



**Auditor of State
Betty Montgomery**

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
ASHTABULA COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To The Governing Board:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ashtabula County Educational Service Center, Ashtabula County, Ohio (the Service Center), as of and for the year ended June 30, 2005, which collectively comprise the Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Service Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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 Ashtabula County Educational Service Center, Ashtabula County, Ohio, as of June 30, 2005, and the respective changes in financial position and the respective budgetary comparison for the General and the IDEA, Part-B Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2006, on our consideration of the Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not 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 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 16, 2006

Ashtabula County Educational Service Center
Ashtabula County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

The discussion and analysis of Ashtabula County Educational Service Center's (the Service Center) financial performance provides an overall review of the Service Center's financial activities for the fiscal year ended June 30, 2005. 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 2005 are as follows:

Overall:

- For governmental activities, net assets increased \$82 thousand, which represents a 2.9 percent increase from 2004.
- General revenues accounted for \$4 million in revenue or 69 percent of all governmental revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1.9 million or 31 percent of total governmental revenues of \$6.3 million.
- The Service Center had \$6.2 million in expenses related to governmental activities; only \$1.9 million of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily grants and entitlements) of \$4 million were adequate to provide for these programs.
- Among major funds, the General Fund had \$4.9 million in revenues and \$4.8 million in expenditures. The General Fund's fund balance increased to \$3.2 million from \$3 million.
- The IDEA Part-B Fund had \$0.98 million in revenue and \$1.1 million in expenditures. The fund balance decreased by \$127 thousand.

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the Service Center's basic financial statements. The Service Center's financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements.

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Government-wide Financial Statements. The government-wide financial statements are designed to provide reader with a broad overview of the Service Center's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Service Center's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Service Center is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected receivables and earned by unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Service Center that are principally supported by intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Service Center include instructions, and support services.

The government-wide financial statements can be found on pages 13-15 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objective. The Service Center, like the state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Service Center can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the reader may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Service Center maintains thirteen individual government funds. Information is presented separately in the governmental fund balance sheet and in the government fund statement of revenues, expenditures, and changes in fund balances for the general fund and IDEA Part-B fund, which are considered to be the major funds. Data from the other eleven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The Service Center adopts an annual appropriated budget for its governmental funds. The budgetary comparison statements have been provided for the general fund and IDEA Part-B to demonstrate compliance with this budget.

The basic fund financial statements can be found on pages 16-21 of this report.

Fiduciary Funds Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of these funds are not available to support the Service Center's own programs. The accounting used for fiduciary funds is much like that used for the proprietary funds.

The basic fiduciary fund financial statements can be found on pages 22 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23-42 of this report.

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Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Service Center, assets exceeded liabilities by \$2.9 million at the close of the most recent fiscal year.

Almost all of the Service Center's net assets (\$2.9 million) reflect its unrestricted net assets. The Service Center uses these unrestricted net assets to meet ongoing obligations to the residents and creditors. \$136 thousand of the net assets are investment in capital assets (e.g., land, building, machinery and furniture, vehicles). The Service Center uses these capital assets to provide services to school districts; consequently, these assets are not available for future spending.

At the end of the current fiscal year, the Service Center is only able to report positive balances for invested in capital assets and unrestricted net assets. The Service Center reported positive balances for invested in capital assets, restricted and unrestricted of the net assets for the prior year.

	Governmental Activities	
	2004	2005
Assets:		
Current and Other Assets	\$ 3,720,700	\$ 3,912,851
Capital Asset, Net of Accumulated Depreciation	187,755	135,981
<i>Total Assets</i>	3,908,455	4,048,832
Liabilities:		
Current Liabilities	650,275	776,859
Long-term Liabilities	375,031	350,055
<i>Total Liabilities</i>	1,025,306	1,126,914
Net Assets:		
Invested in Capital Assets, Net of Debt	187,755	135,981
Restricted	5,879	-
Unrestricted	2,689,515	2,785,937
<i>Total Net Assets</i>	\$ 2,883,149	\$ 2,921,918

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Governmental Activities

Governmental activities increased the Service Center's net assets by \$83 thousand. Key elements of this increase are as follows:

