



**Auditor of State
Betty Montgomery**

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
ASHTABULA COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	1
Combined Balance Sheet – All Fund Types and Account Groups	3
Combined Statement of Revenues, Expenditures, and Changes in Fund Cash Balances – All Governmental Fund Types.....	4
Combined Statement of Revenues, Expenditures, and Changes in Fund Cash Balances – Budget and Actual (Non - GAAP Basis) - All Governmental Fund Types.....	5
Combined Statement of Revenues, Expenses, and Changes in Retained Earnings – All Proprietary Fund Types.....	7
Combined Statement of Cash Flows - All Proprietary Fund Type	8
Notes to the General Purpose Financial Statements	9
Schedule of Federal Awards Expenditures	27
Notes to Schedule of Federal Awards Expenditures.....	28
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	29
Report of Independent Accountants on Compliance with Requirements Applicable to Major Federal Programs and Internal Control over Compliance in Accordance with OMB Circular A - 133	31
Schedule of Findings.....	33

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Ashtabula County Educational Service Center
1565 State Route 167
Jefferson, Ohio 44047

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Ashtabula County Educational Service Center, Ashtabula County, (the Service Center) as of and for the year ended June 30, 2003, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Service 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 *Governmental 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 Ashtabula County Educational Service Center, Ashtabula County, as of June 30, 2003, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2003 on our consideration of the Service 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.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the Service Center, taken as a whole. The accompanying schedule of federal awards expenditures is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

A handwritten signature in black ink that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

December 22, 2003

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**Ashtabula County Educational Service Center
Combined Balance Sheet
All Fund Types and Account Groups
Year Ended June 30, 2003**

	Governmental Fund Types		Proprietary	Fiduciary	Account Groups		Totals
	General	Special	Fund Type	Fund Types	General	General	2003
		Revenue	Enterprise	Internal	Agency	Fixed Assets	Long Term Debt
Assets and Other Debits:							
Equity in Pooled Cash and Investments	\$ 3,644,363	139,066	16,433	154,334	159,065	0	0 \$ 4,113,261
Interfund Receivables	26,031	0	0	0	0	0	0 26,031
Due from Other Funds	0	0	0	0	50,641	0	0 50,641
Intergovernmental Receivables	104,573	1,715	74	0	0	0	0 106,362
Accounts Receivable	105,483	0	0	0	0	0	0 105,483
Inventory	14,821	0	0	0	0	0	0 14,821
Plant, Property & Equipment	0	0	0	18,842	0	428,419	0 447,261
Accumulated Depreciation, Where Applicable	0	0	0	(3,458)	0	0	0 (3,458)
Amount to be Provided to GLTDAG	0	0	0	0	0	0	329,398 329,398
Total Assets and Other Debits	\$ 3,895,271	140,781	16,507	169,718	209,706	428,419	329,398 \$ 5,189,800
Liabilities:							
Interfund Payable	\$ 0	26,031	0	0	0	0	0 \$ 26,031
Due to Other Funds	47,059	3,525	0	57	0	0	0 50,641
Intergovernmental Payable	27,836	1,969	105	211	209,706	0	30,892 270,719
Accounts Payable	28,627	9,567	0	5	0	0	0 38,199
Accrued Wages & Benefits	413,124	31,074	0	409	0	0	0 444,607
Compensated Absences Payable	57,699	3,749	0	0	0	0	298,506 359,954
Total Liabilities	574,345	75,915	105	682	209,706	0	329,398 1,190,151
Investment in General Fixed Assets	0	0	0	0	0	428,419	0 428,419
Retained Earnings	0	0	16,402	169,036	0	0	0 185,438
Fund Balances:							
Reserved for Inventory	14,821	0	0	0	0	0	0 14,821
Reserved for Encumbrances	20,945	49,062	0	0	0	0	0 70,007
Unreserved Fund Balance	3,285,160	15,804	0	0	0	0	0 3,300,964
Total Fund Equity	3,320,926	64,866	16,402	169,036	0	428,419	0 3,999,649
Total Liabilities, Fund Equity, and Other Credits	\$ 3,895,271	140,781	16,507	169,718	209,706	428,419	329,398 \$ 5,189,800

See Accompanying Notes to the General Purpose Financial Statements.

