

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

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

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2013***

DON DONAHUE, TREASURER



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the Jefferson County Educational Service Center, Jefferson County, prepared by Julian & Grube, Inc., for the audit period July 1, 2012 through June 30, 2013. 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

April 9, 2015

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

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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Julian & Grube, Inc.

Serving Ohio Local Governments

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

Independent Auditor's Report

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

To the Governing Board:

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the Jefferson County Educational Service Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Jefferson County Educational Service Center's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Jefferson County Educational Service Center's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary and Other Information

Our audit was conducted to opine on the Jefferson County Educational Service Center's basic financial statements taken as a whole.

The Schedule of Revenue, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual - General Fund (the "Schedule") and related notes presents additional analysis and are not a required part of the basic financial statements.

We did not audit the Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) and the related notes to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion or any other assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2014, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Jefferson County Educational Service Center's internal control over financial reporting and compliance.



Julian & Grube, Inc.
December 23, 2014

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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, 2013. 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 2013 are as follows:

- In total, net assets of governmental activities decreased \$264,246 which represents a 7.27% decrease from 2012.
- General revenues accounted for \$730,850 in revenue or 14.62% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$4,267,055 or 85.38% of total revenues of \$4,997,905.
- The ESC had \$5,262,151 in expenses related to governmental activities; \$4,267,055 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (unrestricted grants and entitlements) of \$730,850 were not adequate to provide for these programs.
- The ESC's major governmental fund is the general fund. The general fund had \$4,932,551 in revenues and \$5,178,675 in expenditures. During fiscal year 2013, the general fund's fund balance decreased \$246,124 from \$2,470,641 to \$2,224,517.

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 position 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 Position 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 2013?" The statement of net position and statement of activities answer this question. These statements include all assets, deferred outflows, liabilities, deferred inflows, 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, 2013**

These two statements report the ESC's net position and changes in that position. This change in net position 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 position 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 position 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 position 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 position and changes in fiduciary net position 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
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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 position at June 30, 2013 and June 30, 2012.

	Net Position	
	Governmental Activities <u>2013</u>	Governmental Activities <u>2012</u>
<u>Assets</u>		
Current and other assets	\$ 3,709,218	\$ 4,277,856
Capital assets, net	<u>235,715</u>	<u>271,873</u>
Total assets	<u>3,944,933</u>	<u>4,549,729</u>
<u>Liabilities</u>		
Current liabilities	293,626	610,067
Long-term liabilities	<u>282,626</u>	<u>306,735</u>
Total liabilities	<u>576,252</u>	<u>916,802</u>
<u>Net Position</u>		
Net investment in capital assets	231,294	263,629
Restricted	-	1,952
Unrestricted	<u>3,137,387</u>	<u>3,367,346</u>
Total net position	<u>\$ 3,368,681</u>	<u>\$ 3,632,927</u>

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2013, the ESC's assets exceeded liabilities by \$3,368,681, of this total; none is restricted in use.

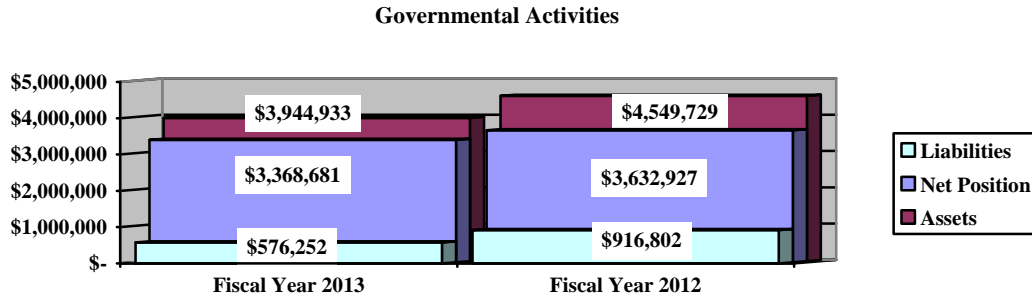
At year-end, capital assets represented 5.98% of total assets. Capital assets include land, buildings, furniture and equipment and vehicles. Net investment in capital assets at June 30, 2013 was \$231,294. These capital assets are used to provide the ESC's services and are not available for future spending. 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.

None of the ESC's net position is subject to external restriction on how it may be used. The remaining balance of unrestricted net position of \$3,137,387 may be used to meet the ESC's ongoing obligations to the students and creditors.

**JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

The graph below presents the ESC's governmental assets, liabilities and net position at June 30, 2013 and June 30, 2012.



The table below shows the change in net position for fiscal years 2013 and 2012.

