



Mary Taylor, CPA
Auditor of State

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
ASHTABULA COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Governing Board:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Ashtabula County Educational Service Center, Ashtabula County, Ohio (the Service Center) as of and for the year ended June 30, 2006, which collectively comprise the Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Service Center's management. Our responsibility is to express opinions on these 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

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. However, as discussed in Note 1, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

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, 2006, and the respective changes in cash financial position and the respective budgetary comparison for the General and IDEIA – Part-B funds thereof for the year then ended in conformity with the basis of accounting Note 1 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2007, on our consideration of the Ashtabula County Educational Service Center, Ashtabula County'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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the Service Center's basic financial statements. The federal awards expenditure schedule is 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 basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Mary Taylor, CPA
Auditor of State

April 25, 2007

Ashtabula County Educational Service Center
Management's Discussion and Analysis
For the Year Ended June 30, 2006
Unaudited

This discussion and analysis of the Ashtabula County Education Service Center's financial performance provides an overall review of the Service Center's financial activities for the fiscal year ended June 30, 2006, 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 2006 are as follows:

- Net assets of governmental activities decreased \$297,227, which represents an 8.1 percent decrease from 2005.
- Total revenues of \$6,463,337 were comprised of general revenues in the amount of \$3,729,275 and program specific revenues from charges for services and operating grants and contributions in the amount of \$2,734,062. This reflects that 58 percent is comprised of general receipts and 42 percent is comprised of program receipts.
- Among major funds, the general fund had \$4,770,253 in revenues and \$5,042,733 in expenditures. The general fund's fund balance decreased to \$3,031,524 from \$3,411,561.
- The IDEIA Part-B special revenue fund had \$1,348,549 in revenues and \$1,341,385 in expenditures. The fund balance increased by \$28,826.

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 assets 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 Year Ended June 30, 2006
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 assets and the statement of activities reflect how the Service Center did financially during 2006 within the limitations of cash basis accounting. The statement of net assets 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 and infrastructure, 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 assets 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 Year Ended June 30, 2006
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 nonmajor 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 and IDEIA Part-B special revenue funds. 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 assets for 2006 compared to 2005 on a cash basis:

(Table 1)
Net Assets
Governmental Activities

	<u>2006</u>	<u>2005</u>	<u>Change</u>
Assets			
Cash and Cash Equivalents	<u>\$3,389,838</u>	<u>\$3,687,065</u>	<u>(\$297,227)</u>
Net Assets			
Restricted for:			
Other Purposes	358,314	275,504	82,810
Unrestricted	<u>3,031,524</u>	<u>3,411,561</u>	<u>(380,037)</u>
Total Net Assets	<u>\$3,389,838</u>	<u>\$3,687,065</u>	<u>(\$297,227)</u>

As mentioned previously, net assets of governmental activities decreased by \$297,227 or 8.1 percent during 2006. The primary reasons contributing to the decrease in the cash balance is the reduction of revenues due to the reduction in services to the client-districts. Also impacting the decrease is the increase in wages and the associated compensation packages. There was also an increase in the number of employees electing to participate in the health insurance program in 2006.

Ashtabula County Educational Service Center
Management's Discussion and Analysis
For the Year Ended June 30, 2006
Unaudited

Table 2 reflects the changes in net assets in 2006. Since the Service Center did not prepare financial statements in this format for 2005, a comparative analysis of government-wide data has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

(Table 2)
Changes in Net Assets

	Governmental Activities 2006
Receipts:	
<i>Program Receipts:</i>	
Charges for Services	\$1,061,795
Operating Grants and Contributions	1,672,267
Total Program Receipts	2,734,062
<i>General Receipts:</i>	
Grants and Entitlements Not Restricted to Specific Programs	3,429,079
Unrestricted Contributions and Donations	1,795
Interest	158,535
Miscellaneous	139,866
Total General Receipts	3,729,275
Total Receipts	6,463,337
Disbursements:	
<i>Instruction:</i>	
Regular	335,725
Special	1,538,407
Adult/Continuing	130,122
<i>Support Services:</i>	
Pupil	1,151,729
Instructional Staff	2,309,652
Board of Education	42,774
Administration	849,730
Fiscal	250,420
Operation and Maintenance of Plant	17,562
Pupil Transportation	53,317
Central	81,126
Total Disbursements	6,760,564
Increase (Decrease) in Net Assets	(297,227)
Net Assets, June 30, 2005	3,687,065
Net Assets, June 30, 2006	\$3,389,838

Program revenues represent 42 percent of the total receipts and are primarily comprised of funds used to cover services provided to the school districts, tuition and operating grants.