Ashtabula County Educational Service Center
Combined Statement of Revenue, Expenditures, and Changes in Fund Balances
All Governmental Fund Types
Year Ended June 30, 2003

	Governmental Fund Types		Totals
	General	Special Revenue	(Memorandum) (Only)
REVENUES:			
Revenue from Local Sources			
Tuition	\$ 609,390	19,430	\$ 628,820
Transportation Fees	33,417	0	33,417
Earnings on Investments	68,002	0	68,002
Miscellaneous	1,334,129	170,989	1,505,118
Revenue from State Sources			
Unrestricted Grants-in-Aid	3,320,438	0	3,320,438
Restricted Grants-in-Aid	6,467	290,480	296,947
Revenue from Federal Sources			
Unrestricted Grants-in-Aid	153,371	0	153,371
Restricted Grants-in-Aid	0	699,166	699,166
Total Revenue	<u>5,525,214</u>	<u>1,180,065</u>	<u>6,705,279</u>
EXPENDITURES:			
Current:			
Instruction			
Regular Instruction	322,236	101,867	424,103
Special Instruction	1,273,343	35,858	1,309,201
Adult/Continuing Instruction	0	120,015	120,015
Supporting Services			
Supporting Services-Pupils	1,211,437	190,512	1,401,949
Supporting Services-Instructional Staff	1,838,340	576,540	2,414,880
Supporting Services-Board of Education	17,467	0	17,467
Supporting Services-Administration	705,309	194,253	899,562
Supporting Services-Fiscal Services	213,373	36,909	250,282
Supporting Services-Operation & Maintenance of Plant	12,982	0	12,982
Supporting Services-Pupil Transportation	48,474	306	48,780
Supporting Services-Central	1,326	0	1,326
Total Expenditures	<u>5,644,287</u>	<u>1,256,260</u>	<u>6,900,547</u>
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	(119,073)	(76,195)	(195,268)
Other Financing Sources and Uses:			
Sale & Loss of Assets	(30)	0	(30)
Total Other Financing Sources and Uses	<u>(30)</u>	<u>0</u>	<u>(30)</u>
Excess (Deficiency) of Revenue Receipts and Other Sources Over (Under) Expenditure			
Disbursement and Other Uses	(119,103)	(76,195)	(195,298)
Increase in Inventory	1,280	0	1,280
Beginning Fund Balance	3,438,749	141,061	3,579,810
Ending Fund Balance	<u>\$ 3,320,926</u>	<u>64,866</u>	<u>\$ 3,385,792</u>

See Accompanying Notes to the General Purpose Financial Statements.

Ashtabula County Educational Service Center
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Non-GAAP Basis)
All Governmental Fund Types
Year Ended June 30, 2003

	General Fund			Special Revenue Funds		
	Revised		Variance	Revised		Variance
	Budget	Actual	Favorable (Unfavorable)	Budget	Actual	Favorable (Unfavorable)
Revenues:						
Tuition	\$ 945,106	960,576	15,470	18,510	18,965	\$ 455
Transportation Fees	34,701	34,701	0	0	0	0
Earnings on Investment	57,500	68,178	10,678	0	0	0
Miscellaneous	1,348,001	1,406,880	58,879	171,489	171,489	0
State Unrestricted Grants-in-Aid	3,319,374	3,320,438	1,064	0	0	0
State Restricted Grants-in-Aid	6,467	6,467	0	297,594	290,480	(7,114)
Federal Unrestricted Grants-in-Aid	126,381	144,227	17,846	0	0	0
Federal Restricted Grants-in-Aid	0	0	0	718,083	699,166	(18,917)
Total Revenue	5,837,530	5,941,467	103,937	1,205,676	1,180,100	(25,576)
Expenditures:						
Regular Instruction	483,798	331,128	152,670	113,221	100,504	12,717
Special Instruction	2,010,033	1,262,724	747,309	56,952	56,872	80
Adult/Continuing Instruction	0	0	0	123,253	120,883	2,370
Support Services-Pupils	1,663,465	1,233,864	429,601	276,197	267,631	8,566
Support Services-Instructional Staff	2,895,858	1,845,785	1,050,073	847,071	794,894	52,177
Support Services-Board of Education	58,534	29,484	29,050	0	0	0
Support Services-Administration	1,542,138	728,405	813,733	354,833	351,589	3,244
Fiscal Services	303,723	225,397	78,326	36,909	36,909	0
Operation, Maintenance & Plant	19,915	12,919	6,996	0	0	0
Support Services-Transportation	86,913	50,729	36,184	306	306	0
Support Services-Central	35,068	1,326	33,742	0	0	0
Total Expenditures	9,099,445	5,721,761	3,377,684	1,808,742	1,729,588	79,154
Excess of Revenue Over (Under) Expenditures	(3,261,915)	219,706	3,481,621	(603,066)	(549,488)	53,578
Other Financing Sources (Uses):						
Advances-In	0	108,058	108,058	0	74,829	74,829
Advances-Out	0	(74,829)	(74,829)	0	(108,058)	(108,058)
Total Other Sources (Uses)	0	33,229	33,229	0	(33,229)	(33,229)
Excess of Revenues & Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(3,261,915)	252,935	3,514,850	(603,066)	(582,717)	20,349
Beginning Fund Balance	3,142,440	3,142,440	--	182,009	182,009	--
Prior Year Carry Over Encumbrances	119,473	119,473	--	480,316	480,316	--
Ending Fund (Deficit) Balance	\$ (2)	3,514,848	3,514,850	59,259	79,608	\$ 20,349

