



Dave Yost • Auditor of State

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
ASHTABULA COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Ashtabula County Educational Service Center
Ashtabula County
4200 State Road
Ashtabula, Ohio 44004

To the Governing Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ashtabula County Educational Service Center, Ashtabula County, Ohio (the Service Center), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Service Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Ashtabula County Educational Service Center, Ashtabula County, Ohio, as of June 30, 2015, and the respective changes in cash financial position thereof for the year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

Ohio Administrative Code § 117-2-03 (B) requires the Service Center to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the cash basis of accounting, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Matters

Supplemental and Other Information

We audited to opine on the Service Center's financial statements that collectively comprise its basic financial statements. The Schedule of Federal Award Receipts and Expenditures presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

The Budgetary comparisons and the Schedule are management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the Budgetary comparisons and Schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Budgetary comparison for the General and IDEA Part B funds and the Schedule are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Information

We applied no procedures to Management's Discussion & Analysis, or to the schedules of net pension liabilities and pension contributions listed in the table of contents. Accordingly, we express no opinion or any other assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2015, 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 grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Service Center's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

December 2, 2015

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Ashtabula County Educational Service Center

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2015

Unaudited

This discussion and analysis of the Ashtabula County Educational Service Center's (the Service Center) financial performance provides an overall review of the Service Center's financial activities for the fiscal year ended June 30, 2015, within the limitations of the Service Center's cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Service Center's financial performance.

Highlights

Key highlights for 2015 are as follows:

- The Service Center is having continued success with programs initiated in fiscal year 2010. These programs include, but are not limited to, occupational therapy/physical therapy (OT/PT) services, Autism Unit Program, Building Bridges, School Improvement Academic Coaching services; as well as new special education units in Conneaut and Geneva Schools.
- Net position of governmental activities increased from fiscal year 2014. This increase is a result of continued effort in running the Service Center programs efficiently and lowering costs whenever possible. There was also a premium holiday taken on the Board share of medical premiums which lowered health insurance expenses by approximately \$95,000, which will be used for permanent improvement areas including paving, technology and curriculum.
- Total receipts were comprised of general receipts and program specific receipts from charges for services and operating grants and contributions.
- The general fund had receipts that exceeded disbursements by \$548,594.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the Service Center's cash basis of accounting.

Report Components

The statement of net position and the statement of activities provide information about the cash activities of the Service Center as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the Service Center as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Ashtabula County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The Service Center has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the Service Center's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

Reporting the Government as a Whole

The statement of net position and the statement of activities reflect how the Service Center did financially during fiscal year 2015 within the limitations of cash basis accounting. The statement of net position presents the cash balances of the governmental activities of the Service Center at fiscal year end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the Service Center's general receipts.

These statements report the Service Center's cash position and the changes in cash position. Keeping in mind the limitations of the cash basis of accounting, you can think of these changes as one way to measure the Service Center's financial health. Over time, increases or decreases in the Service Center's cash position is one indicator of whether the Service Center's financial health is improving or deteriorating. When evaluating the Service Center's financial condition, you should also consider other nonfinancial factors as well, such as the condition of the Service Center's capital assets, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources.

The statement of net position and the statement of activities usually distinguish between those activities of the Service Center that are governmental and those that are considered business-type. The Service Center, however, has no business-type activities.

Governmental Activities Most of the Service Center's basic services are reported here, including instructional and support services. State and Federal grants and charges for services finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

Reporting the Government's Most Significant Funds

Fund financial statements provide detailed information about the Service Center's major funds, not the Service Center as a whole. The Service Center establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the Service Center are split into two categories: governmental and fiduciary.

Ashtabula County Educational Service Center

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2015

Unaudited

Governmental Funds Most of the Service Center's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the Service Center's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Service Center's programs. The Service Center's significant governmental funds are presented on the financial statements in separate columns. The information for non-major funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The Service Center's major governmental funds are the general fund and IDEA Part-B special revenue fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements.

Fiduciary Funds Fiduciary funds are used to account for resources held for the benefit of parties outside the Service Center. Fiduciary funds are not reflected on the government-wide financial statements because the resources of these funds are not available to support the Service Center's programs.

The Service Center as a Whole

Table 1 provides a summary of the Service Center's net position for fiscal year 2015 compared to fiscal year 2014 on a cash basis:

(Table 1)
Net Position
Governmental Activities

| | <u>2015</u> | <u>2014</u> | <u>Change</u> |
|---------------------------|--------------------|--------------------|------------------|
| Assets | | | |
| Cash and Cash Equivalents | <u>\$3,186,097</u> | <u>\$2,641,849</u> | <u>\$544,248</u> |
| Net Position | | | |
| Restricted for: | | | |
| Other Purposes | \$128,121 | \$132,467 | (\$4,346) |
| Unrestricted | <u>3,057,976</u> | <u>2,509,382</u> | <u>548,594</u> |
| Total Net Position | <u>\$3,186,097</u> | <u>\$2,641,849</u> | <u>\$544,248</u> |

As mentioned previously, net position of governmental activities increased during 2015. This increase is a result of an increase in cash due to a continued effort in running the Service Center programs efficiently and lowering costs whenever possible. There was also a decrease in health insurance expenses due to a premium holiday taken on the Board share of medical premiums.

Ashtabula County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited

Table 2 reflects the changes in net position in fiscal year 2015 compared to fiscal year 2014.