Program expenses exceeded program revenues due to a reduction in revenue due to a reduction in services to client-districts.

Ashtabula County Educational Service Center
Management's Discussion and Analysis
For the Year Ended June 30, 2006
Unaudited

Governmental Activities

If you look at the Statement of Activities on page 9, 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 support services instructional staff, which account for 23 and 34 percent of all governmental disbursements, respectively. The next two columns of the Statement entitled Program 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 Receipt (Disbursement) 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 2006	Net Cost of Services 2006
	2006	2006
Instruction:		
Regular	\$335,725	(\$88,011)
Special	1,538,407	(969,094)
Adult/Continuing	130,122	(16,819)
Support Services:		
Pupil	1,151,729	(745,909)
Instructional Staff	2,309,652	(1,420,506)
Board of Education	42,774	(32,804)
Administration	849,730	(493,445)
Fiscal	250,420	(179,114)
Operation and Maintenance of Plant	17,562	(12,562)
Pupil Transportation	53,317	12,888
Central	81,126	(81,126)
Total Expenses	\$6,760,564	(\$4,026,502)

The Government's Funds

Information regarding the Service Center's major funds starts on page 10. These funds are accounted for using the cash basis of accounting. All governmental funds had total revenues of \$6,463,337 and total expenditures of \$6,760,564. The net change in the governmental fund balance for the year was most significant in the general fund and the IDEIA Part-B special revenue funds. While the general fund balance decreased by \$380,037, the IDEIA Part-B fund balance increased by \$28,826.

General Fund Budgeting Highlights

The Service Center's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

Ashtabula County Educational Service Center

Management's Discussion and Analysis

For the Year Ended June 30, 2006

Unaudited

During the course of fiscal year 2006, the Service Center amended its general fund budget as needed to reflect changing circumstances. Many of the amendments are due to changes in program attendance and/or client-district needs. The general fund is often called upon to advance funds to one project or another. During the course of the fiscal year, several federal and state grants will surface or material changes in existing ones will require budgetary action.

For the general fund, the final budget basis revenue estimate was \$4,748,904; this was above the original revenue estimate of \$4,559,141. The main difference between the original and final estimates was due to increased intergovernmental revenues used to fund the various services provided to the participating school districts.

The final budget basis expenditures estimate totaled \$8,201,053; this was above the original budget estimate of \$8,008,949. The increase in the budget estimate was a result of an increase in the revenue estimate.

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 revenues and expenditures in accordance with board policy. The Educational Service Center is committed to serving its local school districts and will continue to do so.

The Service Center is centrally located at the Ashtabula County Joint Vocational School in Jefferson, Ohio. Rent for the office space is currently paid for by the Ashtabula County Commissioners. The central location enables easy access for countywide in-service programs, professional development and training activities.

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 provide cost effective services to school districts. If the Service Center does not provide efficiency, there is no reason for a 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 Bonnie S. Brockway, Treasurer at Ashtabula County Educational Service Center, 1565 State Route 167, P.O. Box 186, Jefferson, Ohio 44047-0186.

Ashtabula County Educational Service Center

Statement of Net Assets - Cash Basis

June 30, 2006

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$3,389,838</u>
Net Assets	
Restricted for:	
Other Purposes	\$358,314
Unrestricted	<u>3,031,524</u>
<i>Total Net Assets</i>	<u>\$3,389,838</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, 2006*

