



**Auditor of State
Betty Montgomery**

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
ASHTABULA COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANT'S 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, (the Service Center) as of and for the year ended June 30, 2004, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Ashtabula County Educational Service Center, as of June 30, 2004, and the respective changes in financial position, and the respective budgetary comparison for the General and IDEA Part B funds thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 15, during the year ended June 30, 2004, the Service Center implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Managements Discussion and Analysis for State and Local Governments* and GASB Interpretation No.6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2005, on our consideration of the Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form opinions 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 also 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.

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

Betty Montgomery
Auditor of State

February 11, 2005

Ashtabula County Educational Service Center
Ashtabula County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

The discussion and analysis of Ashtabula County Education Service Center's (the Service Center) financial performance provides an overall review of the Service Center's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the Service Center's financial performance as a whole; readers should also review the transmittal letter, notes to the basic financial statements and financial statements to enhance their understanding of the Service Center's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

Overall:

- For governmental activities, net assets decreased \$0.4 million, which represents a 12 percent decrease from 2003.
- General revenues accounted for \$4.3 million in revenue or 72 percent of all governmental revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1.7 million or 28 percent of total governmental revenues of \$5.9 million.
- The Service Center had \$6.3 million in expenses related to governmental activities; only \$1.7 million of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily grants and entitlements) of \$4.3 million were adequate to provide for these programs.
- Among major funds, the General Fund had \$4.6 million in revenues and \$5 million in expenditures. The General Fund's fund balance decreased to \$0.5 million from \$3.4 million.
- The IDEA Part-B Fund had \$0.88 million in revenue and \$0.88 million in expenditures. The fund balance decreased by \$4,300.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Ashtabula County Educational Service Center as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

Ashtabula County Educational Service Center
Ashtabula County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

The *Statement of Net Assets* and *Statement of Activities* provides information about the activities of the whole Service Center, presenting both an aggregate view of the Service Center's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term and what remains for future spending. The fund financial statements also look at the Service Center's most significant funds with all other non-major funds presented in total in one column. In the case of Ashtabula County Educational Service Center, the General Fund and IDEA Part-B Fund by far are the most significant funds.

Reporting the Service Center as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the Service Center to provide programs and activities, the view of the Service Center as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answers this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into accounts all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Service Center's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Service Center as a whole, the *financial position* of the Service Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include current laws in Ohio pertaining to the state foundation funding system, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the Service Center only has one kind of activities:

- Governmental Activities - Most of the Service Center's programs and services are reported here including instruction, support services, operation and maintenance of plant, and pupil transportation.

Ashtabula County Educational Service Center
Ashtabula County
Management's Discussion and Analysis
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Unaudited

Reporting the Service Center's Most Significant Funds

Fund Financial Statements

The analysis of the Service Center's major funds begins on page 16. Fund financial reports provide detailed information about the Service Center's major funds. The Service Center uses many funds to account for a multitude of financial transactions. However, these financial statements focus on the Service Center's most significant funds. The Service Center's major governmental funds are the General Fund and IDEA Part-B Fund.

Governmental Funds Most of the Service Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual*, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Service Center's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements.

The Service Center as a Whole

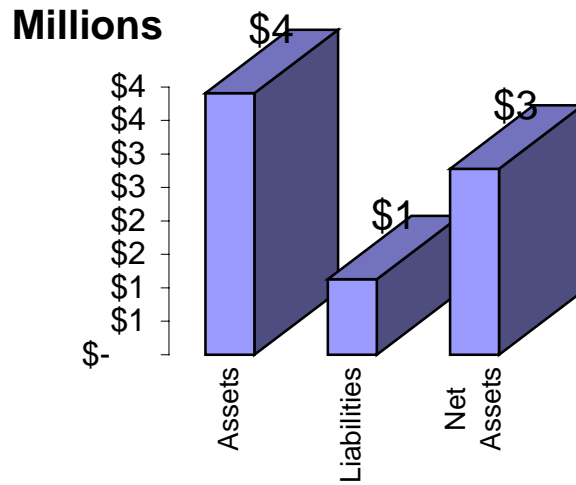
Table 1 shows net assets for fiscal year 2004. Since this is the first year the Service Center has prepared financial statements following GASB Statement 34, net asset comparisons to prior fiscal years are not available.

Ashtabula County Educational Service Center
Ashtabula County
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2004
Unaudited

Table 1

	Governmental Activities
Assets:	
Current and Other Assets	\$ 3,720,700
Capital Asset, Net of Accumulated Depreciation	187,755
<i>Total Assets</i>	3,908,455
Liabilities:	
Current Liabilities	650,275
Long-term Liabilities	375,031
<i>Total Liabilities</i>	1,025,306
Net Assets:	
Invested in Capital Assets, Net of Debt	187,755
Restricted	5,879
Unrestricted	2,689,515
<i>Total Net Assets</i>	\$ 2,883,149

Governmental Activities



Ashtabula County Educational Service Center
Ashtabula County
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The table below shows the net changes in net assets for fiscal year 2004. Since this is the first year the Service Center has prepared the financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2003 are not available.