(Table 2)
Changes in Net Position
Governmental Activities

| | 2015 | 2014 | Change |
|--|--------------------|--------------------|------------------|
| Receipts: | | | |
| <i>Program Receipts:</i> | | | |
| Charges for Services and Sales | \$2,338,588 | \$2,569,536 | (\$230,948) |
| Operating Grants and Contributions | 1,579,981 | 1,618,640 | (38,659) |
| Total Program Receipts | 3,918,569 | 4,188,176 | (269,607) |
| <i>General Receipts:</i> | | | |
| Grants and Entitlements Not Restricted to Specific Programs | 5,448,016 | 5,270,342 | 177,674 |
| Interest | 4,341 | 3,907 | 434 |
| Miscellaneous | 120,000 | 93,382 | 26,618 |
| Total General Receipts | 5,572,357 | 5,367,631 | 204,726 |
| Total Receipts | 9,490,926 | 9,555,807 | (64,881) |
| Disbursements: | | | |
| <i>Instruction:</i> | | | |
| Regular | 292,644 | 230,870 | (61,774) |
| Special | 3,642,367 | 3,464,363 | (178,004) |
| Vocational | 14,000 | 0 | (14,000) |
| Adult/Continuing | 133,431 | 146,921 | 13,490 |
| Student Intervention Services | 374,736 | 543,742 | 169,006 |
| <i>Support Services:</i> | | | |
| Pupil | 2,300,662 | 2,106,593 | (194,069) |
| Instructional Staff | 547,047 | 634,316 | 87,269 |
| Board of Education | 22,481 | 23,337 | 856 |
| Administration | 895,622 | 926,618 | 30,996 |
| Fiscal | 266,442 | 271,285 | 4,843 |
| Operation and Maintenance of Plant | 227,857 | 205,291 | (22,566) |
| Central | 220,940 | 311,943 | 91,003 |
| Operation of Non-Instructional Services | 8,449 | 0 | (8,449) |
| Total Disbursements | 8,946,678 | 8,865,279 | (81,399) |
| Change in Net Position | 544,248 | 690,528 | (146,280) |
| Net Position Beginning of Year | 2,641,849 | 1,951,321 | 690,528 |
| Net Position End of Year | \$3,186,097 | \$2,641,849 | \$544,248 |

Program receipts represent 41.29 percent of the total receipts and are primarily comprised of funds used to cover services provided to the school districts, tuition and operating grants. There was a decrease in receipts from fiscal year 2014 as funding from the State continues to decline and districts have less carry over grant money to spend. Expenditures increased slightly due to overall increases in salaries, utilities and supplies.

Ashtabula County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited

Governmental Activities

If you look at the statement of activities on page 12, you will see that the first column lists the major services provided by the Service Center. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for special instruction and pupil support services. The next two columns of the statement entitled Program Cash Receipts identify amounts paid by people who are directly charged for the service and grants received by the Service Center that must be used to provide a specific service. The net Receipts (Disbursements) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local sources. These net costs are paid from the general receipts which are presented at the bottom of the statement. A comparison between the total cost of services and the net cost is presented in Table 3.

(Table 3)

Governmental Activities

| | Total Cost Of Services 2015 | Net Cost of Services 2015 | Total Cost Of Services 2014 | Net Cost of Services 2014 |
|---|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| Instruction: | | | | |
| Regular | \$292,644 | (\$179,689) | \$230,870 | (\$188,684) |
| Special | 3,642,367 | (1,839,918) | 3,464,363 | (1,689,714) |
| Vocational | 14,000 | (147) | 0 | 0 |
| Adult/Continuing | 133,431 | 9,030 | 146,921 | 2,650 |
| Student Intervention Services | 374,736 | 252,917 | 543,742 | 255,003 |
| Support Services: | | | | |
| Pupil | 2,300,662 | (1,672,794) | 2,106,593 | (1,546,550) |
| Instructional Staff | 547,047 | (402,901) | 634,316 | (389,563) |
| Board of Education | 22,481 | (18,247) | 23,337 | (19,340) |
| Administration | 895,622 | (559,049) | 926,618 | (506,602) |
| Fiscal | 266,442 | (196,291) | 271,285 | (197,023) |
| Operation and Maintenance of Plant | 227,857 | (204,284) | 205,291 | (162,083) |
| Central | 220,940 | (208,287) | 311,943 | (235,197) |
| Operation of Non-Instructional Services | 8,449 | (8,449) | 0 | 0 |
| Total Disbursements | \$8,946,678 | (\$5,028,109) | \$8,865,279 | (\$4,677,103) |

The Government's Funds

Information regarding the Service Center's major funds starts on page 13. These funds are accounted for using the cash basis of accounting. All governmental funds had total receipts of \$9,490,926 and total disbursements of \$8,946,678. The net change in governmental fund balance for the year was most significant in the general fund which had an increase due to diligence on keeping costs down whenever possible and the Service Center taking a premium holiday to use funds in permanent improvement areas.

Ashtabula County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited

Capital Assets

The Service Center maintains a listing of its capital assets. These records are not required to be presented in the financial statements.

Current Issues

The Service Center continues to be financially stable and is able to continue to offer the programs needed to enrich and service the various school districts. The Board and Administration closely monitor its receipts and disbursements in accordance with Board policy. The Service Center is committed to serving its local and city school districts.

While many outside factors can and will affect the economy, the Service Center is committed to provide the best services possible and to be fiscally responsible now and in the future. The Service Center is constantly evaluating its programs and expanding where it can to provide cost effective services to school districts. If the Service Center does not provide efficiency, there is no reason for a school district to contract with them.

Contacting the Government's Financial Management

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the Service Center's finances and to show the Service Center's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mary Gillespie, Treasurer at the Ashtabula County Educational Service Center, 4200 State Road, Ashtabula, Ohio 44004.