	Program Cash Receipts			Net Receipts (Disbursements) and Changes in Net Assets
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Instruction:				
Regular	\$335,725	\$223,731	\$23,983	(\$88,011)
Special	1,538,407	307,422	261,891	(969,094)
Adult/Continuing	130,122	21,925	91,378	(16,819)
Support Services:				
Pupil	1,151,729	149,354	256,466	(745,909)
Instructional Staff	2,309,652	242,509	646,637	(1,420,506)
Board of Education	42,774	9,970	0	(32,804)
Administration	849,730	9,506	346,779	(493,445)
Fiscal	250,420	48,407	22,899	(179,114)
Operation and Maintenance of Plant	17,562	0	5,000	(12,562)
Pupil Transportation	53,317	48,971	17,234	12,888
Central	81,126	0	0	(81,126)
Total	\$6,760,564	\$1,061,795	\$1,672,267	(4,026,502)
General Receipts				
Grants and Entitlements not Restricted to Specific Programs				3,429,079
Unrestricted Contributions and Donations				1,795
Interest				158,535
Miscellaneous				139,866
<i>Total General Receipts</i>				<u>3,729,275</u>
Change in Net Assets				(297,227)
<i>Net Assets Beginning of Year - Restated (See Note 3)</i>				<u>3,687,065</u>
<i>Net Assets End of Year</i>				<u><u>\$3,389,838</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, 2006

	<u>General</u>	<u>IDEIA Part-B</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	<u>\$3,031,524</u>	<u>\$73,612</u>	<u>\$284,702</u>	<u>\$3,389,838</u>
Fund Balances				
Reserved for Encumbrances	\$127,694	\$72,080	\$64,074	\$263,848
Unreserved:				
Undesignated (Deficit), Reported in:				
General Fund	2,903,830	0	0	2,903,830
Special Revenue Funds	<u>0</u>	<u>1,532</u>	<u>220,628</u>	<u>222,160</u>
<i>Total Fund Balances</i>	<u>\$3,031,524</u>	<u>\$73,612</u>	<u>\$284,702</u>	<u>\$3,389,838</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, 2006

	General	IDEIA Part-B	Other Governmental Funds	Total Governmental Funds
Receipts				
Intergovernmental	\$3,495,620	\$1,348,549	\$257,177	\$5,101,346
Interest	158,535	0	0	158,535
Tuition and Fees	308,880	0	45,094	353,974
Contributions and Donations	1,795	0	0	1,795
Charges for Services	707,821	0	0	707,821
Miscellaneous	97,602	0	42,264	139,866
<i>Total Receipts</i>	<u>4,770,253</u>	<u>1,348,549</u>	<u>344,535</u>	<u>6,463,337</u>
Disbursements				
Current:				
Instruction:				
Regular	331,936	0	3,789	335,725
Special	1,277,733	227,812	32,862	1,538,407
Adult/Continuing	0	0	130,122	130,122
Support Services:				
Pupil	931,763	215,403	4,563	1,151,729
Instructional Staff	1,579,241	559,433	170,978	2,309,652
Board of Education	42,774	0	0	42,774
Administration	504,661	320,237	24,832	849,730
Fiscal	227,620	18,500	4,300	250,420
Operation and Maintenance of Plant	12,562	0	5,000	17,562
Pupil Transportation	53,317	0	0	53,317
Central	81,126	0	0	81,126
<i>Total Disbursements</i>	<u>5,042,733</u>	<u>1,341,385</u>	<u>376,446</u>	<u>6,760,564</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(272,480)</u>	<u>7,164</u>	<u>(31,911)</u>	<u>(297,227)</u>
Other Financing Sources (Uses)				
Transfers In	0	0	11,645	11,645
Transfers Out	(11,645)	0	0	(11,645)
Advances In	58,588	67,500	87,000	213,088
Advances Out	(154,500)	(45,838)	(12,750)	(213,088)
<i>Total Other Financing Sources (Uses)</i>	<u>(107,557)</u>	<u>21,662</u>	<u>85,895</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	(380,037)	28,826	53,984	(297,227)
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	<u>3,411,561</u>	<u>44,786</u>	<u>230,718</u>	<u>3,687,065</u>
<i>Fund Balances End of Year</i>	<u>\$3,031,524</u>	<u>\$73,612</u>	<u>\$284,702</u>	<u>\$3,389,838</u>

