,526	-
Intergovernmental - state . . . . .	742,400	744,363	744,363	-
Total revenues . . . . .	<u>5,674,550</u>	<u>5,373,953</u>	<u>5,373,953</u>	<u>-</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	1,120,545	809,253	809,253	-
Special . . . . .	645,131	652,472	652,472	-
Other . . . . .	6,400	6,400	6,400	-
Support services:				
Pupil . . . . .	1,365,852	1,308,783	1,305,791	2,992
Instructional staff . . . . .	1,721,505	1,737,273	1,737,273	-
Board of education . . . . .	22,210	17,435	17,435	-
Administration . . . . .	849,232	839,123	839,123	-
Fiscal . . . . .	273,979	281,313	281,313	-
Operations and maintenance . . . . .	22,662	29,817	29,817	-
Total expenditures . . . . .	<u>6,027,516</u>	<u>5,681,869</u>	<u>5,678,877</u>	<u>2,992</u>
Excess of expenditures over revenues . . . . .	<u>(352,966)</u>	<u>(307,916)</u>	<u>(304,924)</u>	<u>2,992</u>
<b>Other financing sources (uses):</b>				
Refund of prior year's receipts . . . . .	-	(49,292)	(49,292)	-
Advances in . . . . .	-	-	1,036	1,036
Advances (out) . . . . .	-	-	(1,036)	(1,036)
Other uses . . . . .	(126,000)	(88,127)	(88,127)	-
Total other financing sources (uses) . . . . .	<u>(126,000)</u>	<u>(137,419)</u>	<u>(137,419)</u>	<u>-</u>
Net change in fund balance . . . . .	(478,966)	(445,335)	(442,343)	2,992
<b>Fund balance at beginning of year . . . . .</b>	<b>3,272,757</b>	<b>3,272,757</b>	<b>3,272,757</b>	<b>-</b>
<b>Prior year encumbrances appropriated . . . . .</b>	<b>28,347</b>	<b>28,347</b>	<b>28,347</b>	<b>-</b>
<b>Fund balance at end of year . . . . .</b>	<b><u>\$ 2,822,138</u></b>	<b><u>\$ 2,855,769</u></b>	<b><u>\$ 2,858,761</u></b>	<b><u>\$ 2,992</u></b>

SEE ACCOMPANYING NOTES TO THE SUPPLEMENTARY INFORMATION

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

**NOTES TO THE SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**NOTE 1 - BUDGETARY PROCESS**

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

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

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

**NOTE 2 - BUDGETARY BASIS OF ACCOUNTING**

While the ESC is reporting financial position, results of operations, and changes in fund balances on the basis of accounting principles generally accepted in the United States of America (GAAP), the budgetary basis is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The schedule of revenues, expenditures and changes in fund balance - budget and actual (budget basis) - for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

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

1. Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
2. Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
3. To reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
4. Advances-in and advances-out are operating transactions (budget-basis) as opposed to balance sheet transactions (GAAP basis); and



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

NOTES TO THE SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**NOTE 2 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

5. Some funds are included in the general fund (GAAP basis), but have separate budgets (budget-basis).

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

**Net Change in Fund Balance**

	<u>General fund</u>
Budget basis	\$ (442,343)
Net adjustment for revenue accruals	(45,101)
Net adjustment for expenditure accruals	(197,906)
Net adjustment for other sources/uses	137,419
Adjustment for encumbrances	<u>2,902</u>
GAAP basis	<u>\$ (545,029)</u>

The internal service rotary fund that is budgeted in a separate special revenue fund is considered part of the general fund on a GAAP basis.



**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Independent Accountants' Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Required By *Government Auditing Standards***

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

To the Board of Directors:

We have audited the financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of Jefferson County Educational Service Center, Jefferson County, Ohio, as of and for the fiscal year ended June 30, 2012, which collectively comprise Jefferson County Educational Service Center's basic financial statements and have issued our report thereon dated December 27, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of Jefferson County Educational Service Center's financial statements will not be prevented, or detected and timely corrected.

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

Board of Directors  
Jefferson County Educational Service Center

Compliance and Other Matters

As part of reasonably assuring whether Jefferson County Educational Service Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of the management and Board of Directors of Jefferson County Educational Service Center and others within Jefferson County Educational Service Center. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.  
December 27, 2012

**This page intentionally left blank.**



# Dave Yost • 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  
FEBRUARY 21, 2013**