Change in Net Position

	Governmental Activities 2013	Governmental Activities 2012
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 4,119,142	\$ 4,533,514
Operating grants and contributions	147,913	121,584
General revenues:		
Grants and entitlements	722,979	744,363
Investment earnings	7,871	18,742
Total revenues	<u>4,997,905</u>	<u>5,418,203</u>

**JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Change in Net Position

	Governmental Activities <u>2013</u>	Governmental Activities <u>2012</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 337,859	\$ 870,875
Special	583,036	498,178
Other	6,400	6,400
Support services:		
Pupil	1,182,810	1,230,632
Instructional staff	2,101,208	1,818,671
Board of education	17,356	16,016
Administration	767,294	891,952
Fiscal	229,411	304,601
Business	9,980	-
Operations and maintenance	22,631	27,915
Central	3,758	8,380
Interest and fiscal charges	<u>408</u>	<u>640</u>
Total expenses	<u>5,262,151</u>	<u>5,674,260</u>
Change in net position	(264,246)	(256,057)
Net position at beginning of year	<u>3,632,927</u>	<u>3,888,984</u>
Net position at end of year	<u>\$ 3,368,681</u>	<u>\$ 3,632,927</u>

Governmental Activities

Net position of the ESC's governmental activities decreased \$264,246. Total governmental expenses of \$5,262,151 were offset by program revenues of \$4,267,055 and general revenues of \$730,850. Program revenues supported 81.09% of the total governmental expenses.

Overall expenses of the ESC decreased \$412,109 or 7.26%. 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 2013 compared to fiscal year 2012. This is due to the ESC's Virtual Learning Academy teachers no longer being paid on the ESC's payroll, but as independent contractors, out of budgetary.

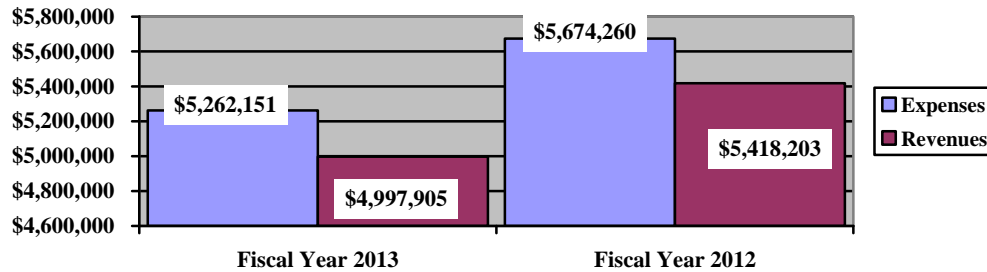
The primary sources of revenue for governmental activities are derived from contracted fees for services provided to other entities. This revenue source represents 82.42% of total governmental revenue.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

The graph below presents the ESC's governmental activities revenue and expenses for fiscal years 2013 and 2012.

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 2013	Net Cost of Services 2013	Total Cost of Services 2012	Net Cost of Services 2012
Program expenses				
Instruction:				
Regular	\$ 337,859	\$ 31,213	\$ 870,875	\$ 183,326
Special	583,036	61,506	498,178	(19,195)
Other	6,400	700	6,400	1,384
Support services:				
Pupil	1,182,810	115,619	1,230,632	182,689
Instructional staff	2,101,208	633,194	1,818,671	346,921
Board of education	17,356	1,890	16,016	2,592
Administration	767,294	126,179	891,952	233,861
Fiscal	229,411	18,639	304,601	73,166
Business	9,980	-	-	-
Operations and maintenance	22,631	3,790	27,915	7,198
Central	3,758	1,958	8,380	6,580
Interest and fiscal charges	408	408	640	640
Total	<u>\$ 5,262,151</u>	<u>\$ 995,096</u>	<u>\$ 5,674,260</u>	<u>\$ 1,019,162</u>

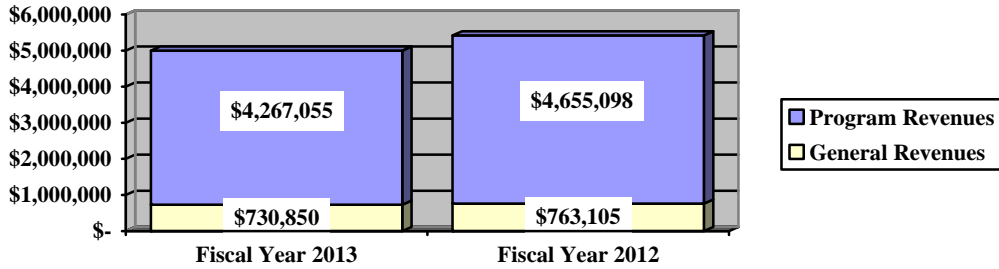
For all governmental activities, program revenue support is 81.09%. The primary support of the ESC is contracted fees for services provided to other districts.