See accompanying notes to the basic financial statements

Ashtabula County Educational Service Center

Statement of Receipts, Disbursements and Changes

In Fund Balance - Budget and Actual -Budget Basis

General Fund

For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget Positive (Negative)
Receipts				
Intergovernmental	\$3,355,937	\$3,495,620	\$3,495,620	\$0
Interest	146,886	153,000	158,535	5,535
Tuition and Fees	292,145	304,305	308,880	4,575
Contributions and Donations	1,723	1,795	1,795	0
Charges for Services	669,544	697,411	707,821	10,410
Miscellaneous	92,906	96,773	97,602	829
<i>Total Receipts</i>	<u>4,559,141</u>	<u>4,748,904</u>	<u>4,770,253</u>	<u>21,349</u>
Disbursements				
Current:				
Instruction:				
Regular	612,105	612,105	345,173	266,932
Special	1,746,942	1,746,942	1,284,332	462,610
Support Services:				
Pupil	1,450,565	1,498,846	948,270	550,576
Instructional Staff	2,579,010	2,668,581	1,608,804	1,059,777
Board of Education	94,623	97,730	49,249	48,481
Administration	1,007,780	1,041,787	553,517	488,270
Fiscal	299,619	309,147	230,604	78,543
Operation and Maintenance of Plant	19,386	20,072	12,562	7,510
Pupil Transportation	105,222	108,843	56,791	52,052
Central	93,697	97,000	81,126	15,874
<i>Total Disbursements</i>	<u>8,008,949</u>	<u>8,201,053</u>	<u>5,170,428</u>	<u>3,030,625</u>
<i>Excess of Receipts Under Disbursements</i>	<u>(3,449,808)</u>	<u>(3,452,149)</u>	<u>(400,175)</u>	<u>3,051,974</u>
Other Financing Sources (Uses)				
Transfers Out	(18,000)	(18,000)	(11,645)	6,355
Advances In	56,247	58,588	58,588	0
Advances Out	0	0	(154,500)	(154,500)
<i>Total Other Financing Sources (Uses)</i>	<u>38,247</u>	<u>40,588</u>	<u>(107,557)</u>	<u>(148,145)</u>
<i>Net Change in Fund Balance</i>	<u>(3,411,561)</u>	<u>(3,411,561)</u>	<u>(507,732)</u>	<u>2,903,829</u>
<i>Fund Balance Beginning of Year</i>	<u>3,277,158</u>	<u>3,277,158</u>	<u>3,277,158</u>	<u>0</u>
<i>Prior Year Encumbrances Appropriated</i>	<u>134,403</u>	<u>134,403</u>	<u>134,403</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$0</u>	<u>\$0</u>	<u>\$2,903,829</u>	<u>\$2,903,829</u>

See accompanying notes to the basic financial statements

Ashtabula County Educational Service Center
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
IDEIA Part-B Fund
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Intergovernmental	\$1,848,864	\$1,370,211	\$1,348,549	(\$21,662)
Disbursements				
Current:				
Instruction:				
Special	353,869	262,494	260,961	1,533
Support Services:				
Pupil	341,796	253,308	253,308	0
Instructional Staff	739,645	559,433	559,433	0
Administration	433,377	321,262	321,262	0
Fiscal	24,963	18,500	18,500	0
<i>Total Disbursements</i>	<u>1,893,650</u>	<u>1,414,997</u>	<u>1,413,464</u>	<u>1,533</u>
<i>Excess of Receipts Under Disbursements</i>	<u>(44,786)</u>	<u>(44,786)</u>	<u>(64,915)</u>	<u>(20,129)</u>
Other Financing Sources (Uses)				
Advances In	0	0	67,500	67,500
Advances Out	0	0	(45,838)	(45,838)
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>0</u>	<u>21,662</u>	<u>21,662</u>
<i>Net Change in Fund Balance</i>	(44,786)	(44,786)	(43,253)	1,533
<i>Fund Balance Beginning of Year</i>	0	0	0	0
Prior Year Encumbrances Appropriated	44,786	44,786	44,786	0
<i>Fund Balance End of Year</i>	<u>\$0</u>	<u>\$0</u>	<u>\$1,533</u>	<u>\$1,533</u>

See accompanying notes to the basic financial statements

Ashtabula County Educational Service Center
Statement of Fiduciary Assets and Liabilities - Cash Basis
Agency Fund
June 30, 2006

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$166,858</u>
Liabilities	
Due to Others	<u>\$166,858</u>

See accompanying notes to the basic financial statements

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Ashtabula County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

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 14,584 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.