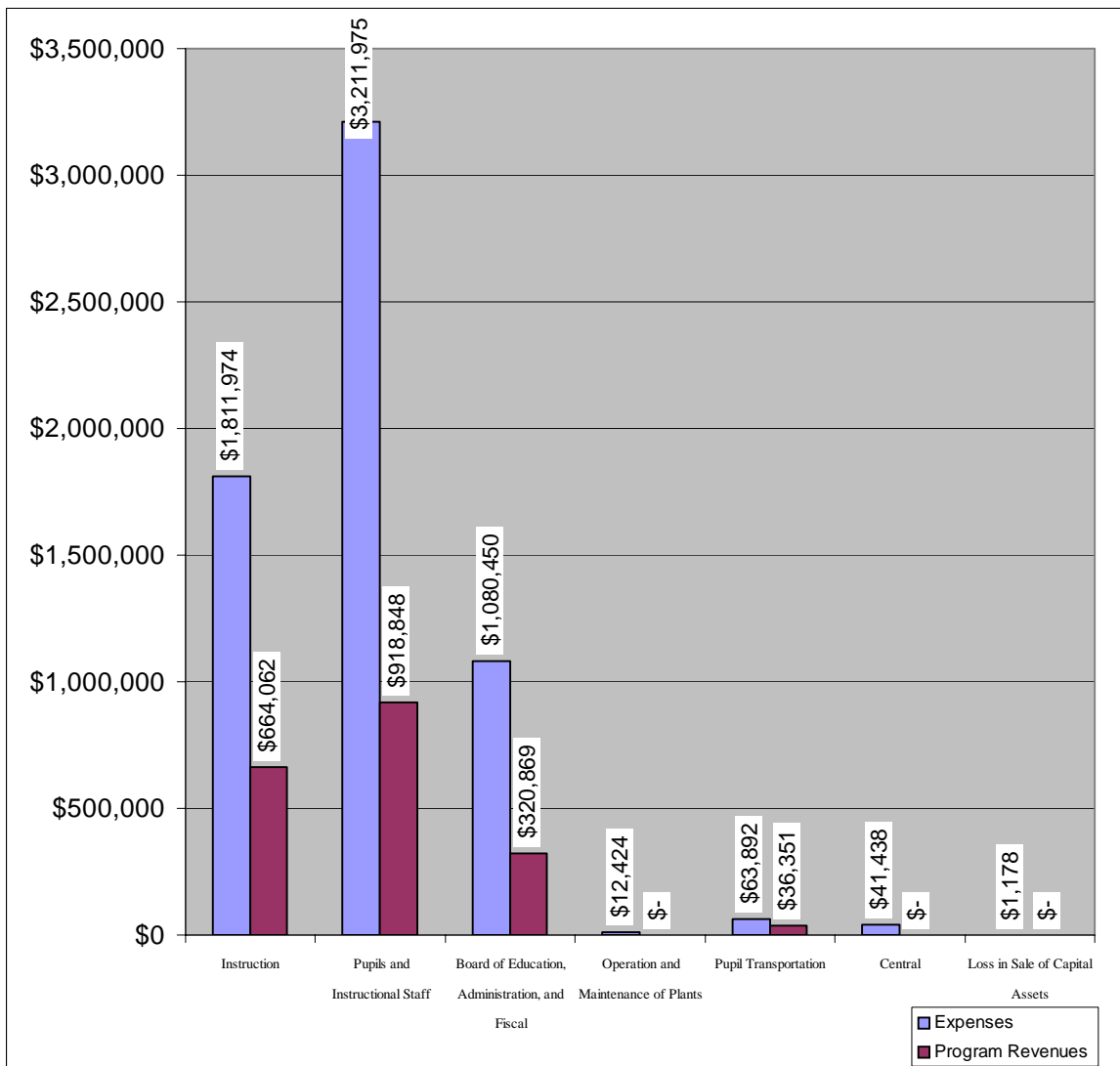
	Governmental Activities	
	2004	2005
Revenue:		
Program Revenues:		
Charges for Services and Sales	\$ 339,824	\$ 400,477
Operating Grants and Contributions	1,324,301	1,539,653
General Revenues:		
Property Taxes		
Grants and Entitlements	4,082,461	4,154,536
Investment Earnings	43,643	79,486
Miscellaneous	128,745	131,901
Total Revenues	5,918,974	6,306,053
Expenses:		
Instructions:		
Regular	422,521	306,715
Special	1,335,531	1,384,884
Adult/Continuing	108,308	120,140
Other	235	235
Support Services:		
Pupils	1,144,382	1,074,629
Instructional Staff	2,227,538	2,137,346
Board of Education	22,286	25,338
Administration	737,878	794,411
Fiscal	208,620	260,701
Operation and Maintenance of Plant	12,394	12,424
Pupil Transportation	54,813	63,892
Central	34,349	41,438
Loss of Sale of Capital Assets	690	1,178
Total Expenses	6,309,545	6,223,331
Changes in Net Assets	\$ (390,571)	\$ 82,722

- Program revenues increased by \$276 thousand (17 percent) during the year. Most of this increase is due to the increase in charges for service and sales and grants.