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JEFFERSON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

The graph below presents the ESC's governmental activities revenue for fiscal years 2013 and 2012.

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 \$2,224,455, which is less than last year's total of \$2,472,586. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2013 and 2012.

	Fund Balance (deficit) <u>June 30, 2013</u>	Fund Balance <u>June 30, 2012</u>	<u>Decrease</u>
General	\$ 2,224,517	\$ 2,470,641	\$ (246,124)
Other governmental	<u>(62)</u>	<u>1,945</u>	<u>(2,007)</u>
Total	<u>\$ 2,224,455</u>	<u>\$ 2,472,586</u>	<u>\$ (248,131)</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

General Fund

The ESC's general fund balance decreased \$230,880. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2013</u> <u>Amount</u>	<u>2012</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Services provided to other entities	\$ 3,236,584	\$ 3,613,306	(10.43) %
Tuition	841,444	751,450	11.98 %
Earnings on investments	368	1,409	(73.88) %
Intergovernmental	795,871	810,889	(1.85) %
Other revenues	<u>58,284</u>	<u>151,798</u>	(61.60) %
Total	<u>\$ 4,932,551</u>	<u>\$ 5,328,852</u>	(7.44) %
<u>Expenditures</u>			
Instruction	\$ 875,364	\$ 1,475,923	(40.69) %
Support services	4,299,080	4,393,727	(2.15) %
Debt service	<u>4,231</u>	<u>4,231</u>	- %
Total	<u>\$ 5,178,675</u>	<u>\$ 5,873,881</u>	(11.84) %

Services provided to other entities revenues decreased 10.43% mainly due to the ESC's Virtual Learning Academy program operating at a lower volume than in prior years. Tuition revenue increased 11.98% mainly due to an increase in the amount of Local Share State Foundation monies received by the ESC. Earnings on investments revenue decreased 73.88% primarily due a decrease in interest rates earned on investments. Other revenues decreased by 61.60% due to a decrease in reimbursements received by the ESC. Instructional expenditures decreased by 40.69% and Support services expenditures decreased by 2.15% 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 2013 compared to fiscal year 2012. This is due to the ESC's Virtual Learning Academy teachers being paid as independent contractors from the ESC's budgetary expenditures instead of from payroll expenditures. 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, 2013

Capital Assets and Debt Administration

Capital Assets

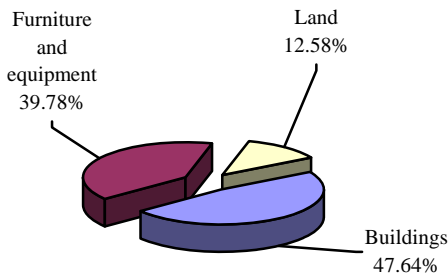
At the end of fiscal year 2013, the ESC had \$235,715 invested in land, buildings, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows June 30, 2013 balances compared to June 30, 2012:

	Capital Assets (Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2012</u>
Land	\$ 29,642	\$ 29,642
Buildings	112,306	116,208
Furniture and equipment	<u>93,767</u>	<u>126,023</u>
Total	<u>\$ 235,715</u>	<u>\$ 271,873</u>

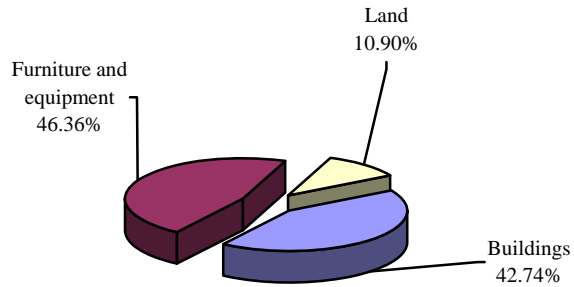
In total capital assets decreased \$36,158 for fiscal year 2013. A total of \$38,688 in depreciation expense was recognized for fiscal year 2013.

The graphs below present the ESC's capital assets at June 30, 2013 and June 30, 2012.

**Capital Assets - Governmental
Activities 2013**



**Capital Assets - Governmental
Activities 2012**



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

**JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Debt Administration

At June 30, 2013 the ESC had \$4,421 in capital lease obligations outstanding. The following table summarizes the capital lease obligations outstanding.

Outstanding Debt, at Year End

	Governmental Activities 2013	Governmental Activities 2012
Capital lease obligation	\$ 4,421	\$ 8,244
Total	\$ 4,421	\$ 8,244

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

Current Financial Related Activities

The ESC is financially solvent. As the preceding information shows, the ESC relies heavily on contracts with local, city, and JVS school districts in Jefferson and Harrison Counties, as well as State foundation revenue, and grants. The need for additional services from local and city school districts, 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 2013. 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 15% for fiscal year 2013 and the funding for fiscal year 2014 is \$37.00 per pupil but will be prorated to stay within the appropriations. This amount is still unknown.