A. 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.

B. 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. The Service Center is also financially accountable for any 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. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the Service Center, are accessible to the Service Center and are significant in amount to the Service Center. The Service Center has no component units.

The Service Center participates in two jointly governed organizations, two insurance purchasing pools and one risk insurance pool. These organizations are the North East Ohio Management Information Network, the Ashtabula County Joint Vocational School District, 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 14 and 15 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.

Note 2 - Summary of Significant Accounting Policies

As discussed further in Note 2.C, these financial statements 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

Ashtabula County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

applicable to the cash basis of accounting. In the government-wide financial statements Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the Service Center's accounting policies.

A. Basis of Presentation

The Service Center's basic financial statements consist of government-wide financial statements, including a statement of net assets 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 assets 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 assets 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.

B. 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 IDEIA Part-B special revenue fund.

Ashtabula County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

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

IDEIA Part-B Fund The IDEIA Part-B fund accounts for Federal monies used 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 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.

C. 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.

D. Budgetary Process

The Service Center adopts a budget for all funds, other than agency funds. The Service Center's Board adopts an annual appropriation resolution which is the Board's authorization to spend resources and sets annual limits on expenditures 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 Treasurer reviews the prior year's revenues and factors in the wages expected to be charged for the services offered and the grants anticipated to be received in order to determine the estimated resources for the current year. The estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Service Center Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts of the estimated resources approved by the Board when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts of the estimated resources that was in effect at the time the final appropriations were passed by the Board.

Ashtabula County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues by fund. 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.

E. 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 2006, the Service Center invested in nonnegotiable certificates 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 share price, which is the price the investment could be sold for on June 30, 2006.

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 2006 was \$158,535, which included \$16,758 assigned from other Service Center funds.

F. 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.

G. 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.

H. Interfund Receivables/Payables

The Service Center reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

I. 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.

Ashtabula County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

J. 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 9 and 10, the employer contributions include portions for pension benefits and for postretirement health care benefits.

K. 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.

L. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Service Center or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The government-wide statement of net assets reports restricted net assets of \$358,314, none of which is restricted by enabling legislation. Net assets 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 assets are available.

M. Fund Balance Reserves

The Service Center reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances.

N. Interfund Transactions

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular cash disbursements to the funds that initially paid for them are not presented in the financial statements.

Note 3 – Change in Basis of Accounting and Restatement of Fund Equity

A. Change in Basis of Accounting

For fiscal year 2006, the Service Center has implemented GASB Statement No. 47, "Accounting for Termination Benefits." GASB Statement No. 47 establishes standards of accounting and financial reporting for termination benefits.

The implementation of GASB Statement No. 47 did not materially affect the presentation of the financial statements of the Service Center.

Ashtabula County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

For fiscal year 2006, the Service Center ceased to report using generally accepted accounting principles and reported on the cash basis as described in Note 2C.

B. Restatement of Fund Equity

The implementation of this change had the following effects on fund equity of the major and nonmajor funds of the Service Center as they were previously reported. The effects on net assets of governmental activities are also presented.

	<u>General</u>	<u>IDEIA Part-B</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balance June 30, 2005	\$3,193,926	(\$122,971)	\$62,877	\$3,133,832
Fund Reclassification	(143,356)	0	143,356	0
Eliminate Asset Accruals	(282,626)	0	(1,749)	(284,375)
Eliminate Liability Accruals	<u>643,617</u>	<u>167,757</u>	<u>26,234</u>	<u>837,608</u>
Adjusted Fund Balance June 30, 2005	<u>\$3,411,561</u>	<u>\$44,786</u>	<u>\$230,718</u>	<u>\$3,687,065</u>
Governmental Activities Net Assets June 30, 2005			\$2,921,918	
Eliminate Asset Modified Accruals			(284,375)	
Eliminate Liability Modified Accruals			837,608	
Eliminate Government-Wide Financial Statement Adjustments:				
Interfund Receivable			58,588	
Capital Assets			(135,981)	
Interfund Payable			(58,588)	
Deferred Revenue			(2,160)	
Compensated Absences			<u>350,055</u>	
Adjusted Governmental Activities Net Assets June 30, 2005			<u>\$3,687,065</u>	

Note 4 – 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, liabilities, net assets/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, 2006

Note 5 - Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the general fund and the IDEIA Part-B special revenue fund is prepared 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 a reservation of fund balance (cash basis).

