JEFFERSON EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2001

JIM PETRO
AUDITOR OF STATE
STATE OF OHIO

Auditor of State
Betty Montgomery

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

January 21, 2003

The attached audit was conducted and prepared for release prior to the commencement of my term of office on January 13, 2003. Thus, I am releasing this audit under the signature of my predecessor.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

This Page is Intentionally Left Blank.

JEFFERSON EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY

TABLE OF CONTENTS

This page intentionally left blank.

STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

Voinovich Government Center
242 Federal Plaza West, Suite 302
Youngstown, Ohio 44503
Telephone 330-797-9900
800-443-9271
Facsimile 330-797-9949
www.auditor.state.oh.us

REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Jefferson Educational Service Center, Jefferson County, (the Center) as of and for the year ended June 30, 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Center, as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund type and nonexpendable trust funds for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2002 on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Jim Petro
Auditor of State

December 3, 2002

This page intentionally left blank.

This page intentionally left blank.

JEFFERSON EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2001

	Governmental Fund Types		Proprietary Fund Type	Fiduciary Fund Type	Account Groups		
	General	Special Revenue	Internal Service	Trust	General Fixed Assets	General Long-Term Obligations	Total (Memorandum Only)
ASSETS AND OTHER DEBITS							
ASSETS:							
Equity in pooled cash and cash equivalents	$534,808	$1,056,634	$141,100	$452,467			$2,185,009
Equity in pooled cash and cash equivalents - nonexpendable trust fund				13,161			13,161
Cash with fiscal agent			47,769				47,769
Cash and investments in segregated accounts				10,122,928			10,122,928
Receivables (net of allowances for uncollectibles):							
Accounts	3,584						3,584
Accrued interest	2,547			71,379			73,926
Interfund loans				1,256			1,256
Due from other governments	177,616	1,899	90,766				270,281
Prepayments	4,296	97					4,393
Materials and supplies inventory	2,892						2,892
Property, plant and equipment (net of accumulated depreciation where applicable)					$82,348		82,348
OTHER DEBITS:							
Amount to be provided for retirement of general long-term obligations						$186,557	186,557
Total assets and other debits	$725,743	$1,058,630	$279,635	$10,661,191	$82,348	$186,557	$12,994,104
LIABILITIES, EQUITY AND OTHER CREDITS							
LIABILITIES:							
Accounts payable	$57,325	$2,610					$59,935
Accrued wages and benefits	91,813	4,641					96,454
Compensated absences payable	17,246					$183,787	201,033
Pension obligation payable	10,300					2,770	13,070
Deferred revenue	103,099						103,099
Interfund loans payable			$1,256				1,256
Claims payable			90,561				90,561
Total liabilities	279,783	7,251	91,817			186,557	565,408
EQUITY AND OTHER CREDITS:							
Investment in general fixed assets					$82,348		82,348
Amount available for individual investment account participants				$10,647,983			10,647,983
Retained earnings: unreserved			187,818				187,818
Fund balances:							
Reserved for encumbrances	35,199	259,980					295,179
Reserved for materials and supplies inventory	2,892						2,892
Reserved for prepayments	4,296	97					4,393
Reserved for principal endowment				13,208			13,208
Unreserved-undesignated	403,573	791,302					1,194,875
Total equity and other credits	445,960	1,051,379	187,818	10,661,191	82,348		12,428,696
Total liabilities, equity and other credits	$725,743	$1,058,630	$279,635	$10,661,191	$82,348	$186,557	$12,994,104