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. In addition, the health benefits program continues to grow. The program currently insures over 12,000 employees and has contracts with one hundred eleven entities in forty-five counties across the State.

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 POSITION
JUNE 30, 2013

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 2,368,072
Cash with fiscal agent	1,273,271
Receivables:	
Intergovernmental	29,941
Accounts.	5,000
Prepayments	32,057
Materials and supplies inventory.	877
Capital assets:	
Nondepreciable capital assets	29,642
Depreciable capital assets, net.	206,073
Capital assets, net	<u>235,715</u>
Total assets.	<u>3,944,933</u>
Liabilities:	
Accounts payable.	34,838
Accrued wages and benefits payable	141,485
Pension obligation payable.	25,020
Intergovernmental payable	10,149
Claims payable.	82,134
Long-term liabilities:	
Due within one year.	173,564
Due in more than one year.	109,062
Total liabilities	<u>576,252</u>
Net position:	
Net investment in capital assets	231,294
Unrestricted	3,137,387
Total net position.	<u>\$ 3,368,681</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, 2013

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 337,859	\$ 248,095	\$ 58,551	\$ (31,213)
Special	583,036	512,462	9,068	(61,506)
Other	6,400	5,601	99	(700)
Support services:				
Pupil	1,182,810	1,048,634	18,557	(115,619)
Instructional staff	2,101,208	1,437,287	30,727	(633,194)
Board of education	17,356	15,197	269	(1,890)
Administration.	767,294	626,246	14,869	(126,179)
Fiscal.	229,411	207,107	3,665	(18,639)
Business.	9,980	-	9,980	-
Operations and maintenance	22,631	18,513	328	(3,790)
Central	3,758	-	1,800	(1,958)
Interest and fiscal charges	408	-	-	(408)
Total governmental activities	<u>\$ 5,262,151</u>	<u>\$ 4,119,142</u>	<u>\$ 147,913</u>	<u>(995,096)</u>
General revenues:				
Grants and entitlements not restricted				
to specific programs. 722,979				
Investment earnings <u>7,871</u>				
Total general revenues <u>730,850</u>				
Change in net position (264,246)				
Net position at beginning of year 3,632,927				
Net position at end of year. \$ <u>3,368,681</u>				

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

	General	Nonmajor Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents.	\$ 2,368,072	\$ -	\$ 2,368,072
Receivables:			
Intergovernmental.	18,458	11,483	29,941
Accounts	5,000	-	5,000
Interfund loans	11,483	-	11,483
Prepayments.	32,057	-	32,057
Materials and supplies inventory.	877	-	877
Total assets	\$ 2,435,947	\$ 11,483	\$ 2,447,430
 Liabilities:			
Accounts payable	\$ 34,838	\$ -	\$ 34,838
Accrued wages and benefits payable	141,485	-	141,485
Pension obligation payable	25,020	-	25,020
Intergovernmental payable	10,087	62	10,149
Interfund loans payable.	-	11,483	11,483
Total liabilities.	211,430	11,545	222,975
 Fund balances:			
Nonspendable:			
Materials and supplies inventory.	877	-	877
Prepays.	32,057	-	32,057
Assigned:			
Student instruction	197	-	197
Student and staff support.	2,718	-	2,718
Other purposes.	293	-	293
Unassigned (deficit)	2,188,375	(62)	2,188,313
Total fund balances (deficit)	2,224,517	(62)	2,224,455
Total liabilities and fund balances.	\$ 2,435,947	\$ 11,483	\$ 2,447,430

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2013

Total governmental fund balances		\$	2,224,455
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			235,715
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 position.			1,191,137
Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences	(278,205)		
Capital lease obligations	(4,421)		
Total	(282,626)		(282,626)
Net position of governmental activities		\$	3,368,681

