

**TRUMBULL COUNTY
EDUCATIONAL SERVICE CENTER
TRUMBULL COUNTY, OHIO**

***GENERAL PURPOSE FINANCIAL STATEMENTS
(AUDITED)
FOR THE FISCAL YEAR ENDED
JUNE 30, 2001***

LORI SIMIONE, TREASURER



STATE OF OHIO
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JIM PETRO, AUDITOR OF STATE

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Governing Board
Trumbull Educational Service Center
347 North Park Avenue
Warren, Ohio 44481

We have reviewed the Independent Auditor's Report of the Trumbull Educational Service Center, Trumbull County, prepared by Trimble, Julian & Grube, Inc., for the audit period July 1, 2000 through June 30, 2001. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Trumbull Educational Service Center is responsible for compliance with these laws and regulations.

JIM PETRO
Auditor of State

December 29, 2001

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**TRUMBULL COUNTY EDUCATIONAL SERVICE CENTER
TRUMBULL COUNTY, OHIO**

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Independent Auditor's Report

Governing Board
Trumbull County Educational Service Center
347 North Park Avenue
Warren, OH 44481

We have audited the accompanying general purpose financial statements of the Trumbull County Educational Service Center (the "ESC"), Trumbull County, as of and for the year ended June 30, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the ESC's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Trumbull County Educational Service Center, Trumbull County, as of June 30, 2001, and the results of its operations 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 November 19, 2001, on our consideration of the ESC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Trumbull County Educational Service Center
Independent Auditor's Report
Page Two

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

Trimble, Julian & Grube, Inc.
November 19, 2001

TRUMBULL COUNTY EDUCATIONAL SERVICE CENTER
TRUMBULL COUNTY, OHIO
 COMBINED BALANCE SHEET
 ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 2001

ASSETS AND OTHER DEBITS

ASSETS:

Equity in pooled cash and cash equivalents.	\$1,375,272	\$825,562	\$189,071	\$2,962,161	\$5,352,066
Cash in segregated accounts				2,479,647	2,479,647
Receivables (net of allowances of uncollectibles):					
Accounts	2,014				2,014
Due from other governments	1,211,630	54,083			1,265,713
Due from other funds				409,667	409,667
Prepayments	6,877	2,303			9,180
Property, plant and equipment (net of accumulated depreciation where applicable)					3,677,320
					\$3,677,320

OTHER DEBITS:

Amount to be provided for retirement of General Long-Term Obligations.						\$446,352		446,352
Total assets and other debits	\$2,595,793	\$881,948	\$189,071	\$5,851,475	\$3,677,320	\$446,352		\$13,641,959

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

TRUMBULL COUNTY EDUCATIONAL SERVICE CENTER

TRUMBULL COUNTY, OHIO

COMBINED BALANCE SHEET

ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 2001

	Governmental Fund Types			Fiduciary Fund Type	Account Groups			Total (Memorandum Only)
	General	Special Revenue	Capital Projects		General Fixed Assets	General Long-Term Obligations		
LIABILITIES, EQUITY AND OTHER CREDITS								
LIABILITIES:								
Accounts payable	\$243,467	\$101,775	\$59					\$345,301
Accrued wages and benefits	1,155,809	54,836	1,549					1,212,194
Compensated absences payable	8,158	197				\$446,352		454,707
Due to other funds	365,906	37,918	5,843					409,667
Due to other governments				\$5,851,475				5,851,475
Total liabilities	1,773,340	194,726	7,451	5,851,475		446,352		8,273,344
EQUITY AND OTHER CREDITS:								
Investment in general fixed assets.					\$3,677,320			3,677,320
Fund balances:								
Reserved for encumbrances	56,479	31,229	249					87,957
Reserved for prepayments	6,877	2,303						9,180
Unreserved-undesignated	759,097	653,690	181,371					1,594,158
Total equity and other credits.	822,453	687,222	181,620		3,677,320			5,368,615
Total liabilities, equity and other credits . .	\$2,595,793	\$881,948	\$189,071	\$5,851,475	\$3,677,320	\$446,352		\$13,641,959