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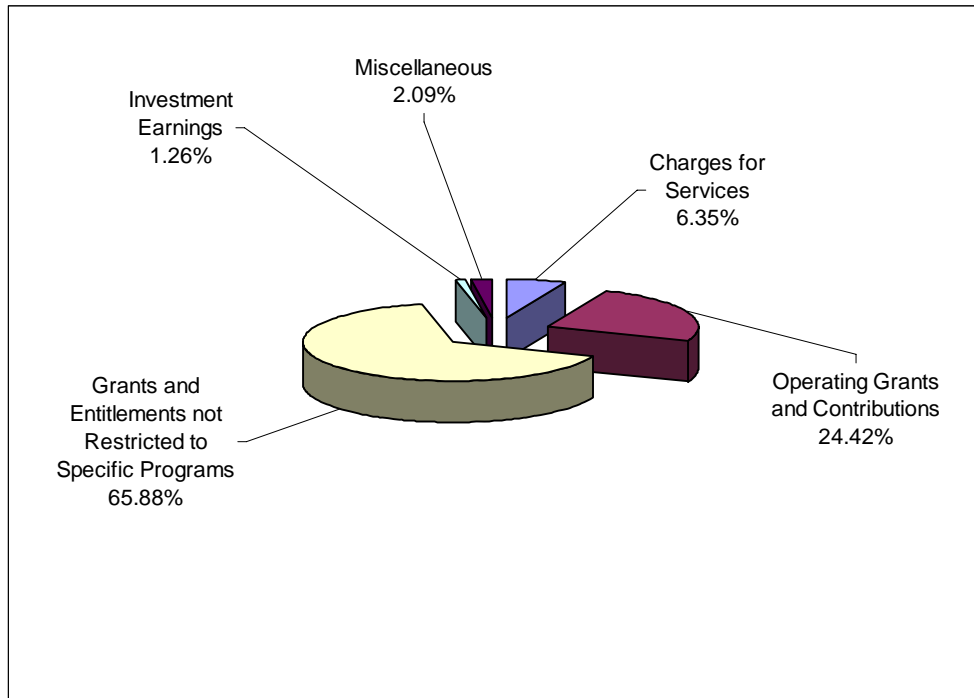
- General revenues also increased 2.6 percent during the year, approximately by \$110 thousand.
- The expenses reduced approximately \$86 thousand. Mostly of the decrease in expenses occurred in instructions.

Expenses and Program Revenues – Governmental Activities



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Revenues by Sources – Governmental Activities



Financial Analysis of the Governmental Funds

Governmental Funds. Information about the Service Center's governmental funds starts on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$6.3 million and expenditures of \$6.3 million. The total governmental fund balance increased \$37 thousand. The net change in governmental fund balance for the year was most significant in the general and IDEA Part-B funds. While the general fund's fund balance increased by \$160 thousand for fiscal year 2005, the IDEA Part-B fund's decreased by \$127 thousand.

The general fund is the chief operating fund of the Service Center. At the end of the current fiscal year, unreserved fund balance of the general fund was \$3.2 million, while total fund balance increased to \$3.1 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total expenditures. Unreserved fund balance represents less than one percent of total general fund expenditures, while total fund balance represents seven percent of that same amount.

Key factors in this increased of fund balance for the general fund is as follows:

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- Revenues increased by \$0.3 million comparing to fiscal year 2004. Most of the increase can be contributed to intergovernmental revenue and tuition and fees.
- Expenditures decreased by \$0.2 million comparing to the prior year. Less spending in instructions and support services contributed the decrease of expenditures.

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 funds are the general fund and IDEA Part-B fund.

During the course of fiscal year 2005 the Service Center amended its general fund budget and IDEA Part-B fund as needed. The Service Center's budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, budget basis revenue was \$4.7 million, below the original budget estimate of \$4.8 million. Of this \$40 thousand difference, intergovernmental revenue increased by approximately \$59 thousand and interest increased by approximately \$33 thousand, while tuition decreased by approximately \$124 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 \$8.3 million, \$3.6 million over revenues.