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, 2013

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Services provided to other entities	\$ 3,236,584	\$ -	\$ 3,236,584
Tuition.	841,444	-	841,444
Earnings on investments	368	-	368
Other local revenues	58,284	-	58,284
Intergovernmental - intermediate	72,892	-	72,892
Intergovernmental - state	722,979	65,021	788,000
Intergovernmental - federal	-	10,000	10,000
Total revenues	<u>4,932,551</u>	<u>75,021</u>	<u>5,007,572</u>
Expenditures:			
Current:			
Instruction:			
Regular.	283,458	54,204	337,662
Special	585,506	-	585,506
Other	6,400	-	6,400
Support services:			
Pupil	1,198,101	-	1,198,101
Instructional staff	2,095,085	5,300	2,100,385
Board of education	17,363	-	17,363
Administration	730,752	3,792	734,544
Fiscal	236,628	-	236,628
Business.	-	9,980	9,980
Operations and maintenance	21,151	-	21,151
Central	-	3,752	3,752
Debt service:			
Principal retirement.	3,823	-	3,823
Interest and fiscal charges	408	-	408
Total expenditures	<u>5,178,675</u>	<u>77,028</u>	<u>5,255,703</u>
Net change in fund balances	(246,124)	(2,007)	(248,131)
Fund balances at beginning of year	<u>2,470,641</u>	<u>1,945</u>	<u>2,472,586</u>
Fund balances (deficit) at end of year.	<u>\$ 2,224,517</u>	<u>\$ (62)</u>	<u>\$ 2,224,455</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, 2013

Net change in fund balances - total governmental funds \$ (248,131)

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.

Capital asset additions	\$	2,530	
Current year depreciation		(38,688)	
Total		(36,158)	(36,158)

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		(17,170)	
Earnings on investments		(6)	
Total		(17,176)	(17,176)

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

3,823

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.

20,286

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.

13,110

Change in net position of governmental activities **\$ (264,246)**

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2013

	<u>Governmental Activities - Internal Service Fund</u>
Assets:	
Cash with fiscal agent	\$ 1,273,271
Total assets.	<u>1,273,271</u>
Liabilities:	
Claims payable	<u>82,134</u>
Total liabilities	<u>82,134</u>
Net position:	
Unrestricted.	<u>1,191,137</u>
Total net position.	<u><u>\$ 1,191,137</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 POSITION
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services	\$ 968,054
Total operating revenues	<u>968,054</u>
Operating expenses:	
Claims	694,745
Other.	267,708
Total operating expenses.	<u>962,453</u>
Operating income	<u>5,601</u>
Nonoperating revenues:	
Interest revenue.	7,509
Total nonoperating revenues.	<u>7,509</u>
Change in net position	13,110
Net position at beginning of year.	<u>1,178,027</u>
Net position at end of year	<u><u>\$ 1,191,137</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from charges for services	\$ 968,054
Cash payments for claims	(700,371)
Cash payments for other expenses	(267,708)
	(25)
Cash flows from investing activities:	
Interest received.	7,509
	7,509
Net cash provided by investing activities	7,509
Net increase in cash and cash equivalents.	7,484
Cash and cash equivalents at beginning of year. . .	1,265,787
Cash and cash equivalents at end of year	\$ 1,273,271
Reconciliation of operating income to net cash used in operating activities:	
Operating income	\$ 5,601
Changes in assets and liabilities:	
Decrease in claims payable	(5,626)
	(5,626)
Net cash used in operating activities.	\$ (25)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013

	Private Purpose Trust	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 12,564	\$ -
Cash and investments in segregated accounts.	-	102,502,684
Receivables:		
Accrued interest.	6	655,302
Total assets.	12,570	\$ 103,157,986
Liabilities:		
Intergovernmental payable	-	\$ 103,157,986
Total liabilities	-	\$ 103,157,986
Net position:		
Held in trust for scholarships	12,570	
Total net position.	\$ 12,570	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Private Purpose Trust
Additions:	
Interest	\$ 6
Total additions.	6
 Deductions:	
Scholarships awarded	500
Change in net position	(494)
Net position at beginning of year.	13,064
Net position at end of year	\$ 12,570

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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:

- 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, 2013 was 10,808. The Governing Board employed 31 certified employees and 26 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'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" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34". 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, support services, 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, 2013

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 government's 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, 2013

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

PUBLIC ENTITY RISK POOLS

Jefferson Health Plan (the "Health Plan")

The ESC participates in the Health Plan, a claims servicing self-insurance pool organized under Ohio Revised Code Chapter 167, for the purpose of establishing and carrying out a cooperative program to administer medical, prescription, vision and dental benefits for employees of the participating entities and their eligible dependents. The Health Plan contracts with third-party administrators to process and pay health, dental and vision claims incurred by its members.

The Health Plan also purchases stop loss coverage for claims in excess of a set amount for individual claims and in the pool's aggregate.

Each member of the Health Plan is obligated to pay a fee based on an estimate of the member's share of the Health Plan costs for the fiscal year. Included in this estimate are claims by eligible employees which are payable by each member, the member's share of the medical, prescription, vision and dental insurance premiums, and their proportionate share of the administrative costs of the Health Plan. The actual balance of each member's account is determined on a monthly basis. Each member is required to meet or exceed the claims that have been incurred but not reported (IBNR) and to maintain adequate reserves or current funding to meet or exceed their claims fluctuation reserve requirements. If a member is in a deficit position, the participating member has two fiscal years to make up a negative reserve amount or an insufficient IBNR and three fiscal years to make up insufficient claims fluctuation reserves.