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

JEFFERSON EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001

	Governmental Fund Types		
	General	Special Revenue	Total (Memorandum Only)
Revenues:			
From local sources:			
Services provided to other entities	$634,308		$634,308
Earnings on investments	50,170		50,170
Community service activities		$626,792	626,792
Other local revenues	24,535		24,535
Other revenue	46,219		46,219
Intergovernmental - State	1,530,590	412,716	1,943,306
Intergovernmental - Federal	158,851	417,874	576,725
Total revenue	2,444,673	1,457,382	3,902,055
Expenditures:			
Current:			
Instruction:			
Regular	46,761	349,412	396,173
Special	242,613	3,376	245,989
Other	4,800	210,288	215,088
Support services:			
Pupil	770,270	232,595	1,002,865
Instructional staff	696,588	161,814	858,402
Board of Education	10,677		10,677
Administration	453,254	2,126	455,380
Fiscal	117,741	2,427	120,168
Operations and maintenance	8,168		8,168
Pupil transportation	1,850		1,850
Central	28,465	245,748	274,213
Total expenditures	2,381,187	1,207,786	3,588,973
Excess of revenues over (under) expenditures	63,486	249,596	313,082
Other financing sources (uses):			
Pass through payments		(155,330)	(155,330)
Total other financing sources (uses)		(155,330)	(155,330)
Excess of revenues and other financing sources over (under) expenditures and other uses	63,486	94,266	157,752
Fund balances, July 1 (restated)	380,803	957,113	1,337,916
Increase in reserve for inventory	1,671		1,671
Fund balances, June 30	$445,960	$1,051,379	$1,497,339

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

JEFFERSON EDUCATIONAL SERVICE CENTE
JEFFERSON COUNTY, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001

	General			Special Revenue			Total (Memorandum only)		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)
Revenues:									
From local sources:									
Services provided to other entities....	$624,511	$624,511	$0				$624,511	$624,511	$0
Earnings on investments....................	49,765	49,765	0				49,765	49,765	0
Community service activities				$624,893	$624,893	$0	624,893	624,893	0
Other local revenues..........................	19,578	19,578	0				19,578	19,578	0
Other revenue	46,219	46,219	0				46,219	46,219	0
Intergovernmental - State.....................	1,530,590	1,530,590	0	427,824	427,824	0	1,958,414	1,958,414	0
Intergovernmental - Federal.................	141,676	141,676	0	417,874	417,874	0	559,550	559,550	0
Total revenues...................................	2,412,339	2,412,339	0	1,470,591	1,470,591	0	3,882,930	3,882,930	0
Expenditures:									
Current:									
Instruction:									
Regular..	47,010	46,641	369	370,677	349,057	21,620	417,687	395,698	21,989
Special...	250,074	249,096	978	3,522	3,376	146	253,596	252,472	1,124
Other..	4,800	4,800	0	240,449	210,329	30,120	245,249	215,129	30,120
Support services:									
Pupil...	802,945	793,957	8,988	238,266	230,347	7,919	1,041,211	1,024,304	16,907
Instructional staff.............................	740,659	718,420	22,239	213,492	161,836	51,656	954,151	880,256	73,895
Board of Education..........................	15,498	10,675	4,823				15,498	10,675	4,823
Administration.................................	530,268	468,668	61,600	2,885	2,143	742	533,153	470,811	62,342
Fiscal..	122,814	117,465	5,349	2,952	2,447	505	125,766	119,912	5,854
Operations and maintenance..........	9,634	8,565	1,069				9,634	8,565	1,069
Pupil transportation..........................	1,872	1,872	0				1,872	1,872	0
Central..	55,158	55,158	0	1,083,864	246,616	837,248	1,139,022	301,774	837,248
Total expenditures.............................	2,580,732	2,475,317	105,415	2,156,107	1,206,151	949,956	4,736,839	3,681,468	1,055,371
Excess (deficiency) of revenues over (under) expenditures.................	(168,393)	(62,978)	105,415	(685,516)	264,440	949,956	(853,909)	201,462	1,055,371
Other financing sources (uses):									
Refund of prior year's expenditures......	3,866	3,866	0				3,866	3,866	0
Advances in...	8,497	8,497	0				8,497	8,497	0
Advances (out)....................................	(8,497)	(8,497)	0				(8,497)	(8,497)	0
Pass through payments.......................				(500,000)	(414,441)	85,559	(500,000)	(414,441)	85,559
Total other financing sources (uses)..	3,866	3,866	0	(500,000)	(414,441)	85,559	(496,134)	(410,575)	85,559
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses...	(164,527)	(59,112)	105,415	(1,185,516)	(150,001)	1,035,515	(1,350,043)	(209,113)	1,140,930
Fund balance, July 1 (restated).................	396,099	396,099	0	720,438	720,438	0	1,116,537	1,116,537	0
Prior year encumbrances appropriated...	119,656	119,656	0	223,607	223,607	0	343,263	343,263	0
Fund balance, June 30............................	$351,228	$456,643	$105,415	($241,471)	$794,044	$1,035,515	$109,757	$1,250,687	$1,140,930