Table 2

	Governmental Activities
Revenue:	
Program Revenues:	
Charges for Services and Sales	\$ 339,824
Operating Grants and Contributions	1,324,301
General Revenues:	
Property Taxes	
Grants and Entitlements	4,082,461
Investment Earnings	43,643
Miscellaneous	128,745
Total Revenues	5,918,974
Expenses:	
Instructions:	
Regular	422,521
Special	1,335,531
Adult/Continuing	108,308
Other	235
Support Services:	
Pupils	1,144,382
Instructional Staff	2,227,538
Board of Education	22,286
Administration	737,878
Fiscal	208,620
Business	
Operation and Maintenance of Plant	12,394
Pupil Transportation	54,813
Central	34,349
Loss of Sale of Capital Assets	690
Total Expenses	6,309,545
Changes in Net Assets	\$ (390,571)

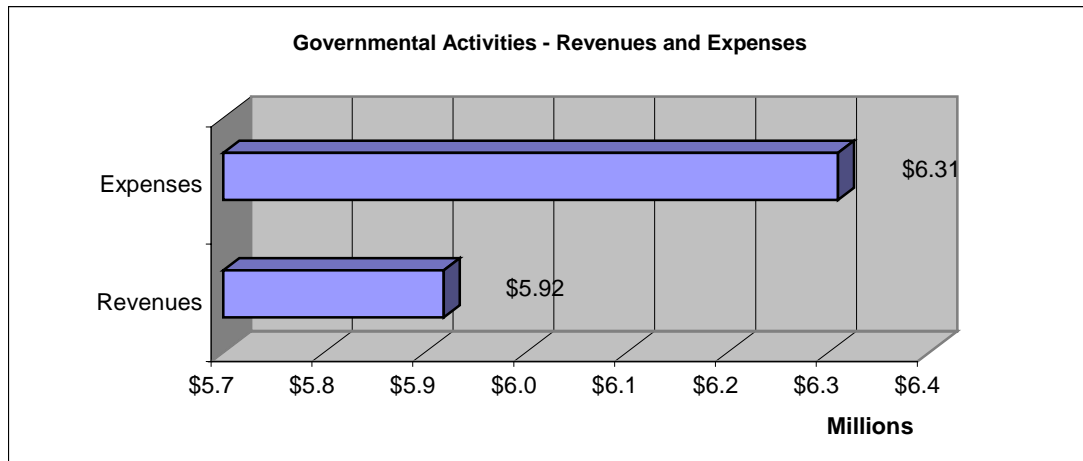
Ashtabula County Educational Service Center
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Governmental Activities

Net assets of the Service Center's governmental activities decrease by \$390,571. The governmental expenses of \$6,309,545 were primarily offset by program revenues of \$1,664,125 and general revenues of \$4,254,849. Program revenues supported 26 percent of the total governmental activities.

The primary sources of revenue for governmental activities are derived from grants and entitlements. It represents 69% of total revenues.

The graph below presents the Service Center's governmental activities revenues and expenses for fiscal year 2004.



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by charges for services, operating grants and unrestricted state entitlements.

Ashtabula County Educational Service Center
Ashtabula County
Management's Discussion and Analysis
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Unaudited

Table 3

**Total and Cost of Program Services
Governmental Activities**

	Total Cost of Service	Net Cost of Service
Instruction	\$ 1,866,595	\$ 1,369,399
Support Service:		
Pupils and Instructional Staff	3,371,920	2,482,288
Board of Education, Administration, Fiscal and Business	968,784	716,572
Operation and Maintenance of Plant	12,394	12,394
Pupil Transportation	54,813	29,728
Central	34,349	34,349
Loss in Sale of Capital Assets	690	690
Total Expenses	<u>\$ 6,309,545</u>	<u>\$ 4,645,420</u>

The dependence upon intergovernmental revenues for governmental activities is apparent. Over 74 percent of total expenses are supported through unrestricted grants and entitlements, and other general revenues as shown in the above table. The State, as a whole, is by far the primary support for the Service Center.

The Service Center's Funds

Information about the Service Center's major funds starts on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$5.9 million and expenditures of \$6.4 million. The net change in fund balance for the year was most significant in the general fund, where the general fund's net assets decreased by \$0.5 million for fiscal year 2004.

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.

During the course of fiscal year 2004 the Service Center amended its General Fund budget as needed. The Service Center's budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

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For the General Fund, budget basis revenue was \$4.8 million, over the original budget estimate of \$4.9 million. Of this \$70 thousand difference, intergovernmental revenue increased by approximately \$215 thousand, while tuition decreased by approximately \$289 thousand over original estimates. These two revenue line items fluctuate year to year and are budgeted on a conservative basis to avoid revenue overestimations.

Total expenditures on the budget basis (cash outlays plus encumbrances) were \$8.6 million, \$3.8 million below revenues.

For the IDEA Part-B Fund, budget basis revenue was \$0.88 million, over the original budget estimate of \$0.02 million. Intergovernmental revenue increased by approximately \$20 thousand over original estimates. The line item fluctuates year to year and is budgeted on a conservative basis to avoid revenue overestimations.

Total expenditures on the budget basis (cash outlays plus encumbrances) were \$8.8 million, slightly below revenues.

Capital Assets

At the end of fiscal year 2004, the Service Center had \$188 thousand (net) invested in equipment and vehicles in governmental activities.