For the IDEA Part-B Fund, budget basis revenue was \$1 million, below the original budget estimate of \$1.3 million. Intergovernmental revenue decreased by approximately \$0.4 million 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 \$1.1 million, slightly above revenues.

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Capital Assets

At the end of fiscal year 2005, the Service Center had \$135 thousand (net) invested in equipment and vehicles in governmental activities. The Service Center restated the prior year net capital assets at \$143,802 due to an error on previous year recording.

Capital Assets (Net of Accumulated Depreciation)

	Governmental Activities	
	2004	2005
Furniture and Equipment	107,833	110,159
Vehicles	35,969	25,822
Total Capital Assets, Net	\$ 143,802	\$ 135,981

The decrease in capital assets is due to recognized \$48,114 in depreciation expense for 2005, offset by \$41,471 acquisitions. These acquisitions were distributed among furniture and equipment. The Service Center also retired \$5,145 of capital assets, which result of \$1,178 in loss of sale of capital assets. The Service Center continued its ongoing commitment to maintaining and improving its capital assets.

Current Financial Related Activities

The Service Center continues to be financially stable and is able to continue to offer the programs needed to enrich and service the various school districts. The Board and administration closely monitor its revenues and expenditures in accordance with board policy. The Educational Service Center is committed to serving its local school districts and will continue to do so.

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

While many outside factors can and will affect the economy, the Service Center is committed to provide the best services possible and to be fiscally responsible now and in future years.

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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, 2005

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 3,687,064
Receivables:	
Accounts	208,958
Materials and Supplies Inventory	16,829
Depreciable Capital Assets, Net	135,981
<i>Total Assets</i>	4,048,832
Liabilities	
Accounts Payable	85,707
Accrued Wages and Benefits	532,663
Compensated Absences Payable	21,343
Pension Obligation Payable	68,284
Intergovernmental Payable	58,427
Payable to Agency Fund	10,435
Long-Term Liabilities:	
Due Within One Year	85,054
Due Within More Than One Year	265,001
<i>Total Liabilities</i>	1,126,914
Net Assets	
Invested in Capital Assets, Net of Related Debt	135,981
Unrestricted (Deficit)	2,785,937
<i>Total Net Assets</i>	\$ 2,921,918

See accompanying notes to the basic financial statements.

Ashtabula County Educational Service Center
Statement of Activities
For the Fiscal Year Ended June 30, 2005

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Instruction:				
Regular	\$ 306,715	\$ -	\$ 87,529	\$ (219,186)
Special	1,384,884	257,865	205,640	(921,379)
Adult/Continuing	120,140	21,650	91,378	(7,112)
Other	235	-	-	(235)
Support Services:				
Pupils	1,074,629	-	274,625	(800,004)
Instructional Staff	2,137,346	43,950	600,273	(1,493,123)
Board of Education	25,338	-	-	(25,338)
Administration	794,411	40,661	279,190	(474,560)
Fiscal	260,701	-	1,018	(259,683)
Operation and Maintenance of Plant	12,424	-	-	(12,424)
Pupil Transportation	63,892	36,351	-	(27,541)
Central	41,438	-	-	(41,438)
Loss in Sale of Capital Assets	1,178	-	-	(1,178)
Total Governmental Activities	6,223,331	400,477	1,539,653	(4,283,201)
General Revenues				
				\$ 4,154,536
Grants and Entitlements not Restricted to Specific Programs				79,486
Investment Earnings				131,901
Miscellaneous				<u>131,901</u>
<i>Total General Revenues</i>				<u>4,365,923</u>
Changes in Net Assets				82,722
<i>Net Assets Beginning of Year - As Restated (See Note 14)</i>				<u>2,839,196</u>
<i>Net Assets End of Year</i>				<u><u>\$ 2,921,918</u></u>

See accompanying notes to the basic financial statements.