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

JEFFERSON EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO
COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS/FUND BALANCE
PROPRIETARY FUND TYPE AND NONEXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2001

	Proprietary Fund Type	Fiduciary Fund Type	
	Internal Service	Nonexpendable Trust	Total (Memorandum Only)
Operating revenues:			
Sales/charges for services.	$2,720,607		$2,720,607
Investment earnings.		$1,249	1,249
Other	128		128
Total operating revenues	2,720,735	1,249	2,721,984
Operating expenses:			
Contract services	2,447,603		2,447,603
Materials and supplies	3,855		3,855
Claims expense.	312,452		312,452
Other operating expenses	41,176	1,001	42,177
Total operating expenses	2,805,086	1,001	2,806,087
Operating income (loss).	(84,351)	248	(84,103)
Nonoperating revenues:			
Interest revenue	1,040		1,040
Total nonoperating revenues.	1,040		1,040
Net income (loss).	(83,311)	248	(83,063)
Retained earnings/ fund balance at July 1	271,129	12,960	284,089
Retained earnings/ fund balance at June 30	$187,818	$13,208	$201,026

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

JEFFERSON EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO
COMBINED STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE AND NONEXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2001

	Proprietary Fund Type	Fiduciary Fund Type	
	Internal Service	Nonexpendable Trust	Total (Memorandum Only)
Cash flows from operating activities:			
Cash received from sales/charges for services	$2,715,630		$2,715,630
Cash received from other operating activities	128		128
Cash payments for contract services	(2,447,603)		(2,447,603)
Cash payments for materials and supplies	(3,918)		(3,918)
Cash payments for claims.	(292,443)		(292,443)
Cash payments for other expenses	(41,176)	($1,001)	(42,177)
Net cash used in operating activities	(69,382)	(1,001)	(70,383)
Cash flows from investing activities:			
Interest received	1,040	1,260	2,300
Net cash provided by investing activities	1,040	1,260	2,300
Net increase (decrease) cash and cash equivalents.	(68,342)	259	(68,083)
Cash and cash equivalents at beginning of year	257,211	12,902	270,113
Cash and cash equivalents at end of year.	$188,869	$13,161	$202,030
Reconciliation of operating income (loss) to net cash used in operating activities:			
Operating income (loss)	($84,351)	$248	($84,103)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:			
Interest reported as operating income		(1,249)	(1,249)
Changes in assets and liabilities:			
Increase in due to other governments	(4,977)		(4,977)
Decrease in accounts payable.	(63)		(63)
Increase in claims payable	20,009		20,009
Net cash used in operating activities	($69,382)	($1,001)	($70,383)

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

JEFFERSON EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO
STATEMENT OF CHANGES IN NET ASSETS
INVESTMENT TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2001

	Fiduciary Fund Type
	Investment Trust
Operations:	
Net investment income	$478,158
Net increase in net assets due to operating activities	2,812,511
Increase from operating transactions	3,290,669
Capital transactions:	
Proceeds of investments sold	67,700,000
Purchase of investments	(73,215,562)
Change in fair market value of investments	84,438
Decrease from capital transactions	(5,431,124)
Total decrease in net assets	(2,140,455)
Net assets at July 1	12,788,438
Net assets at June 30	$10,647,983

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

JEFFERSON EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO
STATEMENT OF NET ASSETS
INVESTMENT TRUST FUNDS
JUNE 30, 2001

	Fiduciary Fund Type
	Investment Trust
Assets:	
Cash and investments	$10,575,395
Interfund loans receivable	1,256
Accrued interest receivable	71,332
Total assets	$10,647,983
Net assets available to participants	$10,647,983

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

JEFFERSON EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 1 - DESCRIPTION OF THE ENTITY

The Jefferson Educational Service Center (the "Center") 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 Center is a county school district as defined by Section 3311.05 of the Ohio Revised Code. The Center operates under an elected Governing Board (five members) and provides no direct educational services to students. The following services are provided to the local school districts and city school districts under contract in Jefferson and Harrison counties:

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

Average daily membership as of June 30, 2001 was 10,574. The Board employed 35 certified employees and 40 non-certified employees.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general purpose financial statements (GPFS) of the Center have been prepared in conformity with generally accepted accounting principles (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 Center also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989 to its proprietary activities unless those pronouncements conflict with or contradict GASB pronouncements. The Center's significant accounting policies are described below.

