



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
ASHTABULA COUNTY**

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STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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

REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Ashtabula County Educational Service Center, Ashtabula County, (the Service Center) as of and for the year ended June 30, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Ashtabula County Educational Service Center's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Ashtabula County Educational Service Center, as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2002 on our consideration of the Ashtabula County Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

A handwritten signature in black ink, appearing to read "Jim Petro".

Jim Petro
Auditor of State

December 17, 2002

**Ashtabula County Educational Service Center
Combined Balance Sheet
All Fund Types and Account Groups
Year Ended June 30, 2002**

	Governmental Fund Types		Proprietary Fund Type		Fiduciary Fund Types	Account Groups		Totals 2002
	General	Special Revenue	Enterprise	Internal Service	Agency	General Fixed Assets	General Long Term Debt	(Memorandum) (Only)
Assets and Other Debits:								
Equity in Pooled Cash and Investments	\$ 3,261,913	662,325	24,453	154,616	171,908	0	0	\$ 4,275,215
Interfund Receivables	59,259	0	0	0	0	0	0	59,259
Due from Other Funds	0	0	0	0	50,899	0	0	50,899
Intergovernmental Receivables	437,714	1,250	129	0	0	0	0	439,093
Accounts Receivable	188,596	500	0	0	0	0	0	189,096
Inventory	13,541	0	0	0	0	0	0	13,541
Plant, Property & Equipment	0	0	0	18,842	0	428,583	0	447,425
Accumulated Depreciation, Where Applicable	0	0	0	(651)	0	0	0	(651)
Amount to be Provided to GLTDAG	0	0	0	0	0	0	311,357	311,357
Total Assets and Other Debits	\$ 3,961,023	664,075	24,582	172,807	222,807	428,583	311,357	\$ 5,785,234
Liabilities:								
Interfund Payable	0	59,259	0	0	0	0	0	59,259
Due to Other Funds	47,578	3,321	0	0	0	0	0	50,899
Intergovernmental Payable	4,212	209	0	0	222,807	0	23,873	251,101
Accounts Payable	38,831	429,521	0	7,293	0	0	0	475,645
Accrued Wages & Benefits	403,875	28,577	0	0	0	0	0	432,452
Compensated Absences Payable	27,778	2,127	0	0	0	0	287,484	317,389
Total Liabilities	522,274	523,014	0	7,293	222,807	0	311,357	1,586,745
Investment in General Fixed Assets	0	0	0	0	0	428,583	0	428,583
Retained Earnings	0	0	24,582	165,514	0	0	0	190,096
Fund Balances:								
Reserved for Inventory	13,541	0	0	0	0	0	0	13,541
Reserved for Encumbrances	35,578	48,162	0	0	0	0	0	83,740
Unreserved Fund Balance	3,389,630	92,899	0	0	0	0	0	3,482,529
Total Fund Equity	3,438,749	141,061	24,582	165,514	0	428,583	0	4,198,489
Total Liabilities, Fund Equity, and Other Credits	\$ 3,961,023	664,075	24,582	172,807	222,807	428,583	311,357	\$ 5,785,234

See Accompanying Notes to the General Purpose Financial Statements.

Ashtabula County Educational Service Center
Combined Statement of Revenue, Expenditures, and Changes in Fund Balances
All Governmental Fund Types
Year Ended June 30, 2002

	Governmental Fund Types		Totals
	General	Special Revenue	(Memorandum) (Only)
REVENUES:			
Revenue from Local Sources			
Tuition	\$ 491,155	26,025	\$ 517,180
Transportation Fees	52,521	0	52,521
Earnings on Investments	113,579	0	113,579
Miscellaneous	1,317,209	250,312	1,567,521
Revenue from State Sources			
Unrestricted Grants-in-Aid	3,287,826	0	3,287,826
Restricted Grants-in-Aid	0	326,455	326,455
Revenue from Federal Sources			
Unrestricted Grants-in-Aid	125,057	0	125,057
Restricted Grants-in-Aid	5,378	582,962	588,340
Total Revenue	5,392,725	1,185,754	6,578,479
EXPENDITURES:			
Current:			
Instruction			
Regular Instruction	254,733	151,485	406,218
Special Instruction	1,151,629	42,186	1,193,815
Adult/Continuing Instruction	0	114,348	114,348
Supporting Services			
Supporting Services-Pupils	1,071,832	188,927	1,260,759
Supporting Services-Instructional Staff	1,695,771	521,923	2,217,694
Supporting Services-Board of Education	17,484	0	17,484
Supporting Services-Administration	788,800	185,558	974,358
Supporting Services-Fiscal Services	196,877	10,580	207,457
Supporting Services-Operation & Maintenance of Plant	12,157	0	12,157
Supporting Services-Pupil Transportation	44,141	0	44,141
Total Expenditures	5,233,424	1,215,007	6,448,431
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	159,301	(29,253)	130,048
Other Financing Sources and Uses:			
Sale & Loss of Assets	2,000	0	2,000
Total Other Financing Sources and Uses	2,000	0	2,000
Excess (Deficiency) of Revenue Receipts			
and Other Sources Over (Under) Expenditure			
Disbursement and Other Uses	161,301	(29,253)	132,048
Decrease in Inventory	(469)	0	(469)
Beginning Fund Balance	3,277,917	170,314	3,448,231
Ending Fund Balance	\$ 3,438,749	141,061	\$ 3,579,810