Members may withdraw from the Health Plan with as much notice as is possible for the termination, allowing the Health Plan time to determine any withdrawal balance owed to or by the departing employer. Any outstanding reserve balances are held by the Health Plan for a maximum period of six months to satisfy the payment of claims incurred before termination. The terminating member has the option to pay all of the claims incurred prior to the termination for membership so that any reserves could be released sooner. Employers found to be in a deficit position wishing to leave the Health Plan will be required to repay the deficit in full within ninety days of the effective withdraw date. Additionally, such terminating member will be required to pay any claims incurred prior to termination notification.

During fiscal year 2013, the ESC was fiscal agent for the Health Plan (see Note 4.B.).

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 10.B. for further information on the GRP.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

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 deferred outflows of resources and liabilities and deferred inflows of resources 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.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net position and changes in net position. 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 the Jefferson Health Plan and OME-RESA.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

C. Basis of Presentation and Measurement Focus

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

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

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

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

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 deferred outflows of resources and current liabilities and deferred inflows of resources, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

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.

Deferred Inflows of Resources and Deferred Outflows of Resources - A deferred inflow of resources is an acquisition of net position by the District that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the ESC that is applicable to a future reporting period.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

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 2013, the ESC's investments were limited to non-negotiable certificates of deposits. Investments in nonparticipating investment contracts, such as nonnegotiable certificates of deposit, are recorded at cost.

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, (which is maintained by a fiscal agent in an interest bearing account separate from the ESC's internal investment pool) and the private-purpose trust fund. Interest revenue credited to the general fund during fiscal year 2013 amounted to \$368, which includes \$73 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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

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 position, 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>	<u>Governmental Activities 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 position.

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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

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, 2013, 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.

Inventory consists of expendable supplies held for consumption.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

M. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. The net position component “net investment in capital assets,” consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the ESC 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 position is 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 the net current position.

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 2013, no interfund activity was recorded.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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 2013.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2013, the ESC has implemented GASB Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements", GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34", GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements", GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities", and GASB Statement No. 66, "Technical Corrections-2012".

GASB Statement No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. An SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The implementation of GASB Statement No. 60 did not have an effect on the financial statements of the ESC.

GASB Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. The Statement amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. Finally, the Statement also clarifies the reporting of equity interests in legally separate organizations. The implementation of GASB Statement No. 61 did not have an effect on the financial statements of the ESC.

GASB Statement No. 62 codifies accounting and financial reporting guidance contained in pre-November 30, 1989 FASB and AICPA pronouncements in an effort to codify all sources of GAAP for State and local governments so that they derive from a single source. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the ESC.

GASB Statement No. 63 provides financial and reporting guidance for *deferred outflows of resources* and *deferred inflows of resources* which are financial statement elements that are distinct from assets and liabilities. GASB Statement No. 63 standardizes the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's *net position*. The implementation of GASB Statement No. 63 has changed the presentation of the ESC's financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as *deferred outflows of resources* or *deferred inflows of resources*, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements *deferred outflows of resources* and *deferred inflows of resources*, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

GASB Statement No. 66 enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of GASB Statement No. 66 did not have an effect on the financial statements of the ESC.

B. Deficit Fund Balances

Fund balances at June 30, 2013 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Alternative schools	\$ 49
Race to the top	13

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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;

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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.

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, 2013, was \$1,273,271.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

B. Cash and Investments in Segregated Accounts

The ESC is fiscal agent for the Jefferson Health Plan and OME-RESA (See Note 2.A.). At June 30, 2013, \$102,502,684 was held in agency funds on behalf of the Health Plan and OME-RESA. The deposits and investments of the Health Plan and OME-RESA are held separate from the ESC internal cash management pool. The data regarding insurance and collateralization of the Health Plan and OME-RESA deposits and investments can be obtained from the respective entity's separate financial statements for the fiscal year ended June 30, 2013.

C. Deposits with Financial Institutions

At June 30, 2013, the carrying amount of all ESC deposits was \$2,380,636. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2013, \$2,289,834 of the ESC's bank balance of \$2,552,039 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.