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

TRUMBULL COUNTY EDUCATIONAL SERVICE CENTER
TRUMBULL COUNTY, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2001

	Governmental Fund Types			Total (Memorandum Only)
	General	Special Revenue	Capital Projects	
Revenues:				
From local sources:				
Tuition	\$129,032			\$129,032
Earnings on investments.	272,572			272,572
Other local revenues.	9,170,339	\$5,207		9,175,546
Other revenues.	2,014			2,014
Intergovernmental - State.	3,382,715	2,679,398	\$120,406	6,182,519
Intergovernmental - Federal		389,213		389,213
Total revenue	<u>12,956,672</u>	<u>3,073,818</u>	<u>120,406</u>	<u>16,150,896</u>
Expenditures:				
Current:				
Instruction:				
Regular.	134,541	344,012		478,553
Special	3,986,285	5,180		3,991,465
Vocational		534,730		534,730
Support services:				
Pupil	2,787,419			2,787,419
Instructional staff.	2,838,977	2,044,324	107,479	4,990,780
Board of Education.	56,151			56,151
Administration	1,696,966	204,743		1,901,709
Fiscal	266,533	20,595		287,128
Business	138,098			138,098
Operations and maintenance	86,559	31,042		117,601
Pupil transportation.	37,950	12,768		50,718
Central	7,785	212,003		219,788
Community services	2,433			2,433
Facilities services	1,793			1,793
Intergovernmental pass-through.	334,983			334,983
Total expenditures	<u>12,376,473</u>	<u>3,409,397</u>	<u>107,479</u>	<u>15,893,349</u>
Excess (deficiency) of revenues over expenditures.	580,199	(335,579)	12,927	257,547
Fund balance, July 1 (restated)	242,254	1,022,801	168,693	1,433,748
Fund balance, June 30.	<u>\$822,453</u>	<u>\$687,222</u>	<u>\$181,620</u>	<u>\$1,691,295</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

TRUMBULL COUNTY EDUCATIONAL SERVICE CENTER
TRUMBULL COUNTY, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL - COMPARISON (NON-GAAP BUDGETARY BASIS)
 ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2001

	General		Special Revenue		Capital Projects		Total (Memorandum only)	
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Variance: Favorable (Unfavorable)
Revenues:								
From local sources:								
Tuition.....	\$93,876	\$93,876	\$0				\$93,876	\$0
Earnings on investments.....	247,881	272,572	24,691				272,572	24,691
Other local revenues.....	7,946,546	8,012,345	65,799				8,090,402	8,305,917
Intergovernmental - State.....	3,382,715	3,382,715	0				5,709,113	6,195,313
Intergovernmental - Federal.....	327,037	327,037	0				848,859	1,023,922
Total revenues.....	11,998,055	12,088,545	90,490				14,990,131	15,891,600
Expenditures:								
Current:								
Instruction:								
Regular.....	178,864	137,120	41,744				557,161	456,920
Special.....	4,458,132	3,931,239	526,893				4,464,732	3,936,419
Vocational.....							534,877	534,731
Support services:								
Pupil.....	2,904,755	2,777,413	127,342				2,904,755	2,777,413
Instructional staff.....	2,904,078	2,765,284	138,794				5,824,344	5,593,296
Board of Education.....	102,774	92,292	10,482				102,774	92,292
Administration.....	1,775,560	1,586,606	188,954				2,143,804	1,860,370
Fiscal.....	271,647	242,553	29,094				292,242	263,148
Business.....	167,906	131,231	36,675				167,906	131,231
Operations and maintenance.....	106,754	87,352	19,402				158,251	118,394
Pupil transportation.....	48,643	38,076	10,567				71,143	50,845
Central.....	10,500	7,785	2,715				223,500	219,787
Community services.....		2,690	0				2,690	0
Facilities services.....	10,000	1,793	8,207				10,000	1,793
Intergovernmental pass-through.....							20,432	15,233
Total expenditures.....	12,942,303	11,801,434	1,140,869				17,478,611	16,054,562
Excess (deficiency) of revenues over expenditures.....	(944,248)	287,111	1,231,359				(2,488,480)	2,325,518
Other financing sources (uses):								
Refund of prior year's (receipts).....	(226,500)	(226,323)	177				(226,500)	(226,323)
Transfers in.....							90,400	0
Transfers (out).....							0	0
Other miscellaneous (uses) of funds.....	(214,125)	(27,304)	186,821				(214,125)	(27,304)
Total other financing sources (uses).....	(440,625)	(253,627)	186,998				(350,225)	(253,627)
Excess (deficiency) of revenues and other financing sources over expenditures and other financing (uses).....	(1,384,873)	33,484	1,418,357				(2,838,705)	2,422,116
Fund balances, July 1.....	1,697,305	1,697,305	0				2,766,720	0
Prior year encumbrances appropriated.....	90,675	90,675	0				585,575	0
Fund balances, June 30.....	\$403,107	\$1,821,464	\$1,418,357				\$513,590	\$2,935,706