See Accompanying Notes to the General Purpose Financial Statements.

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Ashtabula County Educational Service Center
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Non-GAAP Basis)
All Governmental Fund Types
Year Ended June 30, 2002

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Tuition	\$ 396,878	444,983	48,105	24,175	25,810	\$ 1,635
Transportation Fees	39,868	49,897	10,029	0	0	0
Earnings on Investment	112,800	113,554	754	0	0	0
Miscellaneous	1,519,430	1,544,826	25,396	307,507	249,949	(57,558)
State Unrestricted Grants-in-Aid	3,270,396	3,287,826	17,430	0	0	0
State Restricted Grants-in-Aid	0	0	0	326,455	326,455	0
Federal Unrestricted Grants-in-Aid	112,244	115,512	3,268	0	0	0
Federal Restricted Grants-in-Aid	5,378	5,378	0	582,962	582,962	0
Total Revenue	5,456,994	5,561,976	104,982	1,241,099	1,185,176	(55,923)
Expenditures:						
Regular Instruction	496,698	246,222	250,476	180,980	162,531	18,449
Special Instruction	1,794,552	1,142,131	652,421	63,774	63,774	0
Adult/Continuing Instruction	0	0	0	128,283	116,502	11,781
Support Services-Pupils	1,532,193	1,090,652	441,541	304,456	248,629	55,827
Support Services-Instructional Staff	2,797,627	1,727,465	1,070,162	763,099	677,196	85,903
Support Services-Board of Education	61,916	22,386	39,530	0	0	0
Support Services-Administration	1,340,833	841,981	498,852	336,743	330,532	6,211
Fiscal Services	255,156	201,690	53,466	39,080	38,580	500
Operation, Maintenance & Plant	19,915	12,157	7,758	0	0	0
Support Services-Transportation	71,067	46,204	24,863	0	0	0
Total Expenditures	8,369,957	5,330,888	3,039,069	1,816,415	1,637,744	178,671
Excess of Revenue Over (Under) Expenditures	(2,912,963)	231,088	3,144,051	(575,316)	(452,568)	122,748
Other Financing Sources (Uses):						
Sale & Loss of Assets	0	2,000	2,000	0	0	0
Advances-In	0	112,437	112,437	0	116,047	116,047
Advances-Out	0	(116,047)	(116,047)	0	(112,437)	(112,437)
Total Other Sources (Uses)	0	(1,610)	(1,610)	0	3,610	3,610
Excess of Revenues & Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(2,912,963)	229,478	3,142,441	(575,316)	(448,958)	126,358
Beginning Fund Balance	2,756,625	2,756,625	--	199,510	199,510	--
Prior Year Carry Over Encumbrances	156,337	156,337	--	431,457	431,457	--
Ending Fund (Deficit) Balance	\$ (1)	3,142,440	3,142,441	55,651	182,009	\$ 126,358

(Continued)

Ashtabula County Educational Service Center
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Non-GAAP Basis)
All Governmental Fund Types - Continued
Year Ended June 30, 2002