Table 4 shows fiscal 2004 gross capital asset balances for governmental type activities (net of accumulated depreciation) compared to the prior fiscal year.

Table 4

Capital Assets (Net of Accumulated Depreciation)

	Governmental Activities	
	2004	2003
Furniture and Equipment	147,857	180,001
Vehicles	39,898	49,427
Total Capital Assets, Net	\$ 187,755	\$ 229,428

The decrease in capital assets is due to recognized \$51,623 in depreciation expense for 2004, offset by \$10,640 acquisitions. These acquisitions were distributed among furniture and equipment. The Service Center also retired \$1,325 of capital assets, which result of \$690 in loss of sale of capital assets. The Service Center continued its ongoing commitment to maintaining and improving its capital assets.

Ashtabula County Educational Service Center
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Current Financial Related Activities

Ashtabula County Education Service Center is strong financially. As the preceding information shows, the Service Center heavily depends on the State. However, financially the future is not without challenges.

While the Service Center was successful in increasing its tax revenue base in 2000, this increase is a one-time increase. State law fixes the amount of this increase, forcing it to remain nearly constant. Thus management must diligently plan expenses, staying carefully within the Service Center's five-year forecast.

Declining state foundation payments due to increased property valuations provide no significant increase in future revenues. This decline is due to the increasing valuation charge-offs in determining state foundation payments. The increases in property tax revenues are almost offset to decreases in state foundation payments. With its major sources of revenue not keeping pace with expenditure increases, the Service Center must seek additional tax revenues to continue current operations. However, the Service Center cannot look to the State of Ohio for increased revenue.

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 plan is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that it thorough and efficient...". The School Service Center is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations. Virtually, no additional state revenue will be available to Conneaut Area City School Service Center. Thus, both taxes and state revenue are fixed or declining.

The scenario requires management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

In addition, the Service Center's system of budgeting and internal controls is well regarded. All of the Service Center's financial abilities will be needed to meet the challenges of the future.

Ashtabula County Educational Service Center
Ashtabula County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Contacting the Service Center'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 Brockway, Treasurer at Ashtabula County Educational Service Center, 1565 St Rt 167, PO Box 186, Jefferson, Ohio 44047-0186.

Ashtabula County Educational Service Center
Statement of Net Assets
June 30, 2004

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 3,687,296
Receivables:	
Accounts	15,853
Materials and Supplies Inventory	17,551
Depreciable Capital Assets, Net	187,755
<i>Total Assets</i>	3,908,455
Liabilities	
Accounts Payable	42,545
Accrued Wages and Benefits	461,771
Compensated Absences Payable	35,303
Pension Obligation Payable	65,267
Intergovernmental Payable	38,743
Payable to Agency Fund	6,646
Long-Term Liabilities:	
Due Within One Year	121,883
Due Within More Than One Year	253,148
<i>Total Liabilities</i>	1,025,306
Net Assets	
Invested in Capital Assets, Net of Related Debt	187,755
Restricted for:	
Other Purposes	5,879
Unrestricted (Deficit)	2,689,515
<i>Total Net Assets</i>	\$ 2,883,149

See accompanying notes to the basic financial statements

Ashtabula County Educational Service Center
Statement of Activities
For the Fiscal Year Ended June 30, 2004

	Program Revenues		
	Expenses	Charges for Services and Sales	Operating Grants and Contributions
Governmental Activities			
Instruction:			
Regular	\$ 422,521	\$ -	\$ 160,393
Special	1,335,531	205,777	32,443
Adult/Continuing	108,308	14,920	83,663
Other	235	-	-
Support Services:			
Pupils	1,144,382	69,447	189,774
Instructional Staff	2,227,538	24,595	605,816
Board of Education	22,286	-	-
Administration	737,878	-	248,675
Fiscal	208,620	-	3,537
Operation and Maintenance of Plant	12,394	-	-
Pupil Transportation	54,813	25,085	-
Central	34,349	-	-
Loss of Sale of Capital Assets	690	-	-
<i>Total Governmental Activities</i>	6,309,545	339,824	1,324,301

General Revenues

Grants and Entitlements not Restricted to Specific Program
Investment Earnings
Miscellaneous

Total General Revenues

Changes in Net Assets

Net Assets Beginning of Year - As Restated (See Note 15)

Net Assets End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue
and Changes in Net Assets

Governmental
Activities

\$ (262,128)
(1,097,311)
(9,725)
(235)

(885,161)
(1,597,127)
(22,286)
(489,203)
(205,083)
(12,394)
(29,728)
(34,349)
(690)

(4,645,420)

1S 4,082,461
43,643
128,745

4,254,849

(390,571)

3,273,720

\$ 2,883,149

Ashtabula County Educational Service Center
Balance Sheet
Governmental Funds
June 30, 2004