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**TRUMBULL COUNTY EDUCATIONAL SERVICE CENTER
TRUMBULL COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 1 - DESCRIPTION OF THE ENTITY

The Trumbull County Educational Service Center (the “ESC”) is the successor to the former Trumbull County Board of Education. County boards of education were formed in Ohio as a result of the passage of Senate Bill 9, in 1914. In 1995, Am. Sub. H.B. 117 authorized the creation of Educational Service Centers and abolished county school districts. That legislation also changed the “Board of Education” to the “Governing Board”.

The ESC operates under a locally-elected five-member Governing Board (the “Board”) and provides education services as mandated by state or federal agencies to fifteen local, three city, and two exempted village school districts in Trumbull County. The Board controls the ESC’s staff, who provide services to 37,106 students and other community members in Trumbull County.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. The Reporting Entity

The ESC’s reporting entity has been defined in accordance with GASB Statement No. 14, The Financial Reporting Entity, effective for financial statements for periods beginning after December 15, 1992. A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the ESC are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the ESC. For the ESC, this includes general operations and student related activities.

**TRUMBULL COUNTY EDUCATIONAL SERVICE CENTER
TRUMBULL COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Component units are legally separate organizations for which the ESC would be financially accountable. Accountability as defined in GASB Statement No. 14 was evaluated based on financial accountability, the nature and significance of the potential component unit's (PCU) relationship with the ESC, and whether exclusion would cause the ESC's general purpose financial statements to be misleading or incomplete. Among the factors considered were separate legal standing; appointment of a voting majority of the PCU's board; fiscal dependency and whether a benefit or burden relationship exists; imposition of will; and the nature and significance of the PCU's relationship with the ESC. Responsibility was evaluated on the basis of financial dependence and the manifestations of oversight exercised by the Governing Board. Among the factors considered were budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the ESC, any obligation of the ESC to finance any deficits that may occur, reliance of the organization on continuing subsidies from the ESC, and/or selection of governing authority, and designation of management. The ESC has no component units. The following organizations are disclosed due to their relationship with the ESC.

JOINTLY GOVERNED ORGANIZATIONS:

North East Ohio Management Information Network (NEOMIN)

NEOMIN is a jointly governed organization among twenty-eight school districts and two educational service centers. The organization was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to the administrative and instructional functions among member districts. Each of the districts supports 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 school districts, and a principal and a treasurer (non-voting members who must be employed by a participating school district, or fiscal agent of NEOMIN). The degree of control exercised by any participating school district is limited to its representation on the Governing Board. The ESC serves as fiscal agent for NEOMIN. Financial activity for fiscal 2001 is reported in the financial statements as an Agency fund.

**TRUMBULL COUNTY EDUCATIONAL SERVICE CENTER
TRUMBULL COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

North East Ohio Instructional Media Center (NEOIMC)

NEOIMC is a jointly governed organization among 45 school districts. NEOIMC was formed for the purpose of providing quality films and/or other media to support the educational curricula of the member school districts. Each member pays a monthly premium based on use of the media materials.

NEOIMC is governed by an advisory committee made up of a member from a parochial school, a joint vocational school, one county superintendent from each participating county, one city superintendent, and two local superintendents whose term rotates every two years. The Trumbull County Superintendent holds a permanent position of the advisory committee. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. The ESC serves as fiscal agent of NEOIMC but does not hold membership. Financial activity for fiscal 2001 is reported in the financial statements as an Agency fund.

North East Ohio Special Education Regional Resource Center (NEO/SERRC)

NEO/SERRC is a special education service center which selects its own board, adopts its own budget and receives direct federal and state grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding, and improving special education programs and services for children with disabilities and their parents.