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

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 position as of June 30, 2013:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 2,380,636
Cash with fiscal agent	1,273,271
Cash and investments in segregated accounts	<u>102,502,684</u>
Total	<u>\$ 106,156,591</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 3,641,343
Private-purpose trust funds	12,564
Agency funds	<u>102,502,684</u>
Total	<u>\$ 106,156,591</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 5 - INTERFUND TRANSACTIONS

Interfund balances at June 30, 2013 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable fund</u>	<u>Payable funds</u>	<u>Amount</u>
General	Nonmajor governmental	<u>\$ 11,483</u>

Interfund loan receivables/payables are short-term interfund loans, and are expected to be repaid in the subsequent fiscal year. The primary purpose of these interfund loans is to cover costs where revenues were not received by June 30. The interfund loans will be repaid once the anticipated revenues are received. Interfund loan receivables/payables between governmental funds are eliminated and are not reported on the government-wide statement of net position.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2013 consisted of intergovernmental (billings to school districts for user charged services, tuition and accrued interest) and accounts. All receivables are considered collectible in full. A summary of the principal items of receivables reported on the statement of net position follows:

Governmental activities:

Intergovernmental	\$ 29,941
Accounts	<u>5,000</u>
Total	<u>\$ 34,941</u>

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Balance			Balance
	<u>06/30/12</u>	<u>Additions</u>	<u>Deductions</u>	<u>06/30/13</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 29,642	\$ -	\$ -	\$ 29,642
Total capital assets, not being depreciated	<u>29,642</u>	<u>-</u>	<u>-</u>	<u>29,642</u>
<i>Capital assets, being depreciated:</i>				
Buildings	156,032	-	-	156,032
Furniture and equipment	402,471	2,530	(1,202)	403,799
Vehicles	<u>7,172</u>	<u>-</u>	<u>-</u>	<u>7,172</u>
Total capital assets, being depreciated	<u>565,675</u>	<u>2,530</u>	<u>(1,202)</u>	<u>567,003</u>
<i>Less: accumulated depreciation:</i>				
Buildings	(39,824)	(3,902)	-	(43,726)
Furniture and equipment	(276,448)	(34,786)	1,202	(310,032)
Vehicles	<u>(7,172)</u>	<u>-</u>	<u>-</u>	<u>(7,172)</u>
Total accumulated depreciation	<u>(323,444)</u>	<u>(38,688)</u>	<u>1,202</u>	<u>(360,930)</u>
Governmental activities capital assets, net	<u>\$ 271,873</u>	<u>\$ (36,158)</u>	<u>\$ -</u>	<u>\$ 235,715</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 388
Special	3,486
<u>Support services:</u>	
Pupil	1,486
Instructional staff	365
Administration	31,477
Operations and maintenance	1,480
Central	<u>6</u>
Total depreciation expense	<u>\$ 38,688</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 8 - CAPITAL LEASES - LESSEE DISCLOSURE

In a prior fiscal year, 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 generally accepted accounting principles 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, 2013 was \$12,684, leaving a current book value of \$5,436. A corresponding liability was recorded in the government-wide financial statements. Principal and interest payments in the 2013 fiscal year totaled \$3,823 and \$408, 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, 2013:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2014	\$ 4,232
2015	<u>353</u>
Total minimum lease payments	4,585
Less: Amount representing interest	<u>(164)</u>
Total	<u>\$ 4,421</u>

NOTE 9 - LONG-TERM OBLIGATIONS

During the fiscal year 2013, the following activity occurred in governmental activities long-term obligations:

	Balance			Balance	Amounts
	<u>06/30/12</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/13</u>	<u>Due in</u>
					<u>One Year</u>
Capital lease obligations	\$ 8,244	\$ -	\$ (3,823)	\$ 4,421	\$ 4,070
Compensated absences	<u>298,491</u>	<u>75,961</u>	<u>(96,247)</u>	<u>278,205</u>	<u>169,494</u>
Total	<u>\$ 306,735</u>	<u>\$ 75,961</u>	<u>\$ (100,070)</u>	<u>\$ 282,626</u>	<u>\$ 173,564</u>

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

Capital lease obligations will be paid from the general fund. See Note 8 for detail.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 10 - RISK MANAGEMENT

A. Comprehensive

The ESC is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The ESC has a comprehensive property and casualty policy through Schools of Ohio Risk Sharing Authority. There is no deductible on any occurrences except \$50,000 on Earth Movement and Floods. 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 2012.

B. Group Workers' Compensation Rating Plan

For fiscal year 2013, 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 the Jefferson Health Plan and provides stop loss protection of claims over \$500,000 per individual per year. The claims liability of \$82,134 as reported in the internal service fund at June 30, 2013, 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>
2013	\$ 87,760	\$ 694,745	\$ (700,371)	\$ 82,134
2012	228,457	531,005	(671,702)	87,760

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 11 - 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, 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 2013, 13.05 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, 2013, 2012 and 2011 were \$103,249, \$218,404 and \$191,730, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

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, 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, 2013

NOTE 11 - 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 2013, 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, 2013, 2012 and 2011 were \$272,016, \$331,100 and \$402,590, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011. Contributions to the DC and Combined Plans for fiscal year 2013 were \$15,554 made by the ESC and \$11,110 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, 2013, certain members of the Board of Education have elected Social Security. The ESC's liability is 6.2 percent of wages paid.