	General	IDEA Part-B	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Investments	\$ 3,553,893	\$ 39,703	\$ 93,700	\$ 3,687,296
Receivables:				
Accounts	2,340	-	13,513	15,853
Interfund Receivable	14,099	-	-	14,099
Materials and Supplies Inventory	17,551	-	-	17,551
<i>Total Assets</i>	<u>3,587,883</u>	<u>39,703</u>	<u>107,213</u>	<u>3,734,799</u>
Liabilities				
Accounts Payable	25,608	997	15,940	42,545
Accrued Wages and Benefits	413,209	31,740	16,822	461,771
Compensated Absences Payable	35,303	-	-	35,303
Pension Obligation Payable	41,161	2,553	1,153	44,867
Interfund Payable	-	-	14,099	14,099
Intergovernmental Payable	38,299	276	168	38,743
<i>Total Liabilities</i>	<u>553,580</u>	<u>35,566</u>	<u>48,182</u>	<u>637,328</u>
Fund Balances				
Reserved for:				
Encumbrances	43,308	5,009	10,318	58,635
Inventory	17,551	-	-	17,551
Unreserved:				
Undesignated, Reported in:				
General Fund	2,973,444	-	-	2,973,444
Special Revenue Funds	-	(872)	48,713	47,841
<i>Total Fund Balances</i>	<u>3,034,303</u>	<u>4,137</u>	<u>59,031</u>	<u>3,097,471</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 3,587,883</u>	<u>\$ 39,703</u>	<u>\$ 107,213</u>	<u>\$ 3,734,799</u>

See accompanying notes to the basic financial statements

Ashtabula County Educational Service Center
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2004*

Total Governmental Fund Balances		\$ 3,097,471
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		187,755
Long-term liabilities, including bonds, payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated Absences	375,031	
Pension Obligation Payable	27,046	
Total		(402,077)
<i>Net Assets of Governmental Activities</i>		\$ 2,883,149

See accompanying notes to the basic financial statements

Ashtabula County Educational Service Center
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General	IDEA Part-B	Other Governmental Funds	Total Governmental Funds
Revenues				
Intergovernmental	\$ 4,288,804	\$ 881,322	\$ 311,611	\$ 5,481,737
Interest	43,643	-	-	43,643
Tuition and Fees	205,777	-	33,987	239,764
Transportation Fees	25,085	-	-	25,085
Miscellaneous	46,238	-	82,507	128,745
<i>Total Revenues</i>	<u>4,609,547</u>	<u>881,322</u>	<u>428,105</u>	<u>5,918,974</u>
Expenditures				
Current:				
Instruction:				
Regular	329,237	-	81,361	410,598
Special	1,322,506	24,709	16,592	1,363,807
Adult/Continuing	-	-	116,403	116,403
Support Services:				
Pupils	998,928	129,680	51,301	1,179,909
Instructional Staff	1,591,961	475,179	189,867	2,257,007
Board of Education	22,286	-	-	22,286
Administration	469,904	235,954	4,411	710,269
Fiscal	207,246	11,500	4,870	223,616
Operation and Maintenance of Plant	12,394	-	-	12,394
Pupil Transportation	49,441	-	-	49,441
Central	34,349	-	-	34,349
<i>Total Expenditures</i>	<u>5,038,252</u>	<u>877,022</u>	<u>464,805</u>	<u>6,380,079</u>
<i>Excess of Revenue Over/(Under) Expenditures</i>	<u>(428,705)</u>	<u>4,300</u>	<u>(36,700)</u>	<u>(461,105)</u>
Other Financing Sources (Uses)				
Transfer In	-	-	14,300	14,300
Transfer Out	(14,300)	-	-	(14,300)
<i>Total Other Financing Sources (Uses)</i>	<u>(14,300)</u>	<u>-</u>	<u>14,300</u>	<u>-</u>
<i>Net Change in Fund Balances</i>	(443,005)	4,300	(22,400)	(461,105)
<i>Fund Balances Beginning of Year, Restated</i> <i>(See Note 15)</i>	3,474,578	(163)	81,431	3,555,846
<i>Increase in Reserved for Inventory</i>	2,730	-	-	2,730
<i>Fund Balances End of Year</i>	<u>\$ 3,034,303</u>	<u>\$ 4,137</u>	<u>\$ 59,031</u>	<u>\$ 3,097,471</u>

See accompanying notes to the basic financial statements

Ashtabula County Educational Service Center
*Reconciliation of the Statement of Revenues, Expenditures
and Changes in the Fund Balances of Governmental Funds
to the Statement of Activities
For the Fiscal Year Ended June 30, 2004*

Net Change in Fund Balances - Total Governmental Funds \$ (461,105)

***Amounts reported for governmental activities in the
statement of activities are different because***

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.

Capital Assets Additions	10,640	
Current Year Depreciation	(51,623)	
	(40,983)	
Total		(40,983)

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the loss on the disposal of fixed assets.

Loss on Disposal of Capital Assets	(690)	
	(690)	
Total		(690)

Some expenses reported in the statement of activities, such as compensated absences and pension obligation payable which represents contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Pension Obligation Payable	15,812	
Compensated Absences Payable	93,665	
	109,477	
Total		109,477

Inventory is reported as an asset when purchased and defer the recognition of an expenditure until the period in which the inventory is consumed. However, the net effect of the transaction involving inventory is to increase (decrease) in governmental activities.