NEO/SERRC is governed by a governing board of 39 members, comprised of the 35 superintendents of the participating districts, one non-public school representative, one county board of mental retardation representative, and two parents whose term rotates every year. Financial information is available from the Mahoning County Educational Service Center (fiscal agent), 2801 Market Street, Youngstown, Ohio 44507.

Region 12 Professional Development Center (RPDC)

The RPDC is a jointly governed organization among the school districts located in Trumbull, Mahoning, and Columbiana Counties, and Youngstown City. The jointly governed organization was formed for the purpose of establishing an articulated, regional structure for professional development in which school districts, the business community, higher education, and other groups cooperatively plan and implement effective professional development activities that are tied directly to school improvement, and in particular, to improvements in instructional programs.

**TRUMBULL COUNTY EDUCATIONAL SERVICE CENTER
TRUMBULL COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The RPDC is governed by a governing board made up of 19 representatives of the participating school districts, the business community, and Youngstown State University. Members' terms rotate annually. The degree of control exercised by any participating school district is limited to its representation of the Governing Board. The ESC serves as fiscal agent for RPDC. Financial activity for fiscal 2001 is reported in the financial statements as an Agency fund.

Trumbull Student Assistance Consortium (TSAC)

The TSAC, a jointly governed organization among 16 school districts, was formed for the purpose of aiding each participating school district in establishing an effective comprehensive alcohol, tobacco, and other drugs prevention/intervention program that will help make schools drug free.

TSAC is governed by an executive management Council made up of five superintendents of the participating districts. Members' terms rotate annually. The degree of control exercised by any participating school district is limited to its representation on the Council. The ESC serves as fiscal agent of the TSAC. The ESC serves as fiscal agent for TSAC. Financial activity for fiscal 2001 is reported in the financial statements as an Agency fund.

The ESC also participates in two group purchasing pools for insurance, described in Note 9.

B. Fund Accounting

The ESC uses funds and account groups to report its financial position and the results of its operations. 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. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain ESC activities or functions. Funds are classified into two categories: Governmental and Fiduciary. Each category is divided into separate fund types.

**TRUMBULL COUNTY EDUCATIONAL SERVICE CENTER
TRUMBULL COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

GOVERNMENTAL FUNDS

Governmental Funds are those through which most governmental functions of the ESC are financed. The acquisition, use and balances of the ESC's expendable financial resources and the related liabilities (except those accounted for in fiduciary funds) are accounted for through governmental funds. The following are the ESC's Governmental Fund Types:

General Fund - The General Fund is the general operating fund of the ESC and 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 ESC for any purpose, provided it is expended or transferred in accordance with applicable Ohio statute.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Capital Projects Funds - Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds and Trust Funds).

FIDUCIARY FUNDS

Agency Funds - These funds are used to account for assets held by the County in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. These include Agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency funds are presented on a budgetary basis, with note disclosure, if applicable, regarding items which, in other funds, would be subject to accrual.

ACCOUNT GROUPS

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - This group of accounts is established to account for all fixed assets of the ESC.

**TRUMBULL COUNTY EDUCATIONAL SERVICE CENTER
TRUMBULL COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

General Long-Term Obligations Account Group - This group of accounts is established to account for all long-term obligations of the ESC.

C. Measurement Focus/Basis of Accounting

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

The modified accrual basis of accounting is followed for Governmental funds. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, which for the ESC is 60 days after the June 30 year-end. Revenues accrued at the end of the year include accounts, and due from other governments.

Nonexchange transactions, in which the ESC receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the modified accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied and the resources are available. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been met and the resources are available.

Expenditures (decreases in net financial resources) are recognized in the period in which the fund liability is incurred with the following exceptions: general long-term obligation principal and interest are reported only when due; and the costs of accumulated unpaid vacation and sick leave are reported as expenditures in the period in which they will be liquidated with available financial resources rather than in the period earned by employees. Allocations of cost, such as depreciation and amortization, are not recognized in Governmental funds.

**TRUMBULL COUNTY EDUCATIONAL SERVICE CENTER
TRUMBULL COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Budgets

An Educational Service Center is required by state Statute, 3317.11 ORC, to submit an annual budget of operating expenses to the State Governing Board for approval.