	Totals (Memorandum Only)		
	Revised		Variance
	Budget	Actual	Favorable (Unfavorable)
Revenues:			
Tuition	\$ 421,053	470,793	\$ 49,740
Transportation Fees	39,868	49,897	10,029
Earnings on Investment	112,800	113,554	754
Miscellaneous	1,826,937	1,794,775	(32,162)
State Unrestricted Grants-in-Aid	3,270,396	3,287,826	17,430
State Restricted Grants-in-Aid	326,455	326,455	0
Federal Unrestricted Grants-in-Aid	112,244	115,512	3,268
Federal Restricted Grants-in-Aid	<u>588,340</u>	<u>588,340</u>	<u>0</u>
Total Revenue	6,698,093	6,747,152	49,059
Expenditures:			
Regular Instruction	677,678	408,753	268,925
Special Instruction	1,858,326	1,205,905	652,421
Adult/Continuing Instruction	128,283	116,502	11,781
Support Services-Pupils	1,836,649	1,339,281	497,368
Support Services-Instructional Staff	3,560,726	2,404,661	1,156,065
Support Services-Board of Education	61,916	22,386	39,530
Support Services-Administration	1,677,576	1,172,513	505,063
Fiscal Services	294,236	240,270	53,966
Operation, Maintenance & Plant	19,915	12,157	7,758
Support Services-Transportation	<u>71,067</u>	<u>46,204</u>	<u>24,863</u>
Total Expenditures	<u>10,186,372</u>	<u>6,968,632</u>	<u>3,217,740</u>
Excess of Revenue Over (Under) Expenditures	(3,488,279)	(221,480)	3,266,799
Other Financing Sources (Uses):			
Sales & Loss of Assets	0	2,000	2,000
Advances-In	0	228,484	228,484
Advances-Out	<u>0</u>	<u>(228,484)</u>	<u>(228,484)</u>
Total Other Sources (Uses)	<u>0</u>	<u>2,000</u>	<u>2,000</u>
Excess of Revenues & Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(3,488,279)	(219,480)	3,268,799
Beginning Fund Balance	2,956,135	2,956,135	--
Prior Year Carry Over Encumbrances	<u>587,794</u>	<u>587,794</u>	<u>--</u>
Ending Fund (Deficit) Balance	<u>\$ 55,650</u>	<u>3,324,449</u>	<u>\$ 3,268,799</u>

See Accompanying Notes to the General Purpose Financial Statement.

**Ashtabula County Educational Service Center
 Combined Statement of Revenues, Expenses, and Changes in Retained Earnings
 All Proprietary Fund Types
 Year Ended June 30, 2002**

	Proprietary Fund Types		Totals (Memorandum (Only))
	Enterprise Funds	Internal Service Funds	
Operating Revenues:			
Tuition	\$ 27,594	0	\$ 27,594
Miscellaneous	0	69,447	69,447
Total Operating Revenue	<u>27,594</u>	<u>69,447</u>	<u>97,041</u>
Operating Expenses:			
Personal Services - Salary	17,340	33,980	51,320
Employee Benefits	4,826	5,415	10,241
Purchased Services	250	16,584	16,834
Supplies and Materials	3,948	16,205	20,153
Depreciation	0	651	651
Total Operating Expenses	<u>26,364</u>	<u>72,835</u>	<u>99,199</u>
Operating Income (Loss)	1,230	(3,388)	(2,158)
Net Income (Loss)	1,230	(3,388)	(2,158)
Beginning Retained Earnings	<u>23,352</u>	<u>168,902</u>	<u>192,254</u>
Retained Earnings at End of Year	<u>\$ 24,582</u>	<u>165,514</u>	<u>\$ 190,096</u>

See Accompanying Notes to the General Purpose Financial Statements.

**Ashtabula County Educational Service Center
 Combined Statement of Cash Flows
 All Proprietary Fund Types
 Year Ended June 30, 2002**

	<u>Proprietary Fund Types</u>		Totals (Memorandum Only)
	<u>Enterprise Funds</u>	<u>Internal Service Funds</u>	
Cash Flows from Operating Activities			
Operating Gain (Loss)	\$ 1,230	(3,388)	\$ (2,158)
Depreciation	0	651	651
Net (Increase) Decrease in Assets:			
Intergovernmental Receivable	(44)	0	(44)
Net Increases (Decreases) in Liabilities:			
Accrued Wages	0	(75)	(75)
Accounts Payable	0	6,370	6,370
Due to Other Funds	0	(11)	(11)
Total Adjustments	(44)	6,284	6,240
Net Cash Used in Operating Activities	1,186	3,547	4,733
Cash Flows from Capital Financing Activities:			
Acquisition of Capital Assets	0	(18,842)	(18,842)
Net Cash Provided by Capital Financing Sources	0	(18,842)	(18,842)
Cash and Cash Equivalents at Beginning of Year	23,267	169,911	193,178
Cash and Cash Equivalents at End of Year	<u>\$ 24,453</u>	<u>154,616</u>	<u>\$ 179,069</u>

See Accompanying Notes to General Purpose Financial Statements.