A. Reporting Entity

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

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

The reporting entity is required to be composed of the primary government, component units and other organizations that are included to ensure that the GPFS of the Center are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the Center. For the Center, this includes general operations, service related activities of the Center and OME-RESA Purchasing Services.

Component units are legally separate organizations for which the Center is financially accountable. The Center is financially accountable for an organization if the Center appoints a voting majority of the organizations' governing board and 1) the Center is able to significantly influence the programs or services performed or provided by the organization; or 2) the Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of or provided financial support to the organization; or the Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Center in that the Center approves the budget, the issuance of debt or the levying of taxes. Based upon these criteria, the Center has no component units.

The Center is fiscal agent for the OME-RESA Self-Funded Insurance Program ("Program") and the OME-RESA "A" Site Computer Center ("Computer Center"). The Center is responsible for receiving and disbursing funds at the direction of schools participating in the Program and the Computer Center. These entities are legally separate from the Center. The Center is fiscal agent and custodian for these entities, but is not accountable; therefore the operations of the Program and the Computer Center have been excluded from the Center's GPFS. The funds invested on behalf of the Program and the Computer Center have been included in the GPFS as investment trust funds.

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

The Center's operating facilities are owned by the Jefferson County Commissioners. The original construction of the facilities was partially paid for by an Appalachian Regional Commission Grant that required the building to be used for educational purposes. The County is responsible for all maintenance, utilities and insurance, except the Center's internal service funds pay one-half of the electric cost and the custodian costs.

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

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

JOINTLY GOVERNED ORGANIZATION:

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

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

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

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

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

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

PUBLIC ENTITY RISK POOL

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

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

General Fund - The general fund is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the Center for any purpose provided it is expended or transferred according to the laws of the State of Ohio.

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

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

PROPRIETARY FUNDS

Proprietary funds are used to account for the Center'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 Center's proprietary fund type:

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

FIDUCIARY FUNDS

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

ACCOUNT GROUPS

The Center maintains two account groups as described below:

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

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

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

C. Measurement Focus/Basis of Accounting

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

The proprietary funds, nonexpendable trust fund, and the investment trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of this fund is included on the balance sheet. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

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

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

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

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

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

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

D. Budgets

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

1. Appropriations for the ensuing year for a County ESC are prepared on forms furnished by the State Board of Education which certify the budget to the State, together with such other information as the State Board of Education may require. Said budget shall consist of two parts: Part (A) shall include the cost of the salaries, employers retirement contributions, and travel expenses of supervisory teachers approved by the State Board of Education. Part (B) shall include the cost of all other lawful expenditures of the County ESC. The State Board of Education shall review such budget and may approve, increase, or decrease such budget. A portion of the Center's operating expenses are apportioned among the various districts in the county on the basis of the total number of pupils in each district and deducted from funds allocated to local districts under the school foundation program. The annual appropriation resolution was legally enacted by the Center at the fund, function and object level of expenditures, which are the legal levels of budgetary control.

2. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions must be approved by the State Board of Education.

3. Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions. All departments/functions and funds completed the year within the amount of their legally authorized cash basis appropriation.

4. Appropriation amounts are as originally adopted, or as amended by the Center through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. Supplemental appropriations were legally enacted by the Center during fiscal 2001. The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual - All Governmental Fund Types presents the final board approved appropriations at June 30, 2001.

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

5. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund, function and/or object level.

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

E. Cash and Investments

To improve cash management, cash received by the Center is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the Center's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

During fiscal 2001, the Center's investments were limited to investments in non-negotiable certificates of deposits and Federal Agency Securities.

Investments in Federal Agency Securities are reported at fair value. Fair value is based on quoted market prices. Investments in nonparticipating investment contracts, such as nonnegotiable certificates of deposits, are reported at cost.

Under existing Ohio statute all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Governing Board investment earnings are assigned to the general fund, the Self-Insurance internal service fund, (which is maintained by a fiscal agent in an interest bearing account separate from the Center's internal investment pool), the nonexpendable trust fund and the investment trust fund for which the Center is acting as fiscal agent. Interest revenue credited to the general fund during fiscal 2001 amounted to $50,170, which includes $34,773 assigned from other Center funds.