	2,730	
	2,730	

Change in Net Assets of Governmental Activities **\$ (390,571)**

See accompanying notes to the basic financial statements

Ashtabula County Educational Service Center

Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP) and Actual
General Fund
For the Fiscal Year Ended June 30, 2004

	Budgeted Amount			Variance with Final Budget Over/ (Under)
	Original	Final	Actual	(Under)
<u>Revenue:</u>				
Intergovernmental	\$ 4,206,862	\$ 4,422,496	\$ 4,422,496	\$ -
Interest	50,000	41,994	43,643	1,649
Tuition	558,085	269,042	269,042	-
Transportation Fees	40,000	38,184	38,184	-
Miscellaneous	64,500	77,852	77,852	-
 Total Revenues	 4,919,447	 4,849,568	 4,851,217	 1,649
<u>Expenditures:</u>				
Instruction:				
Regular	659,451	631,669	336,020	295,649
Special	1,681,301	1,792,998	1,326,526	466,472
Support Services:				
Pupils	1,888,014	1,740,227	1,126,508	613,719
Instructional Support	2,673,226	2,740,108	1,605,977	1,134,131
Board of Education	62,475	84,805	30,528	54,277
Administration	1,116,866	1,127,246	537,347	589,899
Fiscal	286,171	294,035	215,721	78,314
Operation and Maintenance of Plant	20,500	20,500	12,458	8,042
Pupil Transportation	86,650	89,194	54,017	35,177
Central	113,153	113,153	34,349	78,804
 Total Expenditures	 8,587,807	 8,633,935	 5,279,451	 3,354,484
 Excess of Revenues Over/ (Under) Expenditures	 (3,668,360)	 (3,784,367)	 (428,234)	 3,356,133
<u>Other Financing Sources/(Uses):</u>				
Refund of Prior Year Receipts	-	(30)	(30)	-
Advance In	-	-	26,031	26,031
Advance Out	-	-	(14,099)	(14,099)
Transfer Out	-	(14,300)	(14,300)	-
 Total Other Financing Sources/(Uses)	 -	 (14,330)	 (2,398)	 11,932
 Net Change in Fund Balance	 (3,668,360)	 (3,798,697)	 (430,632)	 3,368,065
 Fund Balance/(Deficit) at the Beginning of Year, Restated (See Note 16)	 3,668,358	 3,668,358	 3,668,358	 -
 Prior year encumbrances appropriated	 130,340	 130,340	 130,340	 -
 Fund Balance/(Deficit) at the End of Year	 <u>\$ 130,338</u>	 <u>\$ 1</u>	 <u>\$ 3,368,066</u>	 <u>\$ 3,368,065</u>

See accompanying notes to the basic financial statements

Ashtabula County Educational Service Center

Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP) and Actual
IDEA Part-B Fund
For the Fiscal Year Ended June 30, 2004

	Budgeted Amount			Variance with Final Budget Over/ (Under)
	Original	Final	Actual	
<u>Revenue:</u>				
Intergovernmental	\$ 862,705	\$ 881,322	\$ 881,322	\$ -
Total Revenues	862,705	881,322	881,322	-
<u>Expenditures:</u>				
Instruction:				
Special	31,780	26,913	26,913	-
Support Services:				
Pupils	151,805	140,474	131,026	9,448
Instructional Support	443,979	480,030	477,467	2,563
Administration	234,959	236,658	214,951	21,707
Fiscal	15,000	11,500	11,500	-
Total Expenditures	877,523	895,575	861,857	33,718
Excess of Revenues Over/ (Under) Expenditures	(14,818)	(14,253)	19,465	33,718
<u>Other Financing Sources/(Uses):</u>				
Advance Out	-	-	(18,617)	(18,617)
Total Other Financing Sources/(Uses)	-	-	(18,617)	(18,617)
Excess of Revenues, Other Financing Sources Over/(Under) Expenditures and Other Financing Uses	(14,818)	(14,253)	848	15,101
Fund Balance/(Deficit) at the Beginning of Year	32,873	32,873	32,873	-
Fund Balance/(Deficit) at the End of Year	<u>\$ 18,055</u>	<u>\$ 18,620</u>	<u>\$ 33,721</u>	<u>\$ 15,101</u>

See accompanying notes to the basic financial statements

Ashtabula County Educational Service Center
Statement of Fiduciary Assets and Liabilities
Fiduciary Fund
June 30, 2004

	Agency
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 143,303
Receivable from Governmental Activities	6,646
<i>Total Assets</i>	149,949
Liabilities	
Pension Obligation Payable	149,444
Undistributed Monies	505
<i>Total Liabilities</i>	\$ 149,949

See accompanying notes to the basic financial statements

Ashtabula County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Note 1 – Summary of Significant Accounting Policies

The financial statements of the Ashtabula County Educational Service Center (the Service Center) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units.

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Service Center's accounting policies are described below.

A. Reporting Entity

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

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

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

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

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

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

Ashtabula County Educational Service Center

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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

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

For financial statement presentation purposes, the various funds of the District are grouped under the broad fund categories governmental and fiduciary.

Governmental Fund Types Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be repaid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District major governmental funds:

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.

IDEA Part-B Fund This fund is used to account for financial resources from the Individuals with Disabilities Act (IDEA) which provide flow through funds to support services for disabled students.

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

Ashtabula County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Fiduciary Fund Types Fiduciary funds reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trusts 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 therefore not available to support the Service Center's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Service Center's only agency fund is a SERS fund which accounts for the collections and disbursements of SERS.