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**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
ASHTABULA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The Service Center is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Service Center is a County School District as defined by Section 3313 of the Ohio Revised Code.

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

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

The Service Center is located in Jefferson, Ohio and is staffed by 59 certified and 64 non-certified personnel. The Ashtabula County Commissioners, as required by State statute, provide the offices for the use of the Service Center.

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

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

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

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
ASHTABULA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

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

B. Fund Accounting

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

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

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

Governmental Fund Types

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

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

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

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
ASHTABULA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary Fund Types

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

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

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

Fiduciary Fund Types

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

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

Account Groups

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

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

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

C. Measurement Focus/Basis of Accounting

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

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
ASHTABULA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place, provided the resources are available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Service Center, available means expected to be received within sixty days of year-end.

Non-exchange transactions, in which the Service Center receives value without directly giving equal value in return, include grants, entitlements and donations. On the modified accrual basis, revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied, provided the revenue is available. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Service Center must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the Service Center on a reimbursement basis.

Under the modified accrual basis, the following revenue sources are considered to be measurable and available: contract services, grants, interest and miscellaneous sources.

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. Receivables that will not be collected within the available period have also been reported as deferred revenue.

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

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

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
ASHTABULA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budget and Budgetary Accounting

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

SF-5

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

Appropriations

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

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

The major differences between the budgetary basis of accounting and GAAP are that:

- a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- b) Expenditures are recorded when encumbered (budget basis) as opposed to when the liability is incurred (GAAP basis);
- c) Encumbrances are recorded as the equivalent of expenditures (budget basis) as opposed to a reservation of fund balance for governmental fund types and as note disclosures in the proprietary fund types (GAAP basis); and
- d) For proprietary funds, the acquisition and construction of capital assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP).

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Encumbrances

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

E. Cash and Investments

Cash received by the Service Center is pooled in a central bank account with individual fund balance integrity maintained throughout. Monies for all funds are maintained in this account or temporarily used to purchase short term cash equivalent investments which are stated at cost. State statutes authorize the Service Center to invest in obligations of, or guaranteed by, U.S. Treasury, agencies, and instrumentalities, repurchase agreements, bonds and other obligations of the State of Ohio, and the State Treasurer's Asset Reserve of Ohio (STAR Ohio). STAR Ohio is a state investment pool for the exclusive use of political subdivisions within the State of Ohio. During fiscal year 2002 investments were limited to certificates of deposit and Star Ohio. For the Service Center, all investment earnings accrue to the General Fund. Interest income earned in fiscal year 2002 totaled \$113,579.

F. Taxes

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

G. Inventories

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

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2002, are recognized under the nonallocation method. The nonallocation method of prepayments and deferrals is consistent with the basic governmental concept that only expendable financial resources are reported by a specific governmental fund. Payments for the prepaid items or deferrals are fully recognized as an expenditure in the year of payment. Under the nonallocation method no asset for the prepayment or deferral is created, and no expenditure allocation to future accounting periods is required.

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Fixed Assets

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

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

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

J. Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds." Short-term interfund loans are classified as "interfund receivables/payables." At June 30, 2002, the Service Center had \$50,899 in "Due to Other Funds and Due from Other Funds" and \$59,259 in "Interfund Receivables/Payables."

K. Advances to Other Funds

Non-current portions of long-term interfund loan receivables are reported as advances and are offset equally by a fund balance reserve account which indicated that they do not constitute expendable available financial resources and therefore are not available for appropriation. At June 30, 2002 the Service Center had no long-term interfund loans.

L. Compensated Absences

The Service Center accounts for compensated absences in accordance with GASB Statement No. 16. Sick leave and other compensated absences with similar characteristics are accrued as a liability based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future to receive such payments. To calculate the liability, these accumulations are reduced to the maximum amount allowed as a termination payment. Accruals for those employees who are expected to become eligible in the future are based on assumptions concerning the probability that individual employees or class or group of employees will become eligible to receive termination payments. All employees with ten or more years of service were included in the calculation of the long-term compensated absences accrual amount.