Ashtabula County Educational Service Center

Statement of Net Position - Cash Basis

June 30, 2015

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | <u>\$3,186,097</u> |
| | |
| Net Position | |
| Restricted for Other Purposes | \$128,121 |
| Unrestricted | <u>3,057,976</u> |
| | |
| <i>Total Net Position</i> | <u>\$3,186,097</u> |

See accompanying notes to the basic financial statements

Ashtabula County Educational Service Center

*Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2015*

| | Program Cash Receipts | | | Net Receipts (Disbursements) and Changes in Net Position |
|--|-----------------------|--------------------------------------|--|---|
| | Cash Disbursements | Charges for Services and Sales | Operating Grants and Contributions | Governmental Activities |
| Governmental Activities | | | | |
| Instruction: | | | | |
| Regular | \$292,644 | \$112,955 | \$0 | (\$179,689) |
| Special | 3,642,367 | 812,788 | 989,661 | (1,839,918) |
| Vocational | 14,000 | 0 | 13,853 | (147) |
| Adult/Continuing | 133,431 | 37,595 | 104,866 | 9,030 |
| Student Intervention Services | 374,736 | 627,653 | 0 | 252,917 |
| Support Services: | | | | |
| Pupil | 2,300,662 | 443,089 | 184,779 | (1,672,794) |
| Instructional Staff | 547,047 | 144,146 | 0 | (402,901) |
| Board of Education | 22,481 | 4,234 | 0 | (18,247) |
| Administration | 895,622 | 67,767 | 268,806 | (559,049) |
| Fiscal | 266,442 | 53,935 | 16,216 | (196,291) |
| Operation and Maintenance of Plant | 227,857 | 23,573 | 0 | (204,284) |
| Central | 220,940 | 10,853 | 1,800 | (208,287) |
| Operation of Non-Instructional Services | 8,449 | 0 | 0 | (8,449) |
| Total | \$8,946,678 | \$2,338,588 | \$1,579,981 | (5,028,109) |
| General Receipts | | | | |
| Grants and Entitlements not Restricted to Specific Programs | | | | 5,448,016 |
| Interest | | | | 4,341 |
| Miscellaneous | | | | 120,000 |
| <i>Total General Receipts</i> | | | | <u>5,572,357</u> |
| <i>Change in Net Position</i> | | | | 544,248 |
| <i>Net Position Beginning of Year</i> | | | | <u>2,641,849</u> |
| <i>Net Position End of Year</i> | | | | <u><u>\$3,186,097</u></u> |

See accompanying notes to the basic financial statements

Ashtabula County Educational Service Center

Statement of Assets and Fund Balances - Cash Basis

Governmental Funds

June 30, 2015

| | <u>General</u> | <u>IDEA Part-B</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|--------------------|--------------------|---|---|
| Assets | | | | |
| Equity in Pooled Cash and Cash Equivalents | <u>\$3,057,976</u> | <u>\$50,427</u> | <u>\$77,694</u> | <u>\$3,186,097</u> |
| Fund Balances | | | | |
| Restricted | \$0 | \$50,427 | \$77,694 | \$128,121 |
| Assigned | 54,984 | 0 | 0 | 54,984 |
| Unassigned | <u>3,002,992</u> | <u>0</u> | <u>0</u> | <u>3,002,992</u> |
| <i>Total Fund Balances</i> | <u>\$3,057,976</u> | <u>\$50,427</u> | <u>\$77,694</u> | <u>\$3,186,097</u> |

See accompanying notes to the basic financial statements

Ashtabula County Educational Service Center
Statement of Cash Receipts, Disbursements and Changes in Fund Balances - Cash Basis
Governmental Funds
For the Fiscal Year Ended June 30, 2015

| | General | IDEA Part-B | Other Governmental Funds | Total Governmental Funds |
|---|---------------------------|------------------------|--------------------------------|--------------------------------|
| Receipts | | | | |
| Intergovernmental | \$5,448,016 | \$1,295,625 | \$284,356 | \$7,027,997 |
| Interest | 4,341 | 0 | 0 | 4,341 |
| Tuition and Fees | 654,153 | 0 | 77,931 | 732,084 |
| Charges for Services | 1,606,504 | 0 | 0 | 1,606,504 |
| Miscellaneous | 120,000 | 0 | 0 | 120,000 |
| <i>Total Receipts</i> | <u>7,833,014</u> | <u>1,295,625</u> | <u>362,287</u> | <u>9,490,926</u> |
| Disbursements | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 260,498 | 0 | 32,146 | 292,644 |
| Special | 2,642,889 | 880,327 | 119,151 | 3,642,367 |
| Vocational | 0 | 14,000 | 0 | 14,000 |
| Adult/Continuing | 0 | 0 | 133,431 | 133,431 |
| Student Intervention Services | 374,736 | 0 | 0 | 374,736 |
| Support Services: | | | | |
| Pupil | 2,113,281 | 128,151 | 59,230 | 2,300,662 |
| Instructional Staff | 546,433 | 0 | 614 | 547,047 |
| Board of Education | 22,481 | 0 | 0 | 22,481 |
| Administration | 621,624 | 271,660 | 2,338 | 895,622 |
| Fiscal | 247,032 | 15,244 | 4,166 | 266,442 |
| Operation and Maintenance of Plant | 227,857 | 0 | 0 | 227,857 |
| Central | 219,140 | 0 | 1,800 | 220,940 |
| Operation of Non-Instructional Services | 8,449 | 0 | 0 | 8,449 |
| <i>Total Disbursements</i> | <u>7,284,420</u> | <u>1,309,382</u> | <u>352,876</u> | <u>8,946,678</u> |
| <i>Net Change in Fund Balances</i> | 548,594 | (13,757) | 9,411 | 544,248 |
| <i>Fund Balances Beginning of Year</i> | <u>2,509,382</u> | <u>64,184</u> | <u>68,283</u> | <u>2,641,849</u> |
| <i>Fund Balances End of Year</i> | <u><u>\$3,057,976</u></u> | <u><u>\$50,427</u></u> | <u><u>\$77,694</u></u> | <u><u>\$3,186,097</u></u> |

See accompanying notes to the basic financial statements

Ashtabula County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015*

Note 1 - Reporting Entity

In 1963, the Ashtabula County Educational Service Center (the Service Center) was formed. The Service Center supplies special education, supervisory, administrative, fiscal and other needed services to area school districts in Ashtabula County. The Service Center operates under a locally-elected five-member governing board form of government and provides educational services as mandated by State or federal agencies to four local and two city school districts. The Board controls the Service Center's staff who provide services to over 14,027 students and other community members in Ashtabula County.

The reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading.

Primary Government

The primary government of the Service Center consists of all funds, departments, boards, and agencies that are not legally separate from the Service Center. For the Service Center, this includes the agencies and departments that provide the following services: general operations and related special education, supervisory, administrative and fiscal activities of the Service Center.

Component Units

Component units are legally separate organizations for which the Service Center is financially accountable. The Service Center is financially accountable for an organization if the Service Center appoints a voting majority of the organization's governing board and (1) the Service Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Service Center is legally entitled to or can otherwise access the organization's resources; the Service Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Service Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Service Center in that the Service Center approves the budget, the issuance of debt or the levying of taxes, and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The Service Center has no component units.

Other Organizations

The Service Center participates in two jointly governed organizations, two insurance purchasing pools and one risk sharing pool. These organizations are the North East Ohio Management Information Network, the Ashtabula County Technical and Career Center, the Ohio School Plan, the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan and the Ashtabula County Schools Council of Governments. These organizations are presented in Notes 9 and 10 to the basic financial statements.

The Service Center's management believes these financial statements present all activities for which the Service Center is financially accountable.

Ashtabula County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015*

Note 2 - Summary of Significant Accounting Policies

The financial statements of the School District are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the School District's accounting policies.

Basis of Presentation

The Service Center's basic financial statements consist of government-wide financial statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements The statement of net position and the statement of activities display information about the Service Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements usually distinguish between those activities of the Service Center that are governmental and those that are considered business-type. The Service Center, however, has no business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions.

The statement of net position presents the cash balance of the governmental activities of the Service Center at fiscal year end. The statement of activities compares disbursements with program receipts for each function or program of the Service Center's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the Service Center's general receipts.

Fund Financial Statements During the fiscal year, the Service Center segregates transactions related to certain Service Center functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Service Center at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Fund Accounting

The Service Center uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Service Center are divided into two categories: governmental and fiduciary.

Governmental Funds The Service Center classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The Service Center's only major funds are the general fund and IDEA Part-B special revenue fund.

Ashtabula County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015*

General Fund The general fund is used to account and report for all financial resources, except those required to be accounted for and reported 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 general laws of Ohio.

IDEA Part-B Fund The IDEA Part-B fund accounts for and reports Federal monies restricted to assist schools in the identification of handicapped children, development of procedural safeguards, and provision of full educational opportunities to handicapped children at the preschool, elementary, and secondary levels.

The other governmental funds of the Service Center account for grants and other resources whose use is restricted, committed or assigned to a particular purpose.

Fiduciary Funds The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the Service Center under a trust agreement for individuals, private organizations, or other governments and are not available to support the Service Center's own programs. The Service Center has no trust funds. Agency funds are custodial in nature. The Service Center's agency fund accounts for the payment to the School Employees Retirement System.

Basis of Accounting

The Service Center's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the Service Center's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the Service Center are described in the appropriate section in this note.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

Cash and Investments

To improve cash management, cash received by the Service Center is pooled and invested. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through Service Center records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Investments of the Service Center's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Service Center are presented on the financial statements as cash equivalents.

During fiscal year 2015, the Service Center invested in a nonnegotiable certificate of deposit and STAR Ohio. Nonparticipating investment contracts such as nonnegotiable certificates of deposits are reported at cost.

STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's net asset value per share which is the price the investment could be sold at June 30, 2015.

Ashtabula County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015*

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the general fund during fiscal year 2015 was \$4,341, which included \$175 assigned from other Service Center funds.

Inventory and Prepaid Items

The Service Center reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

Pensions

For purposes of measuring the net pension liability, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Service Center's cash basis of accounting.

Employer Contributions to Cost-Sharing Pension Plans

The Service Center recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 12 and 13, the employer contributions include portions for pension benefits and for postretirement health care benefits.

Long-Term Obligations

The Service Center's cash basis financial statements do not report liabilities for long-term obligations. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid.

Net Position

Net position represents the difference between all other elements in a statement of financial position. Net position is reported as restricted when there are limitations imposed on their use either through constitutional provisions or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes include resources restricted for Federal and State grants restricted to cash disbursement for specified purposes. The Service Center's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net position are available.

Ashtabula County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015*

Fund Balance

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

Nonspendable The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

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

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

Assigned Amounts in the assigned fund balance classification are intended to be used by the Service Center for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. These amounts are assigned by the Service Center Governing Board. In the general fund, assigned amounts represent intended uses established by policies of the Service Center Governing Board or by State Statute. State statute authorizes the Treasurer to assign fund balance for purchases on order provided such amounts have been lawfully appropriated.

Unassigned Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

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

Note 3 – Compliance

Ohio Administrative Code, Section 117-2-03 (B), requires the Service Center to prepare its annual financial report in accordance with generally accepted accounting principles. However, the Service Center prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position/fund balances, and disclosures that, while material, cannot be determined at this time.