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

Based upon the reporting requirements of GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the Center is sponsoring individual investment accounts for the Program and the Computer Center. The individual investment accounts represent monies invested by the Center on behalf of the Program and the Computer Center as their fiscal agent. During fiscal year 2001, the individual investment accounts consisted of investments in nonnegotiable certificates of deposit and Federal Agency Securities. The investment portfolios for the Program and the Computer Center are presented as investment trust funds in the Center's GPFS.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the Center are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. Interfund Transactions

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

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not show transfers of resources as operating transfers. The Center made no operating transfers in fiscal year 2001.

2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund. Quasi-external transactions are accounted for as revenues, expenditures or expenses.

3. Short-term interfund loans and accrued interfund reimbursements and accrued operating transfers are reflected as "interfund loans receivable or payable". The Center had short-term interfund loans receivable and payable at June 30, 2001.

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

4. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources. The Center had no long-term advances receivable or payable at June 30, 2001.

An analysis of interfund transactions is presented in Note 5.

G. Prepayments

Payments made to vendors for services that will benefit periods beyond June 30, 2001, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed. At year-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved for an amount equal to the carrying value of the asset.

H. Fixed Assets and Depreciation

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

I. Accrued Liabilities and Long-Term Obligations

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

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

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

J. Compensated Absences

Compensated absences of the Center consist of vacation leave and sick leave to the extent that payment to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the Center and the employee.

In accordance with the provisions of GASB Statement No. 16 "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age fifty or greater with at least ten years of service and all employees with at least twenty years of service at any age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

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

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

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

K. Fund Equity

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

L. Intergovernmental Revenues

In government funds, entitlements and non-reimbursable grants (similar to entitlements and shared revenues) are recorded as receivables and revenue when measurable and available (to the extent they are intended to finance the current fiscal year). Reimbursement type grants are recorded as receivables and revenue when the related expenditures are incurred. The Center currently participates in various state and federal programs categorized as follows:

Entitlements
- General Fund
  - State Foundation Program

Non-Reimbursable Grants
- Special Revenue Funds
  - Management Information Systems
  - Telecommunications Grant
  - Training Ohio's Parents
  - Alternative School
  - Pre-school Computer Grant
  - SchoolNet Professional Development
  - Technical Assistance
  - Data Training Institute Grant
  - L.P.D.C. - Teacher Quality Enhancement

Grants and entitlements amounted to approximately 38% of the Center's operating revenue during the 2001 fiscal year.

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

M. Estimates

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

N. Pass-Through Grants

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

O. Materials and Supplies Inventory

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

P. Memorandum Only - Total Columns

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principle

GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions," was implemented during fiscal 2001. This statement pertains to the financial reporting of certain types of revenue received by the Center for which no value is given in return, including derived tax revenues, imposed nonexchange transactions, government-mandated nonexchange transactions, and voluntary nonexchange transactions The adoption of this statement had no effect on fund balances/retained earnings as previously reported by the Center at June 30, 2000.

B. Fund Reclassification

A fund reclassification is required to properly state the intended purpose of the SchoolNet Professional Development fund. This fund was previously reported as a capital projects fund, however; it should be reported as a special revenue fund. This fund reclassification had the following effect on fund balances as previously reported.

	Special Revenue	Capital Projects
Fund balance as previously reported	$956,113	$ 1,000
Adjustment for fund reclassification	1,000	(1,000)
Restated fund balance at July 1, 2000	$957,113	$ 0

C. Deficit Fund Balances/Retained Earnings

Fund balance/retained earnings at June 30, 2001 included the following individual fund deficits:

	Deficit Balance
Special Revenue Funds	
Training Ohio's Parents	$ 2
Miscellaneous State Grants	177
Internal Service Fund	
Employee Benefits Self-Insurance	42,792

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

These funds complied with Ohio State law, which does not permit a cash basis deficit at year- end. The deficit in the Training Ohio’s Parents and Miscellaneous State Grants special revenue funds are caused by the application of GAAP, namely in the reporting of a liability for accrued wages and benefits attributable to the fiscal year. These deficits will be eliminated as revenues become available to cover these costs as they are incurred.