(Continued)

Ashtabula County Educational Service Center
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Non-GAAP Basis)
All Governmental Fund Types - Continued
Year Ended June 30, 2003

	Totals (Memorandum Only)		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Tuition	\$ 963,616	979,541	\$ 15,925
Transportation Fees	34,701	34,701	0
Earnings on Investment	57,500	68,178	10,678
Miscellaneous	1,519,490	1,578,369	58,879
State Unrestricted Grants-in-Aid	3,319,374	3,320,438	1,064
State Restricted Grants-in-Aid	304,061	296,947	(7,114)
Federal Unrestricted Grants-in-Aid	126,381	144,227	17,846
Federal Restricted Grants-in-Aid	718,083	699,166	(18,917)
Total Revenue	<u>7,043,206</u>	<u>7,121,567</u>	<u>78,361</u>
Expenditures:			
Regular Instruction	597,019	431,632	165,387
Special Instruction	2,066,985	1,319,596	747,389
Adult/Continuing Instruction	123,253	120,883	2,370
Support Services-Pupils	1,939,662	1,501,495	438,167
Support Services-Instructional Staff	3,742,929	2,640,679	1,102,250
Support Services-Board of Education	58,534	29,484	29,050
Support Services-Administration	1,896,971	1,079,994	816,977
Fiscal Services	340,632	262,306	78,326
Operation, Maintenance & Plant	19,915	12,919	6,996
Support Services-Transportation	87,219	51,035	36,184
Support Services-Central	35,068	1,326	33,742
Total Expenditures	<u>10,908,187</u>	<u>7,451,349</u>	<u>3,456,838</u>
Excess of Revenue Over (Under) Expenditures	(3,864,981)	(329,782)	3,535,199
Other Financing Sources (Uses):			
Advances-In	0	182,887	182,887
Advances-Out	0	(182,887)	(182,887)
Total Other Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>
Excess of Revenues & Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(3,864,981)	(329,782)	3,535,199
Beginning Fund Balance	3,324,449	3,324,449	--
Prior Year Carry Over Encumbrances	599,789	599,789	--
Ending Fund (Deficit) Balance	<u>\$ 59,257</u>	<u>\$ 3,594,456</u>	<u>\$ 3,535,199</u>

See Accompanying Notes to the General Purpose Financial Statement.

Ashtabula County Educational Service Center
Combined Statement of Revenues, Expenses, and Changes in Retained Earnings
All Proprietary Fund Types
Year Ended June 30, 2003

	Proprietary Fund Types		Totals (Memorandum) (Only)
	Enterprise Funds	Internal Service Funds	
Operating Revenues:			
Tuition	\$ 20,147	0	\$ 20,147
Miscellaneous	0	69,447	69,447
Total Operating Revenue	<u>20,147</u>	<u>69,447</u>	<u>89,594</u>
Operating Expenses:			
Personal Services - Salary	16,490	42,147	58,637
Employee Benefits	7,968	7,019	14,987
Purchased Services	205	4,702	4,907
Supplies and Materials	3,644	9,250	12,894
Miscellaneous Expenses	20	0	20
Depreciation	0	2,807	2,807
Total Operating Expenses	<u>28,327</u>	<u>65,925</u>	<u>94,252</u>
Operating Income (Loss)	(8,180)	3,522	(4,658)
Net Income (Loss)	(8,180)	3,522	(4,658)
Beginning Retained Earnings	<u>24,582</u>	<u>165,514</u>	<u>190,096</u>
Retained Earnings at End of Year	<u>\$ 16,402</u>	<u>169,036</u>	<u>\$ 185,438</u>

See Accompanying Notes to the General Purpose Financial Statements.

**Ashtabula County Educational Service Center
 Combined Statement of Cash Flows
 All Proprietary Fund Types
 Year Ended June 30, 2003**

	Proprietary Fund Types		Totals (Memorandum Only)
	Enterprise Funds	Internal Service Funds	
Cash Flows from Operating Activities			
Operating Gain (Loss)	\$ (8,180)	3,522	\$ (4,658)
Depreciation	0	2,807	2,807
Net (Increase) Decrease in Assets:			
Intergovernmental Receivable	55	0	55
Net Increases (Decreases) in Liabilities:			
Accrued Wages	0	409	409
Intergovernmental Payable	105	211	316
Accounts Payable	0	(7,288)	(7,288)
Due to Other Funds	0	57	57
Total Adjustments	160	(6,611)	(6,451)
Net Cash Used in Operating Activities	(8,020)	(282)	(8,302)
Cash and Cash Equivalents at Beginning of Year	<u>24,453</u>	<u>154,616</u>	<u>179,069</u>
Cash and Cash Equivalents at End of Year	<u>\$ 16,433</u>	<u>\$ 154,334</u>	<u>\$ 170,767</u>

See Accompanying Notes to General Purpose Financial Statements.