The encumbrances outstanding at year end (budgetary basis) in the general and IDEIA Part-B special revenue fund was \$127,695 and \$72,079, respectively.

Note 6 – Deposits and Investments

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

Active deposits are public deposits 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 of Education 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 Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to payment of 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, 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 securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;

Ashtabula County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

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) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAROhio);
8. Commercial paper and bankers acceptances if training requirements have been met.

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, \$2,725,757 of the Service Center's bank balance of \$2,920,717 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, 2006, the Service Center had STAROhio as the only investment with an amount of \$665,812 and a maturity of 34.8 days. The investment is in an internal investment pool.

Credit Risk Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The Service Center has no investment policy that would further limit its investment choices.

Note 7 – 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 to the local and client school districts based on each school's total student count. The 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

Ashtabula County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

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 local and client school districts.

The Service Center also receives funding from the State Department of Education in the amount of \$37 times the average daily membership of the school districts. 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 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 8 - Risk Management

A. 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 2006, the Service Center joined together with other Service Centers in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool to obtain liability coverage. Each individual school district 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.

B. 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.

Ashtabula County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

C. Employee Medical Benefits

The Service Center participates in the Ashtabula County Schools Council of Governments, a shared risk pool (Note 15) 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 9 - Defined Benefit Pension Plans

A. State Teachers Retirement System

The Service Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, OH 43215-3371, by calling (614) 227-4090 or by visiting the STRS Ohio website 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. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

Ashtabula County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

The Service Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005 and 2004 were \$352,564, \$418,117 and \$434,299, respectively. The full amount has been contributed for fiscal years 2006, 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$313 made by the Service Center and \$7,727 made by the plan members.

B. 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 43215-3476, by calling (800) 878-5853 or by visiting the SERS website at ohsers.org.

Plan members are required to contribute 10 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 2006, 10.58 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, 2006, 2005 and 2004 were \$125,629, \$176,591 and \$169,844 respectively. The full amount has been contributed for fiscal years 2006, 2005 and 2004.

Note 10 - Postemployment Benefits

The Service Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial 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 on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All 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 Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the Service Center, this amount equaled \$27,120 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was \$3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000 and STRS Ohio had 115,395 eligible benefit recipients.

Ashtabula County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

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. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

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, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. 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 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the Service Center, the amount contributed to fund health care benefits, including surcharge, during the 2006 fiscal year equaled \$64,358.

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 the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has 58,123 participants eligible to receive health care benefits.

Note 11 - Interfund Receivables/Payables

At June 30, 2006, the general fund had unpaid interfund cash advances, in the amount of \$154,500, for a short-term loan made to the local grants, bus driver training and IDEIA Part-B special revenue funds. These are expected to be repaid within one year.

Note 12 – Contingent Liabilities

A. 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.

B. Litigation

The Service Center is not party to legal proceedings.

Note 13 - Interfund Transfers

During fiscal year 2006, the general fund transferred \$11,645 to the bus driver training and educational management information system special revenue funds, respectively. These transfers were to help provide funding for fiscal year 2006.

Ashtabula County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

Note 14 - Jointly Governed Organizations

A. North East Ohio Management Information Network

The North East Ohio Management Information Network (NEOMIN) is a jointly governed organization amount thirty Service Centers 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 Service Centers. Each of the districts supports NEOMIN based upon a per pupil charge. The Service Center paid \$6,884 to NEOMIN during fiscal year 2006.

The Governing Board consists of ten members: the Trumbull and Ashtabula County superintendents (permanent members), three superintendents from Ashtabula County participating Service Centers, three superintendents from Trumbull County participating Service Centers, and a principal and treasurer (non-voting members who must be employed by a participating Service Center, 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.