NOTE 12 - 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 monthly premium for calendar year 2013 was \$104.90 for most participants, but could be as high as \$335.70 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, under "Employers/Audit Resources".

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 12 - 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 2013, 0.16 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 2013, the actuarially determined amount was \$20,525.

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, 2013, 2012 and 2011 were \$27,644, \$39,463 and \$31,924, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2013, this actuarially required allocation was 0.74 percent of covered payroll. The ESC's contributions for Medicare Part B for the fiscal years ended June 30, 2013, 2012, and 2011 were \$5,832, \$12,898 and \$12,338, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

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, 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 2013, 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, 2013, 2012 and 2011 were \$20,924, \$25,469 and \$30,968, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 13 - CONTINGENCIES

A. Grants

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

During the fiscal year a pending lawsuit which involved the ESC was settled. This settlement required the ESC to pay \$458,405 to compensate the parties involved. The ESC expensed this amount out of the instructional staff function in the general fund. The ESC had been withholding STRS monies associated with the parties involved in the general fund to make these disbursements, if necessary, since the inception of the lawsuit. Therefore, there was no effect on the financial condition of the ESC. Presently 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 14 - STATE FUNDING

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

Part (B) of the budget is funded in the following way: \$6.50 times the Average Daily Membership (ADM- the total number of pupils under the ESC's supervision) is apportioned by the State Board of Education from the 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.

NOTE 15 - 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</u> <u>Encumbrances</u>
General fund	\$ <u>2,915</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, 2013

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Services provided to other entities	\$ 3,951,306	\$ 3,302,844	\$ 3,302,844	\$ -
Tuition.	841,444	841,444	841,444	-
Earnings on investments	1,950	486	486	-
Other local revenues	79,000	42,231	42,231	-
Intergovernmental - intermediate	67,000	72,892	72,892	-
Intergovernmental - state	745,000	722,979	722,979	-
Total revenues	<u>5,685,700</u>	<u>4,982,876</u>	<u>4,982,876</u>	<u>-</u>
Expenditures:				
Current:				
Instruction:				
Regular	953,604	341,885	341,885	-
Special.	668,146	608,420	608,420	-
Other.	6,400	6,400	6,400	-
Support services:				
Pupil.	1,339,715	1,271,589	1,271,589	-
Instructional staff	1,946,062	2,182,623	2,182,623	-
Board of education	17,665	17,885	17,885	-
Administration.	844,532	760,157	760,157	-
Fiscal	271,550	256,239	256,239	-
Operations and maintenance.	21,132	22,067	22,067	-
Total expenditures	<u>6,068,806</u>	<u>5,467,265</u>	<u>5,467,265</u>	<u>-</u>
Excess expenditure over revenues	<u>(383,106)</u>	<u>(484,389)</u>	<u>(484,389)</u>	<u>-</u>
Other financing sources (uses):				
Refund of prior year's receipts.	-	(3,358)	(3,358)	-
Advances (out)	-	(11,483)	(11,483)	-
Total other financing sources (uses)	<u>-</u>	<u>(14,775)</u>	<u>(14,775)</u>	<u>-</u>
Net change in fund balance	(383,106)	(499,164)	(499,164)	-
Fund balance at beginning of year	2,858,761	2,858,761	2,858,761	-
Prior year encumbrances appropriated . .	2,902	2,902	2,902	-
Fund balance at end of year	<u>\$ 2,478,557</u>	<u>\$ 2,362,499</u>	<u>\$ 2,362,499</u>	<u>\$ -</u>

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, 2013**

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

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NOTES TO THE SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ (499,164)
Net adjustment for revenue accruals	408,014
Net adjustment for expenditure accruals	(175,095)
Net adjustment for other sources/uses	14,841
Adjustment for encumbrances	<u>5,280</u>
GAAP basis	<u>\$ (246,124)</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.



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

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

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the Jefferson County Educational Service Center, Jefferson County, as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Jefferson County Educational Service Center's basic financial statements and have issued our report thereon dated December 23, 2014.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Jefferson County Educational Service Center's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Jefferson County Educational Service Center's internal control. Accordingly, we have not opined on it.

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 a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Jefferson County Educational Service Center's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Governing Board
Jefferson County Educational Service Center

Compliance and Other Matters

As part of reasonably assuring whether the 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, opining 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*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Jefferson County Educational Service Center's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Jefferson County Educational Service Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Julian & Grube, Inc.
December 23, 2014

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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
APRIL 21, 2015