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
ASHTABULA COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003**

Note 1. Summary of Significant Accounting Policies

The financial statements of the Ashtabula County Educational Service Center (the Service Center) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Service Center's accounting policies are described below.

A. Reporting Entity

The Service 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 Service Center is a County School District as defined by Section 3313 of the Ohio Revised Code.

The Service Center is governed by a five member Governing Board elected by the citizens of Ashtabula County and is responsible for the provision of special education and support services to public school districts located in the County. The Service Center also provides support services for the pupils and instructional staff, general administration, business and fiscal services.

The Service Center serves four local school districts: Buckeye Local, Grand Valley Local, Jefferson Area Local and Pymatuning Valley Local as provided by S.B. 140, O.R.C. Section 3313.483. Ashtabula Area City School District and Conneaut Area City School District are served through city/county cooperative agreements in accordance with S.B. 140 and O.R.C. Section 3313.843.

The Service Center is located in Jefferson, Ohio and is staffed by 58 certified and 79 non-certified personnel. The Ashtabula County Commissioners, as required by State statute, provide the offices for the use of the Service Center.

The accompanying general purpose financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, in that the financial statements include all organizations, activities and functions for which the Service Center is financially accountable. This report includes all activities considered by management to be part of the Service Center by virtue of Section 2100 of the Codification of Governmental Accounting and Financial Reporting Standards.

Section 2100 indicates that the reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity.

It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
ASHTABULA COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003**

Note 1. Summary of Significant Accounting Policies (continued)

resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

Management believes the financial statements included in this report represent all of the funds of the Service Center over which the Service Center is financially accountable.

B. Fund Accounting

The Service Center uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types."

Governmental Fund Types

Governmental funds are those through which most governmental functions typically are financed. Governmental Fund Types are accounted for on a flow of current financial resources measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their operating statements present sources (revenues and other financing sources) and uses (expenditures and other financing uses) of "available spendable resources" during the period.

General Fund - This 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 Service Center for any purpose provided it is expended or transferred according to the bylaws of the Service Center and the laws of the State of Ohio.

Special Revenue Funds - These funds are used to account for the proceeds of specific revenue sources (other than amounts relating to expendable trusts or for major capital projects) that are legally restricted to expenditures for specific purposes.

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
ASHTABULA COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003**

Note 1. Summary of Significant Accounting Policies (continued)

Proprietary Fund Types

Proprietary funds are used to account for the Service Center's ongoing activities which are similar to those found in the private sector. The following are the proprietary fund types:

Enterprise Funds - These funds are used to account for the operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Internal Service Funds - These funds account for the financing of services provided by one department or agency to other departments or agencies of the Service Center on a cost reimbursement basis.

Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the Service Center in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds. The following are the fiduciary fund types:

Agency Funds - These funds are purely custodial and thus do not involve measurement of results of operations.

Account Groups

Account Groups are financial reporting devices to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not affect expendable available financial resources. The following are the account groups:

General Fixed Assets Account Group - This account group is used to account for all of the Service Center's fixed assets other than those accounted for in the Proprietary funds.

General Long-Term Debt Account Group - This account group is used to account for all of the Service Center's long-term obligations other than those accounted for in the Proprietary Funds.

C. Measurement Focus/Basis of Accounting

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. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
ASHTABULA COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003**

Note 1. Summary of Significant Accounting Policies (continued)

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e. net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund operating statements present increases (i.e., revenues) and decreases (i.e. expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements as well as relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental and agency funds.

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. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year. The available period for the Service Center is sixty days after fiscal year end.

Non-exchange transactions, in which the Service Center receives value without directly giving equal value in return, include grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the 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 Service Center must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the Service Center on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

In applying the susceptible to the accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: interest, tuition, student fees, rentals and grants.

The Service Center reports deferred revenues on its combined balance sheet that arise when revenue does not meet both the measurable and available criteria recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

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 the governmental funds.

The proprietary fund type utilizes the full accrual basis of accounting for reporting purposes. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized at the time they are incurred.

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
ASHTABULA COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003**

Note 1. Summary of Significant Accounting Policies (continued)

D. Budget and Budgetary Accounting

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents are the budget and the appropriation resolution, both of which are prepared on the budgetary basis of accounting. The appropriation resolution is subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The primary level of budgetary control is at the object level within each function. Any budgetary modifications at this level must have approval of the Governing Board. All governmental and proprietary fund types are subject to annual expenditure budgets.