Ashtabula County Educational Service Center
Balance Sheet
Governmental Funds
June 30, 2005

	General	IDEA Part-B	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Investments	\$ 3,554,917	\$ 44,788	\$ 87,359	\$ 3,687,064
Receivables:				
Accounts	207,209	-	1,749	208,958
Interfund Receivable	58,588	-	-	58,588
Materials and Supplies Inventory	16,829	-	-	16,829
<i>Total Assets</i>	<u>3,837,543</u>	<u>44,788</u>	<u>89,108</u>	<u>3,971,439</u>
Liabilities				
Accounts Payable	47,598	35,251	2,858	85,707
Accrued Wages and Benefits	455,850	67,376	9,437	532,663
Compensated Absences Payable	10,672	10,671	-	21,343
Pension Obligation Payable	62,939	4,960	385	68,284
Interfund Payable	-	45,838	12,750	58,588
Due to Agency Fund	6,852	2,992	591	10,435
Intergovernmental Payable	57,655	671	101	58,427
Deferred Revenue	2,051	-	109	2,160
<i>Total Liabilities</i>	<u>643,617</u>	<u>167,759</u>	<u>26,231</u>	<u>837,607</u>
Fund Balances				
Reserved for:				
Encumbrances	110,438	-	17,545	127,983
Inventory	16,829	-	-	16,829
Unreserved:				
Undesignated, Reported in:				
General Fund	3,066,659	-	-	3,066,659
Special Revenue Funds	-	(122,971)	45,332	(77,639)
<i>Total Fund Balances</i>	<u>3,193,926</u>	<u>(122,971)</u>	<u>62,877</u>	<u>3,133,832</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 3,837,543</u>	<u>\$ 44,788</u>	<u>\$ 89,108</u>	<u>\$ 3,971,439</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, 2005*

Total Governmental Fund Balances		\$ 3,133,832
 <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.		135,981
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Tuition	418	
Intergovernmental	1,742	
Total		2,160
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		(350,055)
<i>Net Assets of Governmental Activities</i>		\$ 2,921,918
 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, 2005

	General	IDEA Part-B	Other Governmental Funds	Total Governmental Funds
Revenues				
Intergovernmental	\$ 4,457,944	\$ 980,919	\$ 253,584	\$ 5,692,447
Interest	79,486	-	-	79,486
Tuition and Fees	318,831	-	44,877	363,708
Transportation Fees	36,351	-	-	36,351
Miscellaneous	55,033	-	76,868	131,901
<i>Total Revenues</i>	<u>4,947,645</u>	<u>980,919</u>	<u>375,329</u>	<u>6,303,893</u>
Expenditures				
Current:				
Instruction:				
Regular	292,647	-	12,541	305,188
Special	1,214,434	171,247	33,818	1,419,499
Adult/Continuing	-	-	119,933	119,933
Support Services:				
Pupils	891,098	147,253	23,290	1,061,641
Instructional Staff	1,509,939	513,135	132,069	2,155,143
Board of Education	25,338	-	-	25,338
Administration	516,443	257,892	41,552	815,887
Fiscal	229,045	18,500	4,300	251,845
Operation and Maintenance of Plant	12,424	-	-	12,424
Pupil Transportation	45,894	-	12,580	58,474
Central	41,438	-	-	41,438
<i>Total Expenditures</i>	<u>4,778,700</u>	<u>1,108,027</u>	<u>380,083</u>	<u>6,266,810</u>
<i>Excess of Revenue Over/(Under) Expenditures</i>	<u>168,945</u>	<u>(127,108)</u>	<u>(4,754)</u>	<u>37,083</u>
Other Financing Sources (Uses)				
Transfer In	-	-	8,600	8,600
Transfer Out	(8,600)	-	-	(8,600)
<i>Total Other Financing Sources (Uses)</i>	<u>(8,600)</u>	<u>-</u>	<u>8,600</u>	<u>-</u>
<i>Net Change in Fund Balances</i>	160,345	(127,108)	3,846	37,083
<i>Fund Balances Beginning of Year</i>	3,034,303	4,137	59,031	3,097,471
<i>Increase in Reserved for Inventory</i>	(722)	-	-	(722)
<i>Fund Balances End of Year</i>	<u>\$ 3,193,926</u>	<u>\$ (122,971)</u>	<u>\$ 62,877</u>	<u>\$ 3,133,832</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, 2005*

Net Change in Fund Balances - Total Governmental Funds \$ 37,083

***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	41,471	
Current Year Depreciation	(48,114)	

Total (6,643)

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	(1,178)	
------------------------------------	---------	--

Total (1,178)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Tuition	418	
Intergovernmental	1,742	

Total 2,160

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	27,046	
Compensated Absences Payable	24,976	

Total 52,022

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.