C. Measurement Focus/Basis of Accounting

Government-wide Financial Statements The statement of net assets and 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.

The government-wide statements are prepared using the economic resources measurement focus. This approach differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relation between the government-wide statements and the statements to governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Service Center's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods and services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues which identifies the extent to governmental function is self-financing or draws from the general revenues of the Service Center.

Fund Financial Statements Fund financial statements report detailed information about the Service Center. The focus of governmental financial statements is on major funds rather than reporting funds by type. Each major fund is represented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financial uses) of current financial resources.

Ashtabula County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

D. Basic of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary fund also use the accrual basis of accounting.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. 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 an accrual basis, revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Service Center must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Service Center on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: interest, tuition, grants, student fees and rentals.

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

Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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 governmental funds.

Ashtabula County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

E. 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 fund types are subject to annual expenditure budgets.

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

Expenditures may not exceed appropriations in any fund at the object level. The Service Center prepares its budget on a basis of accounting that differs from generally accepted accounting principles (GAAP). The actual results of operations are presented in the “Combined Statement of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual--All Governmental Fund Types” in accordance with the budget basis of accounting.

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

- a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- c) Encumbrances are recorded as the equivalent of expenditures (budget basis) as opposed to a reservation of fund balance for governmental fund types and as note disclosures in the proprietary fund types (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General and IDEA Part –B funds.

Ashtabula County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Net Change in Fund Balance		
	General	IDEA Part-B
Budget Basis	\$ (430,632)	848
Net Adjustment for Revenue Accruals	(267,701)	-
Net Adjustment for Expenditure Accruals	441,157	9433
Adjustment for Encumbrances	(185,829)	(5,981)
GAAP Basis	\$ (443,005)	\$ 4,300

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.

F. 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 2004 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 2004 totaled \$43,643.

G. 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.

H. Inventories

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

Ashtabula County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recognized under the non-allocation method. The non-allocation 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 non-allocation method no asset for the prepayment or deferral is created, and no expenditure allocation to future accounting periods is required.

J. Capital Assets

General capital assets are those assets not specifically related to activities reported in the fiduciary fund. These assets generally result from expenditures in the governmental funds. These assets are reported in the government activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the dates received. The Service Center maintains a capitalization threshold of five hundred dollars. The Service Center does not possess any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Furniture, Fixtures, and Equipment	5 – 20 years
Vehicles	5 years

K. 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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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.

The entire compensated absences liability is reported on the government-wide financial statements.

For the governmental fund financial statements, the current portion of 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 non-current portion of the liability is not reported.

L. Interfund Balance

On the fund financial statements, receivables and payables resulting short-term interfund loans are classified as "interfund receivable/payable." These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

M. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. In general, liabilities that mature or come due for payment during the fiscal year are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements when due.

Ashtabula County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

N. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment as reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid from them are not presented on the financial statements.

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 and inventory. The unreserved portions of fund equity reflected for the Governmental Funds are available for use within the specific purposes of those funds.

P. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those 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 Service Center applies restricted resources when an expense is incurred for the purposes for which both restricted and unrestricted net assets are available.

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2004.

Ashtabula County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Note 2 – 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.

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or its political subdivisions, provided that such political subdivisions are located wholly or partly within the Service Center;

Ashtabula County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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.

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 \$1,511,507 and the bank balance was \$1,530,265 of which \$1,500,000 was in Certificates of Deposit. Of the bank balance: \$130,265 was covered by Federal Depository Insurance. The remainder of the bank balance, \$1,400,000 was uninsured and uncollateralized. Although securities serving as collateral were held by the pledging institution in the pledging institution's name and all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the Service Center to a successful claim by the FDIC.

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

Investments in STAR Ohio are not categorized since they are not evidenced by securities that exist in physical or book entry form.

Ashtabula County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

	Carrying Value	Fair Value
Non-categorized Investment:		
STAR Ohio	\$2,319,092	\$2,319,092
Total Investments	\$2,319,092	\$2,319,092

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*.

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 9	\$3,830,599	\$0
Investments which are part of the Cash Management Pool:		
STAROhio	(2,319,092)	2,319,092
GASB Statement 3	\$1,511,507	\$2,319,092

Note 3 – Receivables

Receivables at June 30, 2004 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.

Note 4 – Interfund Transactions

A. Interfund Receivable/Payable

The interfund receivable/payable consisted of the following fund at June 30, 2004, as reported on the fund financial statements:

	Interfund Receivable	Interfund Payable
Major Governmental Fund:		
General	\$14,099	\$0
Non-major Governmental Funds:		
Local Grants	0	14,099
Total	\$14,099	\$14,099

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received.

Ashtabula County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

B. Interfund Transfers

Interfund transfers for the year ended June 30, 2004, consisted of the following, as reported on the fund financial statements:

	Transfer In	Transfer Out
Major Governmental Fund:		
General	\$0	\$14,300
Non-major Governmental Funds:		
Preservice School Bus Driver Training	14,300	0

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budget authorization.

Note 5 – Capital Assets

In fiscal year 2004, the Service Center changed the capitalization threshold from two hundreds and fifty dollar to five hundreds dollar. In addition, the Service Center began to depreciate the capital assets in the governmental activities.