SF-5

Annually, the Superintendent and the Treasurer submit to the Governing Board a proposed County Educational Service Center SF-5 budget for the fiscal year commencing July 1. The budget includes proposed expenditures and the sources of financing for all funds. After approval by the Board, the SF-5 budget is submitted to the Ohio Department of Education (ODE) by the date established by the ODE.

Appropriations

An annual appropriation measure must be passed by the Governing Board by July 1st of each year for the period July 1st to June 30th. Unencumbered appropriations lapse at year-end and the encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated. The Annual Appropriation Resolution is usually adopted at the June regular board meeting. The appropriation measure may be amended or supplemented during the year as new information becomes available. Expenditures may not exceed appropriations in any fund at the object level.

The Service Center prepares its budget on a basis of accounting that differs from generally accepted accounting principles (GAAP). The actual results of operations are presented in the "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual--All Governmental Fund Types" in accordance with the budget basis of accounting.

The major differences between the budgetary basis of accounting and GAAP 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);
- c) Encumbrances are recorded as the equivalent of expenditures (budget basis) as opposed to a reservation of fund balance for governmental fund types and as note disclosures in the proprietary fund types (GAAP basis); and
- d) For proprietary funds, the acquisition and construction of capital assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP).

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
ASHTABULA COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003**

Note 1. Summary of Significant Accounting Policies (continued)

Encumbrances - As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of funds are recorded as the equivalent of expenditures on the budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds.

E. Cash and Investments

Cash received by the Service Center is pooled in a central bank account with individual fund balance integrity maintained throughout. Monies for all funds are maintained in this account or temporarily used to purchase short term cash equivalent investments which are stated at cost. State statutes authorize the Service Center to invest in obligations of, or guaranteed by, U.S. Treasury, agencies, and instrumentalities, repurchase agreements, bonds and other obligations of the State of Ohio, and the State Treasurer's Asset Reserve of Ohio (STAR Ohio). STAR Ohio is a state investment pool for the exclusive use of political subdivisions within the State of Ohio. During fiscal year 2003 investments were limited to certificates of deposit and Star Ohio. For the Service Center, all investment earnings accrue to the General Fund. Interest income earned in fiscal year 2003 totaled \$68,002.

F. Taxes

A county educational service center, itself, does not levy taxes. However, a county educational service center governing board may serve as the taxing authority for a county school financing district as authorized by the Ohio Revised Code 135.01 (D). The Service Center does not currently serve as a taxing authority.

G. Inventories

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventories are determined by physical count. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of the governmental fund type inventories are recorded as expenditures when purchased (purchase method) rather than when consumed. Reported inventories in these funds are equally offset by a fund balance reserve which indicates they are unavailable for appropriation.

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
ASHTABULA COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003**

Note 1. Summary of Significant Accounting Policies (continued)

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recognized under the nonallocation method. The nonallocation method of prepayments and deferrals is consistent with the basic governmental concept that only expendable financial resources are reported by a specific governmental fund. Payments for the prepaid items or deferrals are fully recognized as an expenditure in the year of payment. Under the nonallocation method no asset for the prepayment or deferral is created, and no expenditure allocation to future accounting periods is required.

I. Fixed Assets

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Fixed assets utilized in the proprietary funds are capitalized in the respective fund. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs, that do not add to the value of the asset or materially extend asset lives, are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, (five to twenty years) as applicable.

Assets in the general fixed assets account group are not depreciated.

J. Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds." Short-term interfund loans are classified as "interfund receivables/payables." At June 30, 2003, the Service Center had \$50,641 in "Due to Other Funds and Due from Other Funds" and \$26,031 in "Interfund Receivables/Payables."

K. Advances to Other Funds

Non-current portions of long-term interfund loan receivables are reported as advances and are offset equally by a fund balance reserve account which indicated that they do not constitute expendable available financial resources and therefore are not available for appropriation. At June 30, 2003 the Service Center had no long-term interfund loans.

L. Compensated Absences

The Service Center accounts for compensated absences in accordance with GASB Statement No. 16. Sick leave and other compensated absences with similar characteristics are accrued as a liability based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future to receive

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
ASHTABULA COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003**

Note 1. Summary of Significant Accounting Policies (continued)

such payments. To calculate the liability, these accumulations are reduced to the maximum amount allowed as a termination payment. Accruals for those employees who are expected to become eligible in the future are based on assumptions concerning the probability that individual employees or class or group of employees will become eligible to receive termination payments. All employees with ten or more years of service were included in the calculation of the long-term compensated absences accrual amount.

Vacation leave and other compensated absences with similar characteristics are accrued as a liability as the benefits are earned by the employees if both of the following conditions are met: 1.) The employees' rights to receive compensation are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the employer and employee; and 2.) It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

For governmental funds, the Service Center records a liability for accumulated unused vacation and sick leave when earned. The current portion of these unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term debt account group.

M. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term debt account group.

N. Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

O. Fund Balance Reserves

Reserved Fund Balances indicate that portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund Balances are reserved for encumbrances. The unreserved portions of fund equity reflected for the Governmental Funds are available for use within the specific purposes of those funds.

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
ASHTABULA COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003**

Note 1. Summary of Significant Accounting Policies (continued)

P. Memorandum Only - Total Columns

Total columns on the general purpose financial statements 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 cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Note 2. Budgetary Basis of Accounting

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type:

	Governmental Fund Types	
	General Fund	Special Revenue
GAAP Basis	\$ (119,103)	\$ (76,195)
Increase (Decrease):		
Due to Revenues:		
Net Adjustments to Revenues	416,253	35
Due to Expenditures:		
Net Adjustments to Expenditures	(77,474)	(473,328)
Due to Other Sources/Uses	33,259	(33,229)
Budget Basis	\$ 252,935	\$ (582,717)

Note 3. Accountability and Compliance

Pursuant to Section 117.11(A) of the Revised Code, the Auditor of State performed tests of compliance with various provisions of local, state and/or federal laws, as appropriate.

Note 4. Cash and Investments

State statutes classify monies held by the Service 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 Service 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 that the Governing Board has identified as not required for use within the current 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.

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
ASHTABULA COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003**

Note 4. Cash and Investments (continued)

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 pass book accounts.

Protection of the Service 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.

Monies held by the Service Center which are not considered active are classified as interim. Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or its political subdivisions, provided that such political subdivisions are located wholly or partly within the Service Center;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. 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;
7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which the Service Center lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2) or cash or both securities and cash, equal value for equal value;

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
ASHTABULA COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003**

Note 4. Cash and Investments (continued)

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

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 Service 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.

Deposits: At year end, the carrying amount of the Service Center's deposits were \$1,555,767 and the bank balance was \$1,577,900 of which \$1,500,000 was in Certificates of Deposit. Of the bank balance: \$200,000 was covered by Federal Depository Insurance. The remainder of the bank balance, \$1,377,900, was uninsured and uncollateralized. Although securities serving as collateral were held by the pledging institution in the pledging institution's name and all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the Service Center to a successful claim by the FDIC.

Investments: GASB statement No. 3, *Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements*, requires that local governments disclose the carrying amounts and market value of investments classified by risk. Category 1 includes investments that are insured or registered for which the securities are held in the counter party's trust department or agent in the Service Center's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the Service Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter party or by its trust department but not in the Service Center's name. Investments in STAR Ohio are not categorized since they are not evidenced by securities that exist in physical or book entry form.

	Category			Carrying Value	Market Value
	1	2	3		
STAR Ohio	\$ 0	0	2,557,494	\$ 2,557,494	\$ 2,557,494

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, entitled *Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*.

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
ASHTABULA COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003**

Note 4. Cash and Investments (continued)

A reconciliation between the classifications of cash and investments on the combined financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$ 4,113,261	\$ 0
Investments:		
Star Ohio	(2,557,494)	2,557,494
GASB Statement No. 3	<u>\$ 1,555,767</u>	<u>\$ 2,557,494</u>

Note 5. Receivables

Receivables at June 30, 2003 consisted of tuition, transportation fees, miscellaneous revenues and intergovernmental grants. All receivables are considered collectible in full due to the stable condition of State programs, and the current guarantee of Federal funds.

A summary of the principal items of Intergovernmental Receivables follows:

General Fund:	
Tuition	\$ 63,265
Transportation Reimbursement	13,100
CAFS Funding	<u>28,208</u>
Total General Fund	<u>104,573</u>
Special Revenue Fund:	
PreSchool Bus Driver Training Program	<u>1,715</u>
Total Special Revenue Fund	<u>1,715</u>
Enterprise Fund:	
Latchkey Program	<u>74</u>
Total Enterprise Fund	<u>74</u>
Grand Total	<u><u>\$ 106,362</u></u>

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
ASHTABULA COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003**

Note 6. Fixed Assets

The following is a summary of the proprietary fund property, plant and equipment at June 30, 2003:

Furniture and Equipment	\$ 18,842
Less Accumulated Depreciation	<u>(3,458)</u>
Net Fixed Assets	<u><u>\$ 15,384</u></u>

The following is a summary of changes in the General Fixed Assets Account Group during the fiscal year 2003:

	General Fixed Assets June 30, 2002	Additions	Deletions	General Fixed Assets June 30, 2003
Furniture and Equipment	\$ 312,749	3,483	5,411	\$ 310,821
Vehicles	115,834	19,948	18,184	117,598
Total General Fixed Assets	<u><u>\$ 428,583</u></u>	<u><u>23,431</u></u>	<u><u>23,595</u></u>	<u><u>\$ 428,419</u></u>

Note 7. Defined Benefit Pension Plans

A. School Employees Retirement System

The Service Center contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and the Service Center is required to contribute at an actuarially determined rate. The current Service Center rate is 14 percent of annual covered payroll. A portion of the Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2002 (the latest information available), 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amount, by the SERS' Retirement Board. The Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$159,416, \$142,261 and \$111,500, respectively; no contribution has been made for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. \$190,308 representing the unpaid contribution for fiscal year 2003, including the surcharge, is recorded as a liability within the respective funds.