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

M. Long-Term Obligations

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

N. Interfund Transactions

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

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

O. Fund Balance Reserves

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

P. Memorandum Only - Total Columns

Total columns on the general purpose financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

2. BUDGETARY BASIS OF ACCOUNTING

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

Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses Governmental Fund Types		
	Governmental Fund Types General Fund	Special Revenue
GAAP Basis	\$ 161,301	\$ (29,253)
Increase (Decrease):		
Due to Revenues:		
Net Adjustments to Revenues	169,251	(578)
Due to Expenditures:		
Net Adjustments to Expenditures	(97,464)	(422,737)
Due to Other Sources/Uses	(3,610)	3,610
Budget Basis	<u>\$ 229,478</u>	<u>\$ (448,958)</u>

3. ACCOUNTABILITY AND COMPLIANCE

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

4. CASH AND INVESTMENTS

State statutes classify monies held by the Service Center into three categories. Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Service Center Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

4. CASH AND INVESTMENTS (Continued)

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including pass book accounts.

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or its political subdivisions, provided that such political subdivisions are located wholly or partly within the Service Center;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which the Service Center lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2) or cash or both securities and cash, equal value for equal value;
9. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

4. CASH AND INVESTMENTS (Continued)

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

Deposits:

At year end, the carrying amount of the Service Center's deposits were \$1,557,758 and the bank balance was \$1,613,850 of which \$1,500,000 was in Certificates of Deposit. Of the bank balance: \$200,000 was covered by Federal Depository Insurance. The remainder of the bank balance, \$1,413,850, was uninsured and uncollateralized. Although securities serving as collateral were held by the pledging institution in the pledging institution's name and all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the Service Center to a successful claim by the FDIC.

Investments:

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

	Category			Carrying Value	Market Value
	1	2	3		
STAR Ohio	\$ 0	0	0	\$ 2,717,457	\$ 2,717,457

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

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

4. CASH AND INVESTMENTS (Continued)

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

	Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$ 4,275,215	\$ 0
Investments:		
Star Ohio	(2,717,457)	2,717,457
GASB Statement No. 3	\$ 1,557,758	\$ 2,717,457

5. RECEIVABLES

Receivables at June 30, 2002 consisted of tuition, transportation fees, miscellaneous revenues and intergovernmental grants. All receivables are considered collectible in full due to the stable condition of State programs, and the current guarantee of Federal funds.

A summary of the principal items of Intergovernmental Receivables follows:

General Fund:	
Tuition	\$ 414,452
Transportation Reimbursement	4,198
CAFS Funding	19,064
Total General Fund	437,714
Special Revenue Fund:	
PreSchool Bus Driver Training Program	1,250
Total Special Revenue Fund	1,250
Enterprise Fund:	
Latchkey Program	129
Total Enterprise Fund	129
Grand Total	\$ 439,093

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

6. FIXED ASSETS

The following is a summary of the proprietary fund property, plant and equipment at June 30, 2002:

Furniture and Equipment	\$	18,842
Less Accumulated Depreciation		(651)

Net Fixed Assets	\$	18,191

The following is a summary of changes in the General Fixed Assets Account Group during the fiscal year 2002:

	General Fixed Assets June 30, 2001	Additions	Deletions	General Fixed Assets June 30, 2002
Furniture and Equipment	\$ 510,606	98,410	296,267	\$ 312,749
Vehicles	115,834	0	0	115,834
Total General Fixed Assets	\$ 626,440	98,410	296,267	\$ 428,583

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 9 percent of their annual covered salary and the Service Center is required to contribute at an actuarially determined rate. The current Service Center rate is 14 percent of annual covered payroll. A portion of the Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amount, by the SERS' Retirement Board. The Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$142,261, \$111,500 and \$80,109, respectively; no contribution has been made for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$166,134 representing the unpaid contribution for fiscal year 2002, including the surcharge, is recorded as a liability within the respective funds.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

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

For the fiscal year ended June 30, 2002, plan members are required to contribute 9.3 percent of their annual covered salaries. The Service Center is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. For fiscal year 2000 (the latest information available), 6 percent was used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Service Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$365,751, \$392,176 and \$322,858, respectively; 87.4 percent has been contributed for fiscal year 2002, and 100 percent for fiscal years 2001 and 2000. \$37,348 represents the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds.

8. POSTEMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2001 (the latest information available), the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund, a decrease of 3.5 percent for fiscal year 2001. For the Service Center, this amount equaled \$117,563 for fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, (the latest information available) the balance in the Fund was \$3.256 billion. For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

8. POSTEMPLOYMENT BENEFITS (Continued)

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll, a decrease of 1.26 percent for fiscal year 2002. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay has been established at \$12,400. For the Service Center, the amount to fund health care benefits, including surcharge, during the 2002 fiscal year equaled \$110,653.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2002, were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants receiving health care benefits.