The ESC legally adopts its budget on or before the start of the new fiscal year. Included in the budget are the estimated resources and expenditures for each fund. Upon review by the ESC's Governing Board, the annual appropriation resolution is adopted. After the start of the fiscal year, the estimated resources are revised and accepted by the Board to include any unencumbered cash balances from the preceding year. Both the estimated resources and appropriations may be amended or supplemented throughout the year as circumstances warrant.

In the first quarter of each fiscal year, the ESC summarizes and certifies its budget on forms furnished by the State Department of Education, together with such other information as the State Department of Education may require. The summarized budget document consists of three parts. Part (A) includes entitlement funding from the State for the cost of salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Department of Education. Part (B) includes the cost of all other lawful expenditures of the ESC. Part (C) includes the adopted appropriation resolution of the ESC. The State Board of Education reviews the budget and certifies to each local board of education under the supervision of the ESC the amount from part (B) that is to be apportioned to their district.

The ESC is funded by the State Department of Education for the cost of Part (A) of their budget. This funding is provided from State resources.

Part (B) of the budget is provided by the school districts served by the ESC, and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the school district's served by the ESC by \$37. This amount is provided from State Resources.

**TRUMBULL COUNTY EDUCATIONAL SERVICE CENTER
TRUMBULL COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

If additional funding is needed for the ESC, and if a majority of the Boards of Education of the school districts served by the ESC approve, the cost of Part (B) of the budget can be increased. The portion that is in excess of the original funding calculation is shared by all of the school districts served by the ESC through additional reductions in their resources provided through the State Foundation Program. The State Board of Education initiates and supervises the procedure under which the school districts approve or disapprove the additional apportionment. The districts to which the ESC provides service have agreed to pay \$8.50 per pupil, or an additional \$2.00 per pupil, to provide additional funding for services provided by the ESC.

Appropriations:

The annual appropriation resolution is legally enacted by the ESC's Governing Board at the fund level of expenditures, which is the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the ESC may pass a temporary appropriation measure to meet the ordinary expenses of the ESC. The appropriation resolution, by fund, must be within the estimated resources, and the total of expenditures and encumbrances may not exceed the appropriation totals at the fund level. Any revisions that alter the total of any fund appropriation must be approved by the ESC's Governing Board.

The ESC's Governing Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions. All supplemental appropriations were legally enacted by the Governing Board during fiscal 2001 in the following amounts:

	<u>Increase/(Decrease)</u>
General Fund	\$ 68,200
Special Revenue Funds	2,555,098
Capital Projects Funds	125,140
Internal Service Funds	412,175
Agency Funds	<u>7,855,617</u>
Total Net Decrease	<u><u>\$11,016,230</u></u>

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Unencumbered appropriations revert to the respective fund from which it was appropriated and becomes subject to future appropriations. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control in the appropriated Governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balance for subsequent year expenditures on the modified accrual basis of accounting compared to encumbrances outstanding at year-end reported as expenditures on the budget basis of accounting. Note 12 provides a reconciliation of the budgetary and GAAP basis of accounting.

E. Cash and Investments

To improve cash management, cash received by the ESC is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the ESC's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

During 2001, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio) and repurchase agreements.

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2001.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Under existing Ohio statutes, all investment earnings are assigned to the General fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the General fund during fiscal 2001 totaled \$272,572, which included \$172,444 assigned from other funds of the ESC.

An analysis of the Treasurer's investment account at year-end is provided in Note 4.

F. Prepaids

Prepayments for Governmental funds represent cash disbursements, which have occurred and are therefore not current expendable resources. These items are reported as fund assets on the balance sheet using the allocation method, which amortizes their cost over the periods benefitting from the advance payment. At period-end, because prepayments are not available to finance future Governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset.

G. Fixed Assets and Depreciation

General Fixed Assets Account Group

General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year in the General Fixed Assets Account Group. Donated fixed assets are recorded at their fair market values as of the date donated. The ESC follows the capitalization policy of not capitalizing assets with a cost of less than \$500. No depreciation is recognized for assets in the General Fixed Assets Account Group. The ESC has no infrastructure.

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend as asset's life are not capitalized. Interest incurred during the construction of general fixed assets is also not capitalized. Assets in the General Fixed Assets Account Group are not depreciated.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

H. Pass-Through Grants

The ESC is the primary recipient of grants which are passed-through to or spent on behalf of the local school districts within the County. When the ESC has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures in a Special Revenue fund. Grants in which the ESC has no financial or administrative role and are passed-through to the local district in the County are reported in an Agency fund.