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
ASHTABULA COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003**

Note 7. Defined Benefit Pension Plans (continued)

B. State Teachers Retirement System

The Service Center participates in the School Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides basic retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

For the fiscal year ended June 30, 2003, plan members are required to contribute 9.3 percent of their annual covered salaries. The Service Center is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Service Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$391,309, \$365,751 and \$392,176, respectively; 99 percent has been contributed for fiscal year 2003, and 100 percent for fiscal years 2002 and 2001. \$1,461 represents the unpaid contribution for fiscal year 2003, is recorded as a liability within the respective funds.

Note 8. Postemployment Benefits

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. Effective July 1, 2002, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund, a decrease of 3.5 percent for fiscal year 2003. For the Service Center, this amount equaled \$125,484 for fiscal year 2003.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3.011 billion. For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to 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 the premium.

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
ASHTABULA COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003**

Note 8. Postemployment Benefits (continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2002 (the latest information available), employer contributions to fund health care benefits were 8.54 percent of covered payroll, a decrease of 1.26 percent for fiscal year 2002. 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 2003, the minimum pay has been established at \$14,500. For the Service Center, the amount to fund health care benefits, including surcharge, during the 2003 fiscal year equaled \$142,484.

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, 2002 (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants receiving health care benefits.

Note 9. Compensated Absences

The criteria for determining vested vacation and sick leave components are derived from Service Center Policy and State laws. Only personnel who are under a full year contract are eligible for vacation time.

Vacation Leave:

The Superintendent and Treasurer receive 20 and 25 days of vacation, respectively, per year.

For certified employees, vacation is based on the following schedule:

<u>Contract Length</u>	<u>Vacation Days</u>
9 months	5
10 months	10
11 months	15
12 months	20

Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Employees can accumulate vacation days with the approval of the Superintendent. Accumulated, unused vacation time may be paid to employees upon termination of employment.

Classified personnel accumulate vacation based on the following schedule:

<u>Years Service</u>	<u>Vacation Days</u>
1-10	10
10-20	15
20-Beyond	20

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
ASHTABULA COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003**

Note 9. Compensated Absences (continued)

Sick Leave:

Each employee earns sick leave at the rate of one and one-quarter days per month. Sick leave shall accumulate during active employment on a continuous year-to-year basis to a maximum of 300 days.

Severance Pay:

Retirement severance is paid to any qualifying employee retiring from the Service Center at a per diem rate of the annual salary at the time of retirement. The dollar amount of severance pay is calculated based on twenty-five percent of the employee's accumulated sick leave at the time of retirement up to a maximum of 75 days.

Note 10. Risk Management

General Risk

The Service 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 Service Center has addressed these various types of risk by purchasing a comprehensive insurance policy through commercial carriers.

General liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$3,000,000 in the aggregate. The Service Center maintains replacement cost insurance on building contents in the amount of \$50,000. Other insurance includes electronic data processing equipment coverage in the amount of \$60,000.

Worker's Compensation

The Service Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. 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 (OSBA). 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.

The intent of the GRP is to achieve the benefit of a reduced premium for the Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' 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 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 the GRP. A 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.

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
ASHTABULA COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003**

Note 10. Risk Management (continued)

Health Insurance

The Service Center purchases Health Insurance from the Ashtabula County Schools Council of Governments Insurance Group, a full indemnity program.

Note 11. Notes and Long-Term Debt

A summary of changes in long-term obligations for the year ended June 30, 2003, are as follows:

	Balance			Balance	
	June 30, 2002	Additions	Deletions	June 30, 2003	
Intergovernmental Payable	\$ 23,873	30,892	23,873	\$ 30,892	
Compensated Absences Payable	287,484	11,022	0	298,506	
	<u>\$ 311,357</u>	<u>41,914</u>	<u>23,873</u>	<u>\$ 329,398</u>	

Note 12. Jointly Governed Organizations

Northeast Ohio Management Information Network- (NEOMIN) is a jointly governed organization among thirty school districts in Trumbull and Ashtabula Counties. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the districts support NEOMIN based upon a per pupil charge.