9. COMPENSATED ABSENCES

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

Vacation Leave:

The Superintendent and Treasurer receive 30 and 25 days of vacation, respectively, per year.

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

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

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

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

9. COMPENSATED ABSENCES (Continued)

Classified personnel accumulate vacation based on the following schedule:

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

Sick Leave:

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

Severance Pay:

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

10. RISK MANAGEMENT

General Risk

The Service Center is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The Service Center has addressed these various types of risk by purchasing a comprehensive insurance policy through commercial carriers.

General liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$3,000,000 in the aggregate.

Worker's Compensation

The Service Center maintains replacement cost insurance on building contents in the amount of \$50,000. Other insurance includes electronic data processing equipment coverage in the amount of \$60,000.

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

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

10. RISK MANAGEMENT (Continued)

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

Health Insurance

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

11. NOTES AND LONG-TERM DEBT

A summary of changes in long-term obligations for the year ended June 30, 2002, are as follows:

	Balance June 30, 2001	Additions	Deletions	Balance June 30, 2002
Intergovernmental Payable	\$ 18,097	23,873	18,097	\$ 23,873
Compensated Absences Payable	283,037	287,484	283,037	287,484
	<u>\$ 301,134</u>	<u>311,357</u>	<u>301,134</u>	<u>\$ 311,357</u>

12. JOINTLY GOVERNED ORGANIZATIONS

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

Superintendents of the participating school districts are eligible to be voting members of the Governing Board which consists of ten members: the Trumbull and Ashtabula County superintendents (permanent members), three superintendents from Ashtabula County school districts, three superintendents from Trumbull County districts, and a treasurer from each county. The District was represented on the Governing Board during fiscal year 2002. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. A complete set of separate financial statements may be obtained from the Trumbull County Educational Service Center, 347 North Park Avenue, Warren, Ohio, 44481.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

12. JOINTLY GOVERNED ORGANIZATIONS (Continued)

Ashtabula County Joint Vocational School District

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

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

Ashtabula County Schools Council of Governments

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

13. CONTINGENCIES

A. Grants

The Service Center received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Service Center at June 30, 2002.

B. Litigation

The Service Center is not a party to any legal proceedings seeking damages or injunctive relief generally incidental to its operations and pending at June 30, 2002.

14. SCHOOL FUNDING DECISION

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

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

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

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
ASHTABULA COUNTY**

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

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education:</i>				
Special Education Cluster:				
Special Education Grants to States (IDEA Part B)	6B-SF-01 6B-SF-02	84.027	\$499,126	\$378,641 57,729
Sub-Total - Special Education Grant			499,126	436,370
Special Education - Preschool Grant	PG-S1-01 PG-S1-02	84.173	27,049	23,484 26,861
Sub-Total - Preschool Grant			27,049	50,345
Total Special Education Cluster			526,175	486,715
Total Department of Education			526,175	486,715
<u>INSTITUTE OF LIBRARY SERVICES</u>				
<i>Passed Through State Library of Ohio:</i>				
LSTA Mini Grant		45.310	56,787	56,787
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
<i>Passed Through Ohio Department of Human Services; Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>				
Medicaid Cluster:				
Medical Assistance Program - Title XIX - Community Alternative Funding System	FY2002	93.778	115,512	115,512
Totals			<u>\$698,474</u>	<u>\$659,014</u>

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

**ASHTABULA COUNTY EDUCATIONAL
SERVICE CENTER**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR FISCAL YEAR ENDED JUNE 30, 2002**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - MATCHING REQUIREMENTS

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



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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

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

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

To The Board of Education:

We have audited the financial statements of Ashtabula County Educational Service Center as of and for the year ended June 30, 2002, and have issued our report thereon dated December 17, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Ashtabula County Educational Service Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Ashtabula County Educational Service Center in a separate letter dated December 17, 2002.

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is fluid and cursive, with a large loop at the end.

Jim Petro
Auditor of State

December 17, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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

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

To The Board of Education:

Compliance

We have audited the compliance of Ashtabula County Educational Service Center with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. Ashtabula County Educational Service Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Ashtabula County Educational Service Center's management. Our responsibility is to express an opinion on Ashtabula County Educational Service Center's compliance based on our audit.

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

In our opinion, Ashtabula County Educational Service Center complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

A handwritten signature in black ink, appearing to read "Jim Petro", written in a cursive style.

Jim Petro
Auditor of State

December 17, 2002

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
ASHTABULA COUNTY
JUNE 30, 2002**

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

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

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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

ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER

ASHTABULA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 9, 2003**