	(722)	
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Change in Net Assets of Governmental Activities **\$ 82,722**

See accompany 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, 2005

	Budgeted Amount		Actual	Variance with Final Budget Over/ (Under)
	Original	Final		
<u>Revenue:</u>				
Intergovernmental	\$ 4,323,300	\$ 4,382,144	\$ 4,396,640	\$ 14,496
Interest	43,200	76,424	79,486	3,062
Tuition	302,200	177,829	177,829	-
Transportation Fees	40,000	36,351	36,351	-
Miscellaneous	77,800	73,752	73,752	-
Total Revenues	4,786,500	4,746,500	4,764,058	17,558
<u>Expenditures:</u>				
Instruction:				
Regular	723,526	721,497	299,901	421,596
Special	1,795,958	1,803,084	1,213,733	589,351
Support Services:				
Pupils	1,529,481	1,616,079	943,628	672,451
Instructional Support	2,651,869	2,642,524	1,536,057	1,106,467
Board of Education	82,540	90,759	32,317	58,442
Administration	862,055	893,760	514,719	379,041
Fiscal	270,952	286,856	224,393	62,463
Operation and Maintenance of Plant	17,576	17,576	12,424	5,152
Pupil Transportation	92,610	100,259	48,560	51,699
Central	110,000	110,000	20,063	89,937
Total Expenditures	8,136,567	8,282,394	4,845,795	3,436,599
Excess of Revenues Over/ (Under) Expenditures	(3,350,067)	(3,535,894)	(81,737)	3,454,157
<u>Other Financing Sources/(Uses):</u>				
Advance In	-	-	14,099	14,099
Advance Out	-	-	(58,588)	(58,588)
Transfer Out	(18,000)	(18,000)	(8,600)	9,400
Total Other Financing Sources/(Uses)	(18,000)	(18,000)	(53,089)	(35,089)
Net Change in Fund Balance	(3,368,067)	(3,553,894)	(134,826)	3,419,068
Fund Balance/(Deficit) at the Beginning of Year	3,368,066	3,368,066	3,368,066	-
Prior year encumbrances appropriated	185,829	185,829	185,829	-
Fund Balance/(Deficit) at the End of Year	\$ 185,828	\$ 1	\$ 3,419,069	\$ 3,419,068

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, 2005

	Budgeted Amount			Variance with Final Budget Over/ (Under)
	Original	Final	Actual	
<u>Revenue:</u>				
Intergovernmental	\$ 1,352,714	\$ 980,919	\$ 980,919	\$ -
Total Revenues	1,352,714	980,919	980,919	-
<u>Expenditures:</u>				
Instruction:				
Special	48,500	171,692	171,692	-
Support Services:				
Pupils	149,649	126,157	126,157	-
Instructional Support	895,387	512,765	512,765	-
Administration	274,397	237,343	237,343	-
Fiscal	18,500	18,500	18,500	-
Total Expenditures	1,386,433	1,066,457	1,066,457	-
Excess of Revenues Over/ (Under) Expenditures	(33,719)	(85,538)	(85,538)	-
<u>Other Financing Sources/(Uses):</u>				
Advance In	-	45,838	45,838	-
Total Other Financing Sources/(Uses)	-	45,838	45,838	-
Net Change in Fund Balance	(33,719)	(39,700)	(39,700)	-
Fund Balance/(Deficit) at the Beginning of Year	33,721	33,721	33,721	-
Prior year encumbrances appropriated	5,979	5,979	5,979	-
Fund Balance/(Deficit) at the End of Year	\$ 5,981	\$ -	\$ -	\$ -

See accompanying notes to the basic financial statements

Ashtabula County Educational Service Center
Statement of Fiduciary Assets and Liabilities
Fiduciary Fund
June 30, 2005

	Agency
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 150,493
Receivable from Governmental Activities	10,435
<i>Total Assets</i>	160,928
Liabilities	
Pension Obligation Payable	160,309
Undistributed Monies	619
<i>Total Liabilities</i>	\$ 160,928

See accompanying notes to the basic financial statements.

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Ashtabula County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

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 54 certified and 88 non-certified personnel. The Ashtabula County Commissioners, as required by State statute, provide the offices for the use of the Service Center.

The accompanying basic 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, 2005

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, 2005

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, 2005

D. Basis 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, 2005

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 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 function 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, 2005

Net Change in Fund Balance		
	General	IDEA Part-B
Budget Basis	\$ (134,826)	(39,700)
Net Adjustment for Revenue Accruals	169,488	(45,838)
Net Adjustment for Expenditure Accruals	261,532	3,215
Adjustment for Encumbrances	(135,849)	(44,785)
GAAP Basis	\$ 160,345	\$ (127,108)

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 2005 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 2005 totaled \$79,486.