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

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

The Center maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of monies held by the Center 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 Center treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

Protection of the Center’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.

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

4. Bonds and other obligations of the State of Ohio;

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

6. The State Treasury Asset Reserve of Ohio (STAR Ohio);

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and

8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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 Center, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash with fiscal agent: The Center 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, 2001, was $47,769.

Cash and investments in segregated accounts: The cash and investments in segregated accounts relates to the OME-RESA Self-Funded Insurance Program. The balance is covered by federal depository insurance, by collateral held by the Jefferson County Educational Services Center, or by collateral held by a qualified third-party trustee in the name of the Center. The amount held in segregated accounts at June 30, 2001 was $10,122,928.

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

Deposits: At fiscal year end, the carrying amount of the Center's deposits was $2,198,170 (including non-negotiable certificates of deposit) and the bank balance was $2,961,395 (including non-negotiable certificates of deposit). The portion of the bank balance not reflected in the carrying amount included $57,830 in the payroll clearance account. Of the bank balance:

1. $211,628 was covered by federal deposit insurance; and

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

2. $2,749,767 was uninsured and unregistered as defined by GASB because it was secured by collateral held by third party trustees pursuant to section 135.181, Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the Center. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the Center to a successful claim by the FDIC.

The ESC had no investments at June 30, 2001.

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

	Cash and Cash Equivalents/ Deposits
GASB Statement No. 9	$ 12,368,867
Cash with fiscal agent	(47,769)
Cash and investments in segregated accounts	(10,122,928)
GASB Statement No. 3	$ 2,198,170

NOTE 5 - INTERFUND TRANSACTIONS

Interfund balances at June 30, 2001, consist of the following individual interfund loans receivable and/or payable:

	Interfund Receivable	Interfund Payable
Internal Service Funds		
Internal Service Rotary	$ - - -	$1,256
Investment Trust Funds		
OME-RESA Computer Center	1,256	- - -
Total	$1,256	$1,256

NOTE 6 - RECEIVABLES

Receivables at June 30, 2001 consisted of billed services that are provided to other school districts, accounts receivable and accrued interest. These intergovernmental receivables have been reported as "Due From Other Governments" on the combined balance sheet. All receivables are considered collectible in full. A summary of the principle items of receivables follows:

	Amounts
General Fund	
Due from other governments	$177,616
Accounts	3,584
Accrued interest	2,547
Special Revenue Funds	
Due from other governments	1,899
Internal Service Funds	
Due from other governments	90,766
Investment Trust Funds	
Accrued interest receivable	71,379

NOTE 7 - FIXED ASSETS

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

	Balance July 1, 2000	Additions	Disposals	Balance June 30, 2001
Furniture and equipment	$33,860	$41,316	$ - - -	$75,176
Vehicles	7,172	- - -	- - -	7,172
Total	$41,032	$41,316	$ 0	$82,348

NOTE 8 - GENERAL LONG-TERM OBLIGATIONS

During the year ended June 30, 2001, the following changes occurred in liabilities reported in the general long-term obligations account groups. Compensated absences will ultimately be paid from the fund from which the employee is paid.

	Outstanding June 30, 2000	Additions	Disposals	Outstanding June 30, 2001
Pension obligation payable	$ 1,701	$ 2,770	$ (1,701)	$ 2,770
Compensated absences payable	140,461	81,721	(38,395)	183,787
Total	$142,162	$84,491	$(40,096)	$186,557

NOTE 9 - RISK MANAGEMENT

A. Comprehensive

The Center 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 Center has a comprehensive property and casualty policy. The deductible is $500 per incident on equipment. All vehicles are also insured and have a $250 deductible. All board members, administrators, and employees are covered under a school district liability policy. The limits of this coverage are $1,000,000 per occurrence and $3,000,000 per aggregate. The treasurer is covered under a surety bond in the amount of $25,000.