I. Intergovernmental Revenues

In Governmental funds, entitlements and non-reimbursable grants (to the extent such grants and entitlements relate to the current fiscal year) are recorded as receivables and revenue when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. The ESC currently participates in various state and federal programs categorized as follows:

Entitlements

General Fund
State Foundation Program

Non-Reimbursable Grants

General Fund
Community Alternative
Funding Program (CAFS)

Special Revenue
American Sign Language
Industrial Technology
Make Learning Fun
Special Education Transition
Gifted Education
Summer Intensive Reading Institute
Education for Economic Security
Regular Education Preschool
Preschool Disabilities
Management Information Systems
Entry Year Program

Non-Reimbursable Grants - (Cont'd)

Special Revenue (Cont'd)
Professional Development Block Grant
Eisenhower
Drug-Free Schools

Capital Projects

SchoolNet Professional Development
SchoolNet Telecommunity

Grants and entitlements amounted to over 41% of the ESC's operating revenue during the 2001 fiscal year.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

J. Compensated Absences

Compensated absences of the ESC consist of vacation leave and sick leave to the extent that payment to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the ESC and the employee.

In accordance with the provisions of GASB Statement No. 16, Accounting for Compensated Absences, a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the termination method; i.e., an accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the ESC's past experience of making termination payments.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

Accumulated vacation and sick leave of Governmental Fund Type employees meeting the above requirements have been recorded in the appropriate Governmental fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The balance of the liability is recorded in the General Long-Term Obligations Account Group.

K. Long-Term Obligations

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, compensated absences and contractually required pension contributions that will be paid from Governmental funds are reported as liability in the General Long-Term Obligations Account Group to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after year-end are considered not to have used current, available financial resources.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

L. Fund Equity

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 prepaid assets. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds.

M. Interfund Transactions

During the course of normal operations, the ESC has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of Agency funds, which do not report transfers of resources as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund.
3. Short-term interfund loans made pursuant to Governing Board Resolution are reflected as "interfund loans receivable or payable." Such interfund loans are repaid in the following fiscal year.
4. Quasi-external transactions are similar to the purchase of goods or services from a vendor; i.e., the fund which provides a service records revenue, and the fund which receives that service records an expenditure/expense.
5. Residual equity transfers are non-recurring or non-routine permanent transfers of equity, generally made when a fund is closed.
6. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources.

An analysis of the ESC's interfund transactions for fiscal year 2001 is presented in Note 5.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

N. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

O. Memorandum Only - Total Columns

Total columns on the General Purpose Financial Statements are captioned (Memorandum Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principle

GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, was implemented during fiscal 2001. In accordance with this statement, certain types of revenue received by the District for which no value is given in return, including derived tax revenues, imposed nonexchange transactions, government-mandated nonexchange transactions, and voluntary nonexchange transactions may have been reported in a manner inconsistent with prior fiscal years; however, the adoption of this statement had no effect on fund balances as previously reported by the District at June 30, 2001.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Fund Reclassification

During fiscal 2001, the ESC has properly reclassified the Americorps-Ohio Reads Agency fund which had previously been reported as part of the Special Revenue funds. The effect of this fund reclassification on fund balance as previously reported at June 30, 2000, is as follows:

	<u>Special Revenue</u>
Fund balance as previously reported, June 30, 2000	\$1,148,874
Fund reclassification	<u>(126,073)</u>
Restated fund balance at July 1, 2000	<u><u>\$1,022,801</u></u>

No restatement is required for the Agency funds, because Agency funds do not report results of operations.

C. Deficit Fund Balances

Fund balances at June 30, 2001 included the following individual fund deficits:

	<u>Deficit Balance</u>
<u>Special Revenue Funds</u>	
Drug-Free Schools Grant	\$ (9,430)
EHA Preschool Grant for the Handicapped	(10,595)

These deficits, caused by the application of generally accepted accounting principles, will be funded by anticipated future intergovernmental revenues or other subsidies not recognized and recorded at June 30. The General fund provides transfers for deficit balances; however, transfers are made when cash is needed rather than when accruals occur.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

D. Agency Funds

The following are accruals for the agency fund, which, in another fund type, would be recognized on the combined balance sheet:

ASSETS

Due from other governments	\$218,209
Accounts receivable	95

NOTE 4 -EQUITY IN POOLED CASH AND INVESTMENTS

State statutes classify monies held by the ESC 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 ESC 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 the Governing Board has identified as not required for use within the current two-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 accounts, including passbook accounts.