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.

Ashtabula County Educational Service Center

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Reported inventories in these funds are equally offset by a fund balance reserve which indicates they are unavailable for appropriation.

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, 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:

Description	Governmental Activities Estimated Lives
Furniture, Fixtures, and Equipment	5 – 20 years
Vehicles	5 years

Ashtabula County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

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. 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.

Ashtabula County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

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.

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 2005.

Ashtabula County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

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

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

Protection of 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.

Interim monies to 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;

Ashtabula County Educational Service Center

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

5. 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;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Deposits with Financial Institutions

At June 30, 2005, the carrying amount of the Service Center's deposit was \$2,734,956. The difference in the carrying amount and the bank balance of \$2,762,108 is caused by items in transit and outstanding checks. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$136,889 was covered by federal depository insurance and \$2,625,219 was uncollateralized (category 3).

B. Investments

As of June 30, 2005, the Service Center had the following investments and maturities:

Investment Type	Balance at Fair Value	Investment Maturity 6 months or Less
STAR Ohio	\$1,102,601	\$1,102,601

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the Service Center's investment policy limits investment policy limits investment portfolio maturities to five years or less.

Credit Risk: Standard & Poor's has assigned STAR Ohio a AAAM money market rating.

Concentration of Credit Risk: The Service Center places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the Service Center at June 30, 2005:

Ashtabula County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

Investment Type	Fair Value	% of Total
STAR Ohio	\$1,102,601	100%

C. Reconciliation of Cash and Investments to the Statement of Activities

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

Cash and Investments per footnote	
Carrying amount of deposits	\$ 2,734,956
Investments	1,102,601
Total	\$ 3,837,557

Cash and Investments per Statement of Net Assets	
Governmental activities	\$ 3,687,064
Agency funds	150,493
Total	\$ 3,837,557

Note 3 – Receivables

Receivables at June 30, 2005 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, 2005, as reported on the fund financial statements:

	Interfund Receivable	Interfund Payable
Major Governmental Fund:		
General	\$58,588	\$0
Non-major Governmental Funds:		
Local Grants	0	1,500
IDEA Part-B	0	45,838
Miscellaneous Federal Grants	0	11,250
Total	\$58,588	\$58,588

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, 2005

B. Interfund Transfers

Interfund transfers for the year ended June 30, 2005, consisted of the following, as reported on the fund financial statements:

	Transfer In	Transfer Out
Major Governmental Fund:		
General	\$0	\$8,600
Non-major Governmental Funds:		
Preservice School Bus Driver Training	8,600	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 2005, the Service Center overstated the prior year capital assets by \$43,953. The beginning balance of the capital assets was reduced to \$143,802 to correct the mistake.

	Balance 7/1/2004	Addition	Deletion	Balance 6/30/2005
Governmental Activities				
<i>Capital Assets, being depreciated:</i>				
Furniture, Equipment and Fixtures	315,418	41,471	(5,145)	351,744
Vehicles	123,201	-	-	123,201
Total Capital Assets, being depreciated:	438,619	41,471	(5,145)	474,945
Less Accumulated Depreciation:				
Furniture, Equipment, and Fixtures	(207,585)	(37,967)	3,967	(241,585)
Vehicles	(87,232)	(10,147)	-	(97,379)
Total Accumulated Depreciation	(294,817)	(48,114)	3,967	(338,964)
Total Capital Assets being depreciated, net	143,802	(6,643)	(1,178)	135,981
Governmental Activities Capital Assets, Net	\$ 143,802	\$ (6,643)	\$ (1,178)	\$ 135,981

Ashtabula County Educational Service Center

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Depreciation expense was charged to governmental functions as follows:

Instruction:		
Regular	\$	12,558
Special		1,507
Other		235
Support Services:		
Pupil		3,170
Instructional Staff		13,185
Administration		9,693
Fiscal		2,227
Pupil Transportation		5,539
		<hr/>
Total Depreciation Expense	\$	<u>48,114</u>

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, 2005, 2004, and 2003 were \$176,591, \$169,844, and \$159,416, respectively; no contribution has been made for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. \$176,591 representing the unpaid contribution for fiscal year 2005, including the surcharge, is recorded as a liability within the respective funds.

Ashtabula County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

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. 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, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, 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.