B. Ashtabula County Joint Vocational School District

The Ashtabula County Joint Vocational School District (JVS) is a distinct political subdivision of the State of Ohio which provides vocational education to students. The JVS 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. Financial information can be obtained from MaryAnn Wayman, Treasurer at Ashtabula County Joint Vocational School District, 1565 State Route 167, Jefferson, Ohio 44047.

Note 15 – Public Entity Risk Pools

A. 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, Inc. and a partner of the Hylant Group, Inc. Hylant Group Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

Ashtabula County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

Ohio Association of School Business Officials Workers' Compensation Group Rating Plan The School District 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 school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

B. Risk Sharing Pool

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 Service Center pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating school districts. 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.

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
ASHTABULA COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006**

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 (IDEIA Part B)	6B-SF-05 6B-SF-06	84.027	\$123,544 <u>1,225,005</u>	\$122,491 <u>1,218,894</u>
Sub-Total - IDEIA, Part B			<u>1,348,549</u>	<u>1,341,385</u>
Early Childhood Special Education, IDEA	PG-S1-06	84.173	<u>35,731</u>	<u>35,731</u>
Total - Special Education Cluster			<u>1,384,280</u>	<u>1,377,116</u>
Safe and Drug-Free Schools and Communities	T4-S1-05	84.184	<u>11,250</u>	<u>0</u>
Total Department of Education			<u>1,395,530</u>	<u>1,377,116</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
<i>Passed Through Ohio Department of Jobs and Family Services: Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>				
Medicaid Cluster:				
Medical Assistance Program - Title XIX - Community Alternative Funding System (CAFS)	FY2006	93.778	37,048	37,048
State Children's Health Insurance Program (SCHIP)	FY2006	93.778	<u>2,865</u>	<u>2,865</u>
Total - Medicaid Cluster - Medicaid Assistance Program			<u>39,913</u>	<u>39,913</u>
Totals			<u>\$1,435,443</u>	<u>\$1,417,029</u>

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

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
ASHTABULA COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2006**

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.



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' 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
1565 State Route 167
Jefferson, Ohio 44047

To the Governing Board:

We have audited the financial statements of the Ashtabula County Educational Service Center (the Service Center) as of and for the year ended June 30, 2006, and have issued our report thereon dated April 25, 2007, wherein we noted the Service Center followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America.. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Service Center's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

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, providing an opinion 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 one instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2006-001.

Ashtabula County Educational Service Center
Independent Accountants' Report on Internal Control
Over Financial Reporting and on Compliance and Other
Matters Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of management, the Governing Board, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

Mary Taylor, CPA
Auditor of State

April 25, 2007



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS MAJOR FEDERAL PROGRAM AND ON 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 Governing Board:

Compliance

We have audited the compliance of Ashtabula County Educational Service Center (the 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 apply to its major federal program for the year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the Service Center's major federal program. The Service Center's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its major federal program. Our responsibility is to express an opinion on the 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Service Center's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the 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 apply to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

The Service Center's management 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 the Service Center's internal control over compliance with requirements that could directly and materially affect a major federal program 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 reportable 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 caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We intend this report solely for the information and use of management, the Governing Board, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

April 25, 2007

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
ASHTABULA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006**

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 noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education Cluster: IDEIA, Part B (CFDA No. 84.027) Early Childhood Special Education (CFDA No. 84.173)
<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**

Finding Number	2006-001
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Noncompliance Citation

Annual Financial Report

Ohio Revised 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 Administrative Code § 117-2-03 (B) further clarifies the requirements of the Ohio Revised Code § 117.38.

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
ASHTABULA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006**

Ohio Administrative Code § 117-2-03 (B) requires the Service Center to prepare its financial report in accordance with accounting principles generally accepted in the United States of America. However, the Service Center prepared its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

Official's Response:

The Governing Board and Treasurer do not feel it is cost effective and efficient to prepare the conversion and future reporting needs. Therefore, we chose to report under the new standards of Other Comprehensive Basis of Accounting (OCBOA).

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



Mary Taylor, CPA
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
MAY 31, 2007**