Protection of the ESC's deposits is provided by the Federal Deposit Insurance Corporation, 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 moneys deposited with the institution.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, Notes, Debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed 30 days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days from the date of purchase in an amount not to exceed 25% of the interim moneys available for investment at any one time; and,
8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

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

Cash in Segregated Accounts: At year-end, \$2,479,647 was on deposit in the account the ESC maintains as fiscal agent for the Trumbull County School Employee Insurance Benefits Consortium (see Note 9), and included in the total amount of deposits reported below; however, this amount is not part of the internal cash pool reported on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents".

Cash on Hand: At year-end, the ESC had \$250 in undeposited cash on hand, which is included on the combined balance sheet as part of "Equity in Pooled Cash and Cash Equivalents", but is not included in the total amount of deposits reported below.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, Deposits With Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements.

Deposits: At year-end the carrying amount of the ESC's deposits was \$1,054,895 and the bank balance was \$2,494,662. Of the bank balance:

1. \$115,015 was covered by federal deposit insurance.
2. \$2,379,647 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the ESC held to a successful claim by the FDIC.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

Investments: The ESC's investments are required to be categorized to give an indication of the level of risk assumed by the ESC at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the ESC or its agent in the ESC's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the ESC's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the ESC's name. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	<u>Category 3</u>	<u>Fair Value</u>
Repurchase Agreements	\$6,730,940	\$6,730,940
Not Subject to Categorization:		
Investment in State Treasurer's		
Investment Pool	<u> </u>	<u>45,628</u>
Total Investments	<u>\$6,730,940</u>	<u>\$6,776,568</u>

A reconciliation between the classifications of cash, cash equivalents, and investments on the combined balance sheet per GASB Statement No. 9 and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	<u>Equity in Pooled Cash and Cash Equivalents</u>	<u>Investments</u>
GASB Statement No. 9	\$ 5,352,066	\$ 0
Investments of the Cash		
Management Pool:		
State Treasurer's Investment Pool	(45,628)	45,628
Repurchase Agreements	(6,730,940)	6,730,940
Cash on Hand	(250)	
Cash in Segregated Accounts	<u>2,479,647</u>	<u> </u>
GASB Statement No. 3	<u>\$ 1,054,895</u>	<u>\$6,776,568</u>

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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NOTE 5 - INTERFUND TRANSACTIONS

Interfund balances at June 30, 2001, which result from quasi-external transactions, consist of the following individual fund receivables and payables:

	<u>Due from Other Funds</u>	<u>Due (to) Other Funds</u>
General Fund		\$(365,906)
<u>Special Revenue Funds</u>		
Teacher Development		(3,928)
Public Preschool		(5,702)
Alternative School Grants		(6,791)
Miscellaneous State Grants		(827)
Drug-Free Schools		(6,443)
Preschool-Handicapped		(14,227)
<u>Capital Projects Fund</u>		
Telecommunications Grant		(5,843)
<u>Agency Fund</u>		
District Agency	<u>\$409,667</u>	_____
Total Due from/Due to Other Funds	<u>\$409,667</u>	<u>\$(409,667)</u>

NOTE 6 - RECEIVABLES

Receivables at June 30, 2001 consisted primarily of accounts (tuition), and intergovernmental grants and entitlements (to the extent such grants and entitlements relate to the current fiscal year). All receivables are considered collectible in full due to the stable condition of State programs, and the current year guarantee of federal funds. A summary of the principal items of receivables follows:

	<u>Amount</u>
<u>General Fund</u>	
Due from other governments	\$1,211,630
<u>Special Revenue Fund</u>	
Miscellaneous State Grants	
Due from other governments	54,083

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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NOTE 7 - FIXED ASSETS

A summary of the changes in the General Fixed Asset Account Group during the fiscal year follows:

	<u>Balance July 1, 2000</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2001</u>
Furniture/Equipment	\$3,057,440	\$618,901	\$(30,276)	\$3,646,065
Vehicles	<u>31,255</u>	<u> </u>	<u> </u>	<u>31,255</u>
Total	<u>\$3,088,695</u>	<u>\$618,901</u>	<u>\$(30,276)</u>	<u>\$3,677,320</u>

NOTE 8 - LONG-TERM OBLIGATIONS

During the year ended June 30, 2001, the following changes occurred in liabilities reported in the General Long-Term Obligations Account Group. Compensated absences will ultimately be paid from the fund from which the employee is paid.