	Balance 6/30/2003	Adjustment	GASB 34 Adjustment	Balance 7/1/2003
Governmental Activities				
<i>Capital Assets, being depreciated:</i>				
Furniture, Equipment and Fixtures	329,663	(30,109)	-	299,554
Vehicles	117,598	2	-	117,600
Total Capital Assets, being depreciated:	447,261	(30,107)	-	417,154
Less Accumulated Depreciation:				
Furniture, Equipment, and Fixtures	-	1,638	(121,191)	(119,553)
Vehicles	-	-	(68,173)	(68,173)
Total Accumulated Depreciation	-	1,638	(189,364)	(187,726)
Total Capital Assets being depreciated, net	447,261	(28,469)	(189,364)	229,428
Governmental Activities Capital Assets, Net	\$ 447,261	\$ (28,469)	\$ (189,364)	\$ 229,428

Ashtabula County Educational Service Center

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Capital asset activity for the fiscal year ended June 30, 2004 was as follows:

	Balance 7/1/2003	Addition	Deletion	Balance 6/30/2004
Governmental Activities				
<i>Capital Assets, being depreciated:</i>				
Furniture, Equipment and Fixtures	299,554	10,640	(1,325)	308,869
Vehicles	117,600	-	-	117,600
Total Capital Assets, being depreciated:	417,154	10,640	(1,325)	426,469
Less Accumulated Depreciation:				
Furniture, Equipment, and Fixtures	(119,553)	(42,094)	635	(161,012)
Vehicles	(68,173)	(9,529)	-	(77,702)
Total Accumulated Depreciation	(187,726)	(51,623)	635	(238,714)
Total Capital Assets being depreciated, net	229,428	(40,983)	(690)	187,755
Governmental Activities Capital Assets, Net	\$ 229,428	\$ (40,983)	\$ (690)	\$ 187,755

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 15,555
Special	1,351
Other	235
Support Services:	
Pupil	1,958
Instructional Staff	13,714
Administration	9,668
Fiscal	3,603
Pupil Transportation	5,539
Total Depreciation Expense	\$ 51,623

Ashtabula County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Note 6 – 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 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 2004, 9.09 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, 2004, 2003, and 2002 were \$169,844, \$159,416, and \$142,261, respectively; no contribution has been made for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. \$169,844 representing the unpaid contribution for fiscal year 2004, including the surcharge, is recorded as a liability within the respective funds.

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.

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 times 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.

Ashtabula County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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, 2004, plan members are required to contribute 10 percent of their annual covered salaries. The Service Center is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Service Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$434,299, \$391,309, and \$365,751, respectively; 90 percent has been contributed for fiscal year 2004, and 100 percent for fiscal years 2003 and 2002. \$44,868 represents the unpaid contribution for fiscal year 2004, is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2004 were \$658 made by the Service Center and \$6,410 made by plan members.

Note 7 – 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.

Ashtabula County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

For the fiscal year ended June 30, 2004, the STRS Board allocated employer contribution equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the Service Center, this amount equaled \$139,596 for fiscal year 2004.

STRS pays health care benefits from the Health Care Reserved Fund. At June 30, 2004, the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS were \$368,739,000 and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credits, 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 of 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 this fiscal year, SERS employer contributions to fund health care benefits were 4.91 percent of covered payroll, a decrease of 0.92 percent from fiscal year 2003. In addition, SERS levies a surcharge to fund health care benefit 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 2004, the minimum pay has been established at \$25,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants receiving health care benefits. For the Service Center, the amount to fund health care benefits, including the surcharge, equaled \$59,595 during the 2004 fiscal year.

Note 8 – Compensated Absences

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

Vacation Leave The Superintendent and Treasurer receive 20 and 25 days of vacation, respectively, per year. For certified employees, vacation is based on the following schedule:

Contract Length	Vacation Days
9 months	5
10 months	10
11 months	15
12 months	20

Ashtabula County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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

Classified personnel accumulate vacation based on the following schedule:

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

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

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

Note 9 – Risk Management

A. General Risk

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

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

B. Worker's Compensation

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

Ashtabula County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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.

C. Health Insurance

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

Note 10. Notes and Long-Term Debt

The changes in the Service Center's long-term obligations during the year consist of the following:

	Principal Outstanding 6/30/2003	Additions	Reductions	Principal Outstanding 6/30/2004	Amounts Due in One Year
Governmental Activities					
Compensated Absences Payable	\$ 468,696	\$ 119,410	\$ (213,075)	\$ 375,031	\$ 121,883

Note 11 – Jointly Governed Organizations

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

Superintendents of the participating school districts are eligible to be voting members of the Governing Board which consists of ten members: the Trumbull and Ashtabula County superintendents (permanent members), three superintendents from Ashtabula County school districts, three superintendents from Trumbull County districts, and a treasurer from each county. The Service Center was represented on the Governing Board during fiscal year 2004. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. A complete set of separate financial statements may be obtained from the Trumbull County Educational Service Center, 347 North Park Avenue, Warren, Ohio, 44481.

Ashtabula County Educational Service Center

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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.

Note 12 – 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, 2004.

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, 2004.