B. Worker's Compensation

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

NOTE 9 - RISK MANAGEMENT - (Continued)

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

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

Medical/surgical and dental insurance is offered to employees through a self-insurance internal service fund. The Center is a member of a claims servicing pool, consisting of several school districts within the County, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the Center's behalf. The plan is administered through OME-RESA and provides stop loss protection of $30,000 per individual per year. The claims liability is $90,561 reported in the internal service fund at June 30, 2001, 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:

Fiscal Year	Beginning Balance	Current Year Claims	Claims Payments	Ending Balance
2001	$70,552	$310,069	$(290,060)	$90,561
2000	72,637	359,112	(361,197)	70,552

NOTE 10 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to SERS, 45 North Fourth Street, Columbus, Ohio 43215-3634, or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the Center is required to contribute 14 percent for 2001; 4.2 percent was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by the School Employees Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The Center's required contributions to SERS for the fiscal years ended June 30, 2001, 2000, and 1999 were $167,720, $157,263, and $127,841, respectively; 100 percent has been contributed for fiscal years 2001, 2000 and 1999.

B. State Teachers Retirement System

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

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 9.3 percent of their annual covered salary and the Center is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Center's required contributions to STRS for the fiscal years ended June 30, 2001, 2000, and 1999 were $218,608, $169,428, and $180,928, respectively; 100 percent has been contributed for fiscal years 2001, 2000 and 1999.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. The Board's liability is 6.2 percent of wages paid.

NOTE 11 - POSTEMPLOYMENT BENEFITS

The Center provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by State statute. Both STRS and SERS are funded on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. Through June 30, 2001, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the Center, this amount equaled $70,267 during fiscal 2001.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was $3.419 billion at June 30, 2000 (the latest information available). For the year ended June 30, 2000 (the latest information available), net health care costs paid by STRS were $283.137 million and STRS had 99,011 eligible benefit recipients.

NOTE 11 - POSTEMPLOYMENT BENEFITS - (Continued)

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

For this fiscal year, employer contributions to fund health care benefits were 9.8 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2001, the minimum pay has been established at $12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2000 (the latest information available), were $140.7 million and the target level was $211.0 million. At June 30, 2000 (the latest information available), SERS had net assets available for payment of health care benefits of $252.3 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled $119,105 during the 2001 fiscal year.

NOTE 12 - BUDGETARY BASIS OF ACCOUNTING

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

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

(a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);

(b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

NOTE 12 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

(c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for governmental funds (GAAP basis).

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

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

	Governmental Fund Types	
	General	Special Revenue
Budget basis	$(59,112)	$(150,001)
Net adjustment for revenue accruals	32,334	(13,209)
Net adjustment for expenditure accruals	15,965	(264,225)
Net adjustment for other financing sources (uses)	(3,866)	259,111
Encumbrances (budget basis)	78,165	262,590
GAAP basis	$ 63,486	$ 94,266

NOTE 13 - CONTINGENCIES

A. Grants

The Center receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Center at June 30, 2001.

B. Litigation

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

C. State School Funding Decision

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.

- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006. On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

NOTE 13 - CONTINGENCIES - (Continued)

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of November 15, 2001, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

As of the date of these financial statements, the Center is unable to determine the effect, if any, this decision will have on its future State funding and on its financial operations.

NOTE 14 - STATE FUNDING

The Center 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 Center's supervision) is apportioned by the State Board of Education from the participating school districts to which the Center 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 Center.

If additional funding is required and if a majority of the boards of education of the participating school districts approve, the cost of Part (B) of the budget that is in excess of $43.50 times ADM approved by the State Board of Education is apportioned to the participating school districts through reductions in their state foundation. The State Board of Education initiates and supervises the procedure by which the participating boards approve or disapprove the apportionment.

This page intentionally left blank.

STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

Voinovich Government Center
242 Federal Plaza West, Suite 302
Youngstown, Ohio 44503
Telephone 330-797-9900
800-443-9271
Facsimile 330-797-9949
www.auditor.state.oh.us

REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Jefferson Educational Service Center
Jefferson County
2023 Sunset Boulevard
Steubenville, Ohio 43928

To the Board of Education:

We have audited the accompanying financial statements of the Jefferson Educational Service Center, Jefferson County (the Center) as of and for the year ended June 30, 2001 and have issued our report thereon dated December 3, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting that did not require inclusion in this report, that we have reported to management of the Center in a separate letter dated December 3, 2002.

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

Jim Petro
Auditor of State

December 3, 2002

STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

JEFFERSON EDUCATIONAL SERVICE CENTER

JEFFERSON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 4, 2003