Ashtabula County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015*

Note 4 – Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented as follows:

| Fund Balances | General | IDEA Part-B | Other Governmental Funds | Total |
|-----------------------------------|---------------------------|------------------------|--------------------------------|---------------------------|
| <i>Restricted for</i> | | | | |
| Instructional Staff | \$0 | \$0 | \$14,262 | \$14,262 |
| Latchkey Program | 0 | 0 | 45,159 | 45,159 |
| Bus Driver Training | 0 | 0 | 16,965 | 16,965 |
| Special Education | 0 | 50,427 | 1,308 | 51,735 |
| <i>Total Restricted</i> | 0 | 50,427 | 77,694 | 128,121 |
| <i>Assigned to</i> | | | | |
| Purchases on order | 54,984 | 0 | 0 | 54,984 |
| <i>Unassigned</i> | 3,002,992 | 0 | 0 | 3,002,992 |
| <i>Total Fund Balances</i> | <u>\$3,057,976</u> | <u>\$50,427</u> | <u>\$77,694</u> | <u>\$3,186,097</u> |

Note 5 – Deposits and Investments

Monies held by the Service Center are classified by State statute into three categories.

Active deposits are public monies determined to be necessary to meet current demands upon the Service Center treasury. Active 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 Board has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

Interim monies held by the Service Center can be deposited or invested in the following securities:

1. United States Treasury bills, bonds notes, 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;

Ashtabula County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015*

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, 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. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time if training requirements have been met; and
8. Written repurchase agreements in the securities described in (1) or (2) provided 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 the market daily, and the term of the agreement must not exceed thirty days.

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. Investments may only be made through specified dealers and institutions.

Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of bank failure, the Service Center will not be able to recover deposits or collateral securities that are in possession of an outside party. At fiscal year end, \$1,340,379 of the Service Center's bank balance of \$2,340,379 was uninsured and uncollateralized. A third party custodian holds the collateral in a pool, and the uninsured deposits covered by the pool would not be exposed to custodial credit risk because the collateral is held by the government's agent in the government's name.

The Service Center has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Service Center or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

As of June 30, 2015, the Service Center had STAR Ohio as the only investment with an amount of \$863,167 and a maturity of 53.4 days. The investment is in an internal investment pool.

Ashtabula County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015*

Credit Risk Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The Service Center has no investment policy that addresses credit risk.

Note 6 – State Funding

The Service Center, under State law, provides supervisory services to local school districts within its territory. Each city, local and exempted village school district that entered into an agreement with the Service Center is considered to be provided supervisory services. The cost of the supervisory services is determined by formula under State law. The State Department of Education apportions the costs for all supervisory services among the Service Center's city, local and exempted school districts based on each school's total student count. The State Department of Education deducts each school district's amount from their State Foundation Program settlements and remits the amount to the Service Center. The Service Center may provide additional supervisory services if the majority of local and client school districts agree to the services and the apportionment of the costs to all of the client school districts.

The Service Center also receives funding from the State Department of Education in the amount of \$35 times the average daily membership of the Service Center. Average daily membership includes the total student counts of all local school districts within the Service Center's territory and all of the Service Center's client school districts. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the Service Center's local and client school districts an amount equal to \$6.50 times the school district's total student count and remits this amount to the Service Center.

The Service Center may contract with city, exempted village, local, joint vocational or cooperative education school districts to provide special education and related services or career-technical education services. The individual boards of education pay the costs for these services directly to the Service Center.

Note 7 - Risk Management

Property and Liability

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. During fiscal year 2015, the Service Center joined together with other service centers and school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool to obtain liability coverage. Each individual member enters into an agreement with the OSP and its premium is based on the types of coverage and limits of coverage, and deductibles that it selects. The Service Center contracted with OSP for general liability with a \$1,000,000 per occurrence and \$3,000,000 aggregate and for errors and omissions with a \$1,000,000 per occurrence and \$3,000,000 aggregate.

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from the prior fiscal year.

Ashtabula County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015*

Workers' Compensation

The Service Center participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. 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. Participants in the GRP are placed on tiers according to their loss history. Participants with low loss histories are rewarded with greater savings than participants with higher loss histories.

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 Sheakley UniService provides administrative, cost control, assistance with safety programs and actuarial services to the GRP.

Employee Medical Benefits

The Service Center participates in the Ashtabula County Schools Council of Governments, a risk sharing pool (Note 10) to provide employee medical/surgical, prescription drug, dental and vision benefits. Rates are set through an annual calculation process. The Service Center pays a monthly contribution which is placed in a common fund from which the claim payments are made for all participating districts. The Service Center's Board pays the entire cost of a monthly premium for all full-time employees.

Note 8 – Encumbrances

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At fiscal year end, the amount of encumbrances expected to be honored upon performance by the vendor in the next fiscal year were as follows:

| | |
|--------------------------|------------------------|
| General | \$54,984 |
| IDEA Part-B | 14,547 |
| Other Governmental Funds | <u>10,148</u> |
| Total | <u><u>\$79,679</u></u> |

Note 9 - Jointly Governed Organizations

North East Ohio Management Information Network

The North East 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 supports NEOMIN based upon a per pupil charge. The Service Center paid \$10,382 to NEOMIN during fiscal year 2015.

Ashtabula County Educational Service Center

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The Governing Board consists of ten members: the Trumbull and Ashtabula County superintendents (permanent members), three superintendents from Ashtabula County participating school districts, three superintendents from Trumbull County participating school districts, and a principal and treasurer (non-voting members who must be employed by a participating school district, the fiscal agent or NEOMIN). The degree of control exercised by a participating service center is limited to its representation on the Governing Board. To obtain a copy of NEOMIN's financial statements, write to the Trumbull County Career and Technical Center, 528 Educational Highway, Warren, Ohio 44483.

Ashtabula County Technical and Career Center

The Ashtabula County Technical and Career Center (TCC) is a distinct political subdivision of the State of Ohio which provides vocational education to students. The TCC is operated under the direction of a Board consisting of one representative from each of the participating school districts' elected boards. The degree of control exercised by the Service Center is limited to its representation on the Board. The Board is its own budgeting and taxing authority. The Service Center made no contributions for fiscal year 2015. Financial information can be obtained from Mary Ann Wayman, Treasurer at Ashtabula County Technical and Career Center, 1565 State Route 167, Jefferson, Ohio 44047.