Superintendents of the participating school districts are eligible to be voting members of the Governing Board which consists of ten members: the Trumbull and Ashtabula County superintendents (permanent members), three superintendents from Ashtabula County school districts, three superintendents from Trumbull County districts, and a treasurer from each county. The Service Center was represented on the Governing Board during fiscal year 2003. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. A complete set of separate financial statements may be obtained from the Trumbull County Educational Service Center, 347 North Park Avenue, Warren, Ohio, 44481.

Ashtabula County Joint Vocational School District

The Service Center is a member of the Ashtabula County Joint Vocational School District. The Ashtabula County Joint Vocational School District has a nine-member board of education.

The Service Center has no ongoing financial interest or financial responsibility to the Ashtabula County Joint Vocational School District.

Ashtabula County Schools Council of Governments

The Service Center's Superintendent is a member of the governing board of the Ashtabula County Schools Council of Governments, a separate entity formed for the purpose of purchasing health insurance. The Service Center has no ongoing financial interest or financial responsibility to the Council of Governments other than via participation by purchasing health insurance.

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
ASHTABULA COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003**

Note 13. Contingencies

A. Grants

The Service Center received financial assistance from federal and state 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 adverse effect on the overall financial position of the Service Center at June 30, 2003.

B. Litigation

The Service Center is not a party to any legal proceedings seeking damages or injunctive relief generally incidental to its operations and pending at June 30, 2003.

Note 14. School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...".

The Service Center is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

Note 15. Fund Deficits

Fund balances at June 30, 2003, included the following individual fund deficits:

Preservice School Bus Driver Training Fund	\$ (1,686)
Career Education Grant	\$ (13,731)
Alternative Education Grant	\$ (321)
Title VI-B Grant	\$ (165)

These deficits are due primarily to the adjustments for accrued liabilities. The general fund is liable for any deficits in the funds and provides operating transfers when cash is required, not when accruals occur.

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
ASHTABULA COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2002**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education:</i>				
Special Education Cluster:				
Special Education Grants to States (IDEA Part B)	6B-SF-02 6B-SF-03	84.027	\$5,760 <u>658,891</u>	\$447,157 <u>644,635</u>
Sub-Total - Special Education Grant			664,651	1,091,792
Special Education - Preschool Grant	PG-S1-02 PG-S1-03	84.173	 27,008	188 <u>27,008</u>
Sub-Total - Preschool Grant			27,008	27,196
Total Special Education Cluster			<u>691,659</u>	<u>1,118,988</u>
Safe and Drug Free Community Service Grant	T4-S1-03	84.184C	5,807	5,807
<i>Passed Through Office of Vocational and Adult Education:</i>				
America's Career Resources Network (ACRN)		84.346A	<u>1,700</u>	<u>1,613</u>
Total U. S. Department of Education			699,166	1,126,408
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
<i>Passed Through Ohio Department of Human Services; Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>				
Medicaid Cluster:				
Medical Assistance Program - Title XIX - Community Alternative Funding System	FY2002	93.778	<u>144,226</u>	<u>144,226</u>
Totals			<u>843,392</u>	<u>1,270,634</u>

The accompanying notes to this schedule are an integral part of this schedule.

ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR FISCAL YEAR ENDED JUNE 30, 2003

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards expenditures is a summary of activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - MATCHING REQUIREMENTS

Certain Federal programs require that the District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



**Auditor of State
Betty Montgomery**

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

Ashtabula County Educational Service Center
1565 State Route 167
Jefferson, Ohio 44047

To The Board of Education:

We have audited the financial statements of Ashtabula County Educational Service Center as of and for the year ended June 30, 2003, and have issued our report thereon dated December 22, 2003. 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 Ashtabula County Educational Service 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 Ashtabula County Educational Service 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 one matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the Educational Service Center in a separate letter dated December 22, 2003.

This report is intended for the information and use of management, the Board, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

December 22, 2003



**Auditor of State
Betty Montgomery**

**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Ashtabula County Educational Service Center
1565 State Route 167
Jefferson, Ohio 44047

To The Board of Education:

Compliance

We have audited the compliance of Ashtabula County Educational Service Center with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2003. Ashtabula County Educational Service Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Ashtabula County Educational Service Center's management. Our responsibility is to express an opinion on Ashtabula County Educational Service Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about Ashtabula County Educational Service Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Ashtabula County Educational Service Center's compliance with those requirements.

In our opinion, Ashtabula County Educational Service Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

Internal Control Over Compliance

The management of Ashtabula County Educational Service Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs.

In planning and performing our audit, we considered Ashtabula County Educational Service Center's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of management, the Board, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

December 22, 2003

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
JUNE 30, 2003**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education Cluster CFDA's 84.027 and 84.173
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: > \$100,000
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

Finding Number	None
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3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	None
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**Auditor of State
Betty Montgomery**

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ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER

ASHTABULA 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
JANUARY 15, 2004**