Ashtabula County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

The Service Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$418,117, \$434,299, and \$391,309, respectively; 88 percent has been contributed for fiscal year 2005, and 100 percent for fiscal years 2004 and 2003. \$52,002 represents the unpaid contribution for fiscal year 2005, is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2005 were \$25 made by the Service Center and \$6,526 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-certified 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.

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Service Center, this amount equaled \$29,866 for fiscal year 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, (the latest information available) the balance in the Fund was \$3.1 billion. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 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 credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2005 fiscal year, Service Center paid \$55,558 to fund health care benefits, including the surcharge.

Ashtabula County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

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 for the fiscal year ended June 30, 2004 (the latest information available), 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 currently receiving health care benefits.

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 30 days of vacation, respectively, per year. For certified employees, vacation is based on the following schedule:

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

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

Classified personnel accumulate vacation based on the following schedule:

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

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.

Ashtabula County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

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.

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.

Ashtabula County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

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 6/30/2004	Additions	Reductions	Principal Outstanding 6/30/2005	Amounts Due in One Year
Governmental Activities					
Compensated Absences Payable	\$ 375,301	\$ 144,686	\$ (169,932)	\$ 350,055	\$ 85,054

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 2005. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. A complete set of separate financial statements may be obtained from the Trumbull County Educational Service Center, 347 North Park Avenue, Warren, Ohio, 44481.

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

Ashtabula County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

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, 2005.

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, 2005.

Note 13 – Fund Deficits

Fund balances at June 30, 2005, included the following individual fund deficits:

Non-major Governmental Fund:	
Preservice School Bus Driver Training	\$3,617
Alternative Education	4,230
IDEA Part-B	122,971
Miscellaneous Federal Grants	11,250

The deficits in the funds above are largely the result of the recognition of liabilities in accordance with general accepted accounting principles. The general fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

Note 14 –Restatement of Net Assets

The Service Center discovered a mistake on its prior year capital assets balance. The beginning net assets were reduced by \$43,953 to \$2,839,196.

Note 15 – Changes in Accounting Principals

For fiscal year 2005, the Service Center has implemented GASB No. 40, “Deposits and Investment Risk Disclosure”; GASB Technical Bulletin No. 2004-2, “Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers” and GASB Statement No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits and Other Than Pensions.” None of those changes had any effect on the prior year fund balances and net assets.

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
ASHTABULA COUNTY
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005**

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-04 6B-SF-05	84.027	\$980,919	\$39,701 981,972
Sub-Total - IDEA, Part B			980,919	1,021,673
Early Childhood Special Education, IDEA	PG-S1-05	84.173	36,561	36,561
Total Special Education Cluster			<u>1,017,480</u>	<u>1,058,234</u>
Safe and Drug-Free Schools and Communities	T4-S1-05	84.184	1,250	12,500
Total Department of Education			1,018,730	1,070,734
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
<i>Passed Through Ohio Department of Job and Family Services; Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>				
Medicaid Cluster:				
Medical Assistance Program - Title XIX - Community Alternative Funding System (CAFS) State Children's Health Insurance Program (SCHIP)	FY2005	93.778	135,239 12,664	135,239 12,664
Total Medicaid Assistance Program - Medicaid Cluster			<u>147,903</u>	<u>147,903</u>
Totals			<u>\$1,166,633</u>	<u>\$1,218,637</u>

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

**ASHTABULA COUNTY EDUCATIONAL
SERVICE CENTER**

**NOTE TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR FISCAL YEAR ENDED JUNE 30, 2005**

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.



Auditor of State Betty Montgomery

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

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

To the Governing Board:

We have audited the financial statements of the 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, 2005, which collectively comprise the Service Center's basic financial statement and have issued our report thereon dated February 16, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of reasonably assuring whether the Service Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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

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

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

Betty Montgomery
Auditor of State

February 16, 2006



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

To the Governing Board:

Compliance

We have audited the compliance of Ashtabula County Educational Service Center, (the Service Center) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended February 16, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the Service Center's major federal program. The Service Center's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Service Center's compliance based on our audit.

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

In our opinion, the 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, 2005

Internal Control Over Compliance

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

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

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

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

Betty Montgomery
Auditor of State

February 16, 2006

**ASHTABULA COUNTY EDUCATIONAL SERVICE CENTER
ASHTABULA COUNTY
JUNE 30, 2005**

**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: IDEA Part B (CFDA #84.027) Early Childhood Special Education (CFDA #84.173)
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**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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800-282-0370

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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 13, 2006**