Note 10 – Public Entity Risk Pools

Insurance Purchasing Pools

Ohio School Plan The Service Center participates in the Ohio School Plan (OSP), an insurance purchasing pool. The OSP is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of directors consisting of service center superintendents and treasurers, as well as the as president of Harcum-Hyre Insurance Agency, Incorporated and a partner of the Hylant Group, Incorporated. Hylant Group, Incorporated is the Administrator of the OSP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Incorporated is the sales and marketing representative, which establishes agreements between OSP and member schools.

Ohio Association of School Business Officials Workers' Compensation Group Rating Plan The Service Center participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP) was established through the Ohio Association of School Business Officials (OASBO) as a group purchasing pool. The Executive Director of the OASBO, or his designee, serves as coordinator of the GRP. Each year, the participating members pay an enrollment fee to the GRP to cover the costs of administering the program.

Risk Sharing Pool

Ashtabula County Schools Council of Governments The Service Center has contracted with the Ashtabula County Schools Council of Governments to provide employee medical/surgical, prescription drug, dental and vision benefits. The Ashtabula County Schools Council of Governments is organized under Chapter 167 of the Ohio Revised Code and is comprised of seven Ashtabula County school districts. Rates are set by the Ashtabula County Schools Council of Governments board of directors. The

Ashtabula County Educational Service Center

*Notes to the Basic Financial Statements
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Service Center pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating members. Claims are paid for all participants regardless of claims flow. Ashtabula County Schools Council of Governments is a separate and independent entity governed by its own set of by-laws and constitution. All assets and liabilities are the responsibility of the Council of Governments. The program is operated as a full indemnity program with no financial liability (other than monthly premiums) or risk to the Service Center. The Service Center is not liable nor receives a cash balance of past claims upon departure from the pool.

Note 11 – Contingent Liabilities

Grants

Amounts grantor agencies pay to the Service Center are subject to audit and adjustment by the grantor, principally the federal government. Grantors may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

School Foundation

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school-year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school districts, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 Foundation funding for the school districts; therefore, any financial statement impact is not determinable at this time.

Litigation

The Service Center is not party to legal proceedings.

Note 12 - Defined Benefit Pension Plans

Net Pension Liability

For fiscal year 2015, Governmental Accounting Standards Board (GASB) Statement No. 68, “Accounting and Financial Reporting for Pensions” and GASB Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68” were effective. These GASB pronouncements had no effect on beginning net position as reported June 30, 2014, as the net pension liability is not reported in the accompanying financial statements. The net pension liability has been disclosed below.

Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

Ashtabula County Educational Service Center

*Notes to the Basic Financial Statements
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The net pension liability represents the Service Center’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the Service Center’s obligation for this liability to annually required payments. The Service Center cannot control benefit terms or the manner in which pensions are financed; however, the Service Center does receive the benefit of employees’ services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

Plan Description - School Employees Retirement System (SERS)

Plan Description – Service Center non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

| | Eligible to Retire on or before August 1, 2017 * | Eligible to Retire on or after August 1, 2017 |
|------------------------------|---|--|
| Full Benefits | Any age with 30 years of service credit | Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit |
| Actuarially Reduced Benefits | Age 60 with 5 years of service credit Age 55 with 25 years of service credit | Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit |

* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

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*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015*

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Service Center is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The Service Center's contractually required contribution to SERS was \$166,213 for fiscal year 2015.

Plan Description – State Teachers Requirement System (STRS)

Plan Description – Service Center licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five year of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

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*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015*

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The Service Center's contractually required contribution to STRS was \$481,423 for fiscal year 2015.

Net Pension Liability

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Service Center's proportion of the net pension liability was based on the Service Center's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|--|-------------|-------------|--------------|
| Proportionate Share of the Net Pension Liability | \$2,685,792 | \$8,780,283 | \$11,466,075 |
| Proportion of the Net Pension Liability | 0.053069% | 0.036098% | |

Actuarial Assumptions – SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Ashtabula County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015*

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee’s entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2014, are presented below:

| | |
|--|--|
| Wage Inflation | 3.25 percent |
| Future Salary Increases, including inflation | 4.00 percent to 22 percent |
| COLA or Ad Hoc COLA | 3 percent |
| Investment Rate of Return | 7.75 percent net of investments expense, including inflation |
| Actuarial Cost Method | Entry Age Normal |

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS’ *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long Term Expected Real Rate of Return</u> |
|------------------------|------------------------------|---|
| Cash | 1.00 % | 0.00 % |
| US Stocks | 22.50 | 5.00 |
| Non-US Stocks | 22.50 | 5.50 |
| Fixed Income | 19.00 | 1.50 |
| Private Equity | 10.00 | 10.00 |
| Real Assets | 10.00 | 5.00 |
| Multi-Asset Strategies | <u>15.00</u> | 7.50 |
| Total | <u><u>100.00 %</u></u> | |

Ashtabula County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015*

Discount Rate The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the Service Center’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan’s net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

| | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|--|------------------------|-------------------------------------|------------------------|
| Service Center's proportionate share of the net pension liability | \$3,831,827 | \$2,685,792 | \$1,721,877 |

Actuarial Assumptions – STRS

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|-----------------------------------|--|
| Inflation | 2.75 percent |
| Projected salary increases | 2.75 percent at age 70 to 12.25 percent at age 20 |
| Investment Rate of Return | 7.75 percent, net of investment expenses |
| Cost-of-Living Adjustments (COLA) | 2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date. |

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males’ ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS’ investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