Note 13 – School Funding Decision

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

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

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

Note 14 – Fund Deficits

Fund balances at June 30, 2004, included the following individual fund deficits:

Non-major Governmental Fund:	
Preservice School Bus Driver Training	\$5,222

Ashtabula County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Note 15 – Changes in Accounting Principals and Restatement of Fund Balance

Changes in Accounting Principles For the fiscal year 2004, the Service Center has implemented GASB No. 34, “Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments”, GASB No. 37, “Basic Financial Statements for State and Local Governments: Omnibus”, GASB No. 38, “Certain Financial Statement Note Disclosures”, GASB No. 41, “Budgetary Comparison Schedules – Perspective Differences – an amendment of GASB Statement No. 34”, and GASB Interpretation No. 6, “Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.” At June 30, 2004, there was no effect on fund balances as a result of implementing GASB Statements No. 37, 38, and 41.

Restatement of Fund Balances In fiscal year 2004, the ACTIN Fund which previously reported under the Internal Service Fund was reclassified to the General Fund. In addition, the Latchkey Fund which previously reported under Enterprise Fund was reclassified to Special Revenue Funds.

The restatements of fund balance for fund reclassification had the following effect on the fund balances of the major and non-major funds of the District as they were previously reported.

	General Fund	IDEA Part B	Other Governmental Funds	Total Governmental Funds
Fund Balances at June 30, 2003	\$ 3,320,926	\$ (163)	\$ 65,029	\$ 3,385,792
Fund Reclassification	153,652	-	16,402	170,054
Fund Balances at July 1, 2003	\$ 3,474,578	\$ (163)	\$ 81,431	\$ 3,555,846

GASB 34 creates new basic financial statements for reporting on the Service Center’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Non-major funds are presented in total in one column.

The beginning net asset amount for governmental programs reflects the changes in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

The transition from governmental fund balance to net assets of the governmental activities is presented as follow:

Ashtabula County Educational Service Center

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

	<u>General Fund</u>	<u>IDEA Part B</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balances at June 30, 2003	\$ 3,474,578	\$ (163)	\$ 81,431	\$ 3,555,846
Adjustments:				
GASB No. 34				
Capital Assets				229,428
Pension Obligation Payable				(42,858)
GASB Interpretation No. 6				
Compensated Absences Payable				<u>(468,696)</u>
Governmental Activities Net Assets at June 30, 2003				<u><u>\$ 3,273,720</u></u>

Note 16 - Restatement of Fund Balance on the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP) and Actual

At June 30, 2004, the general fund balances at June 30, 2003 were restated due to reclassifications of funds (See Note 15). The restatement was made for the current year and the changes were presented as follows.

	<u>Ending Fund Balance at June 30, 2003</u>	<u>Fund Reclassification</u>	<u>Beginning Fund Balance at July 1, 2003</u>
General Fund	\$ 3,514,848	153,510	\$ 3,668,358

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
ASHTABULA COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004**

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-03	84.027	\$18,617	\$32,873
	6B-SF-04		<u>862,705</u>	<u>823,004</u>
Sub-Total - IDEA, Part B			862,705	855,877
Early Childhood Special Education, IDEA	PG-S1-04	84.173	<u>27,051</u>	<u>27,051</u>
Sub-Total - Early Childhood Special Education			<u>27,051</u>	<u>27,051</u>
Total Special Education Cluster			<u>889,756</u>	<u>882,928</u>
Safe and Drug-Free Schools and Communities	T4-S1-04-P	84.184	12,211	12,211
	T4-S1-04		<u>10,419</u>	<u>10,419</u>
Sub-Total Safe and Drug-Free Schools and Communities			<u>22,630</u>	<u>22,630</u>
Total Department of Education			<u>912,386</u>	<u>905,558</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	FY2004	93.778	<u>102,748</u>	<u>102,748</u>
Totals			<u>\$1,015,134</u>	<u>\$1,008,306</u>

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

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
ASHTABULA COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR FISCAL YEAR ENDED JUNE 30, 2004**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards expenditures is a summary of activity of the Service Center'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 Service Center contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Service Center has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANT'S REPORT 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 Governing Board:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ashtabula County Educational Service Center, (the Service Center) as of and for the year ended June 30, 2004, and have issued our report thereon dated February 11, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the 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.

Ashtabula County Educational Service Center
Ashtabula County
Independent Accountant's Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

February 11, 2005



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

To the Governing Board:

Compliance

We have audited the compliance of Ashtabula County Educational Service Center with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2004. Ashtabula County Educational Service Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Ashtabula County Educational Service Center's management. Our responsibility is to express an opinion on Ashtabula County Educational Service Center's compliance based on our audit.

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

In our opinion, Ashtabula County Educational Service Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

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.

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

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

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



Betty Montgomery
Auditor of State

February 11, 2005

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
ASHTABULA COUNTY
JUNE 30, 2004**

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

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under ' .510?	No
(d)(1)(vii)	Major Programs (list):	Special Education Cluster: (CFDA - 84.027 & 84.173): IDEA Part B Early Childhood Special Education
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 500,000 Type B: all others
(d)(1)(ix)	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

None



**Auditor of State
Betty Montgomery**

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ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER

ASHTABULA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 5, 2005**