Ashtabula County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015*

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long Term Expected Real Rate of Return</u> |
|----------------------|------------------------------|---|
| Domestic Equity | 31.00 % | 8.00 % |
| International Equity | 26.00 | 7.85 |
| Alternatives | 14.00 | 8.00 |
| Fixed Income | 18.00 | 3.75 |
| Real Estate | 10.00 | 6.75 |
| Liquidity Reserves | 1.00 | 3.00 |
| Total | <u>100.00 %</u> | |

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

Sensitivity of the Service Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the Service Center's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the Service Center's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

| | <u>1% Decrease (6.75%)</u> | <u>Current Discount Rate (7.75%)</u> | <u>1% Increase (8.75%)</u> |
|--|--------------------------------|--|--------------------------------|
| Service Center's proportionate share of the net pension liability | \$12,569,932 | \$8,780,283 | \$5,575,515 |

Note 13 – Postemployment Benefits

School Employee Retirement System

Health Care Plan Description - The Service Center contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Ashtabula County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015*

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was \$20,450. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2015, the Service Center's surcharge obligation was \$25,000.

The Service Center's contributions for health care for the fiscal years ended June 30, 2015, 2014 and 2013 were \$35,563, \$33,001 and \$37,320, respectively; 100 percent has been contributed for fiscal years 2015, 2014 and 2013.

State Teachers Retirement System

Plan Description – The School District participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$0, \$39,982 and \$44,850, respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

Supplemental Information

Ashtabula County Educational Service Center

Schedule of Receipts, Disbursements and Changes

In Fund Balance - Budget and Actual -Budget Basis

General Fund

For the Fiscal Year Ended June 30, 2015

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|---|-------------------------|------------------|--------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Receipts | | | | |
| Intergovernmental | | | \$5,448,016 | |
| Interest | | | 4,341 | |
| Tuition and Fees | | | 654,153 | |
| Charges for Services | | | 1,606,504 | |
| Miscellaneous | | | <u>120,000</u> | |
| <i>Total Receipts</i> | | | <u>7,833,014</u> | |
| Disbursements | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 185,210 | 276,592 | 260,523 | 16,069 |
| Special | 2,825,054 | 2,885,594 | 2,651,853 | 233,741 |
| Student Intervention Services | 442,057 | 385,463 | 374,736 | 10,727 |
| Support Services: | | | | |
| Pupil | 2,120,158 | 2,226,980 | 2,123,352 | 103,628 |
| Instructional Staff | 569,048 | 596,601 | 549,659 | 46,942 |
| Board of Education | 26,186 | 29,040 | 22,829 | 6,211 |
| Administration | 723,384 | 740,889 | 630,192 | 110,697 |
| Fiscal | 241,351 | 265,959 | 247,334 | 18,625 |
| Operation and Maintenance of Plant | 317,335 | 334,150 | 250,732 | 83,418 |
| Central | 224,649 | 236,157 | 219,745 | 16,412 |
| Operation of Non-Instructional Services | <u>1,000</u> | <u>21,577</u> | <u>8,449</u> | <u>13,128</u> |
| <i>Total Disbursements</i> | <u>7,675,432</u> | <u>7,999,002</u> | <u>7,339,404</u> | <u>659,598</u> |
| <i>Net Change in Fund Balance</i> | | | 493,610 | |
| <i>Fund Balance Beginning of Year</i> | | | 2,427,246 | |
| Prior Year Encumbrances Appropriated | | | <u>82,136</u> | |
| <i>Fund Balance End of Year</i> | | | <u>\$3,002,992</u> | |

See accompanying notes to the supplemental information

Supplemental Information

Ashtabula County Educational Service Center

Schedule of Receipts, Disbursements and Changes

In Fund Balance - Budget and Actual -Budget Basis

IDEA Part-B Fund

For the Fiscal Year Ended June 30, 2015

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|---------------------------------------|-------------------------|------------------|------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Receipts | | | | |
| Intergovernmental | | | \$1,295,625 | |
| Disbursements | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Special | 954,626 | 954,626 | 894,522 | 60,104 |
| Vocational | 14,000 | 14,000 | 14,000 | 0 |
| Support Services: | | | | |
| Pupil | 169,723 | 169,723 | 128,151 | 41,572 |
| Administration | 330,589 | 330,589 | 272,012 | 58,577 |
| Fiscal | 15,244 | 15,244 | 15,244 | 0 |
| <i>Total Disbursements</i> | <u>1,484,182</u> | <u>1,484,182</u> | <u>1,323,929</u> | <u>160,253</u> |
| <i>Net Change in Fund Balance</i> | | | (28,304) | |
| <i>Fund Deficit Beginning of Year</i> | | | (36,515) | |
| Prior Year Encumbrances Appropriated | | | <u>100,699</u> | |
| <i>Fund Balance End of Year</i> | | | <u><u>\$35,880</u></u> | |

See accompanying notes to the supplemental information

Ashtabula County Educational Service Center

*Notes to the Supplemental Information
For the Fiscal Year Ended June 30, 2015*

Note 1 – Budgetary Basis of Accounting

Budgetary Process

The Service Center is no longer required under State statute to file budgetary information with the State Department of Education. However, the Service Center's Board does follow the budgetary process for control purposes. This is done by adopting an annual appropriation resolution which is the Board's authorization to spend resources. The resolution sets annual limits on disbursements plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

Budgetary Basis of Accounting

The Schedule of Receipts, Disbursements and Changes in Fund Balance - Budget and Actual – Budget Basis for the general fund and the IDEA Part-B special revenue fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as restricted, committed or assigned fund balance (cash basis).

The encumbrances outstanding at year end (budgetary basis) in the general and IDEA Part-B special revenue funds were \$54,984 and \$14,547, respectively.

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**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
ASHTABULA COUNTY
SCHEDULE OF FEDERAL AWARDS RECIEPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2015**

| Federal Grantor/ Pass Through Grantor Program Title | Pass Through Entity Number | Federal CFDA Number | Receipts | Expenditures |
|--|---------------------------------------|------------------------------------|-----------------------|------------------------|
| <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-14 6B-SF-15 | 84.027 | \$69,760 1,225,865 | \$133,943 1,175,438 |
| Sub-Total - IDEA, Part B | | | 1,295,625 | 1,309,381 |
| Early Childhood Special Education, IDEA | PS-S1-15 | 84.173 | 24,685 | 24,685 |
| Total - Special Education Cluster | | | 1,320,310 | 1,334,066 |
| Title I - Delinquent | | | | |
| Title I Delinquent Title I Delinquent | 2014 2015 | 84.010 | 15,802 47,057 | 19,889 46,734 |
| Sub-Total Title I Delinquent | | | 62,859 | 66,623 |
| Race to the Top | | | | |
| OPES Training | 2014 | 84.395 | 16,100 | - |
| Total Ohio Department of Education | | | \$1,399,269 | \$1,400,689 |

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

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
ASHTABULA COUNTY**

**NOTE TO THE FEDERAL AWARDS RECEIPT AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2015**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) summarizes activity of the Service Center's federal award programs. The Schedule has been prepared on the cash basis of accounting.



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Ashtabula County Educational Service Center
Ashtabula County
4200 State Road
Ashtabula, Ohio 44004

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ashtabula County Educational Service Center, Ashtabula County, (the Service Center) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Service Center's basic financial statements and have issued our report thereon dated December 2, 2015, wherein we noted the Service Center uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Service Center's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of reasonably assuring whether the Service Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2015-001.

Service Center's Response to Findings

The Service Center's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Service Center's response and, accordingly, we express no opinion on it.

Purpose of this Report

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



Dave Yost
Auditor of State
Columbus, Ohio

December 2, 2015



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Ashtabula County Educational Service Center
Ashtabula County
4200 State Road
Ashtabula, Ohio 44004

To the Governing Board:

Report on Compliance for the Major Federal Program

We have audited the Ashtabula County Educational Service Center's (the Service Center) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the Ashtabula County Educational Service Center's major federal program for the year ended June 30, 2015. The *Summary of Auditor's Results* in the accompanying schedule of finding identifies the Service Center's major federal program.

Management's Responsibility

The Service Center's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor's Responsibility

Our responsibility is to opine on the Service Center's compliance for the Service Center's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the Service Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the Service Center's major program. However, our audit does not provide a legal determination of the Service Center's compliance.

Opinion on the Major Federal Program

In our opinion, the Ashtabula County Educational Service Center complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2015.

Report on Internal Control Over Compliance

The Service Center's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the Service Center's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Service Center's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control over compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

December 2, 2015

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
ASHTABULA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2015**

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---------------------|---|--|
| (d)(1)(i) | Type of Financial Statement Opinion | Unmodified |
| (d)(1)(ii) | Were there any material control weaknesses reported at the financial statement level (GAGAS)? | No |
| (d)(1)(ii) | Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)? | No |
| (d)(1)(iii) | Was there any reported material noncompliance at the financial statement level (GAGAS)? | Yes |
| (d)(1)(iv) | Were there any material internal control weaknesses reported for major federal programs? | No |
| (d)(1)(iv) | Were there any significant deficiencies in internal control reported for major federal programs? | No |
| (d)(1)(v) | Type of Major Programs' Compliance Opinion | Unmodified |
| (d)(1)(vi) | Are there any reportable findings under § .510(a)? | No |
| (d)(1)(vii) | Major Programs (list): | Special Education Cluster IDEA Part B (CFDA No. 84.027); Early Childhood Special Education IDEA (CFDA No. 84.173) |
| (d)(1)(viii) | Dollar Threshold: Type A/B Programs | Type A: > \$ 300,000 Type B: all others |
| (d)(1)(ix) | Low Risk Auditee? | Yes |

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
ASHTABULA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2015**

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|---|
| 2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS |
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FINDING NUMBER 2015-001

Noncompliance

Annual Financial Report

Ohio Rev. Code § 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on a form utilized by the public office. Ohio Admin Code § 117-2-03 (B) further clarifies the requirements of the Ohio Rev. Code § 117.38.

Ohio Admin Code, Section 117-2-03 (B), requires the Service Center to prepare its annual financial report in accordance with generally accepted accounting principles. However, the Service Center prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position/fund balances, and disclosures that, while material, cannot be determined at this time.

The Service Center did not prepare its financial report in accordance with accounting principles generally accepted in the United States of America. The Service Center is not in compliance with the above noted Sections of the Ohio Revised Code and Administrative Code. This can result in the Service Center being classified as a Not Low Risk Auditee for Federal Single audit proposes.

Official's Response:

The Governing Board, Superintendent and Treasurer do not feel it is cost effective and efficient to prepare the Generally Accepted Account Principles (GAAP) basis financial statements to meet the Service Center's reporting needs. Therefore, we chose to report using the Other Comprehensive Basis of Accounting (OCBOA) special framework.

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| 3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS |
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None

**ASHTABULA COUNTY EDUCATION SERVICE CENTER
ASHTABULA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2015**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> |
|----------------|---|--|--|
| 2014-001 | Ohio Administrative Code § 117-2-03 (B) requires the Service Center to prepare its financial report in accordance with generally accepted accounting principles | No, the Service Center has filed its financial report under the Cash Basis of Accounting. Repeated as citation 2015-001. | The Governing Board, Superintendent and Treasurer do not feel it is cost effective and efficient to prepare the GAAP conversion for their reporting needs. |

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Dave Yost • Auditor of State

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
DECEMBER 15, 2015**