	<u>Balance July 1, 2000</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2001</u>
Compensated Absences	<u>\$339,052</u>	<u>\$107,300</u>	<u>0</u>	<u>\$446,352</u>
Total	<u>\$339,052</u>	<u>\$107,300</u>	<u>\$ 0</u>	<u>\$446,352</u>

NOTE 9 - RISK MANAGEMENT

The ESC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2001, the ESC contracted with Nationwide Insurance Company, Harcum-Hyre Insurance Agency, Inc., for fleet and general liability insurance, which has a \$2,000,000 per claim/\$5,000,000 annual aggregate limits of liability. Leased vehicles are covered by Nationwide Insurance Company. There is no deductible for comprehensive and a \$1,000 deductible for collision. The vehicle liability insurance carries a \$1,000,000 combined single occurrence limitation.

Professional liability is provided by Nationwide Insurance Company with a \$5,000,000 annual aggregate/\$2,000,000 single occurrence limit and no deductible.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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NOTE 9 - RISK MANAGEMENT - (Continued)

Property insurance is provided by CNA, Rossi Agency, Inc., with a deductible of \$250.

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has not been a significant reduction in coverage from the prior fiscal year.

The ESC has contracted with Trumbull County School Employee Insurance Benefits Consortium (the "Consortium") to provide employee medical/surgical and dental benefits. The Consortium is a shared risk pool comprised of sixteen Trumbull County school districts and the ESC. The ESC is fiscal agent for the Consortium. Rates are set through an annual calculation process. The ESC pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating school districts. Claims are paid for all participants regardless of claims flow. The Executive Committee of the Consortium has the right to return monies to an exiting district subsequent to the settlements of all expenses and claims. The ESC also pays premiums for dental coverage, which are \$70.87 monthly for family coverage and \$22.63 monthly for single coverage. Premiums for life insurance are \$6.25 per employee for \$50,000 of term coverage.

The ESC pays medical/surgical premiums as follows:

<u>Carrier</u>	<u>Single</u>	<u>Family</u>
Medical Mutual PPO	\$204.72	\$510.86
Medical Mutual Traditional:	244.41	
Certified employees		532.29
Classified employees		550.74
Medical Mutual HMO	308.74	702.58
United Healthcare PPO	194.05	484.23
United Healthcare Traditional:	231.67	
Certified employees		500.45
Classified employees		518.90
United Healthcare HMO	292.64	665.95

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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NOTE 9 - RISK MANAGEMENT - (Continued)

OSBA WORKER'S COMPENSATION GROUP RATING

For fiscal year 2001, the ESC participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the ESC 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 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.

NOTE 10 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The ESC contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides basic retirement and disability benefits, cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is established 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. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 9% of their annual covered salary and the ESC is required to contribute at an actuarially determined rate, which was 14% for 2001; 4.2% was the portion to fund pension obligations. The contribution rates of plan members and employers are established and may be amended by the School Employees Retirement Board, up to maximum amounts allowed by State statute. The adequacy of the contribution rates is determined annually. The ESC's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$396,485, \$227,896, and \$142,404, respectively; 100% has been contributed for fiscal years 2000 and 1999. The fiscal year 2001 contribution had not been made as of June 30, 2001, and is recorded as a liability within the Agency fund.

B. State Teachers Retirement System

The ESC contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3% of their annual covered salary and the ESC is required to contribute 14%; 9.5% 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% for members and 14% for employers. The ESC's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$964,214, \$901,560, and \$750,154, respectively; 100% has been contributed for each year.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2001, members of the Governing Board have elected Social Security. The Board's liability is 6.2% of wages paid.

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TRUMBULL COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 11 - POSTEMPLOYMENT BENEFITS

The ESC provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by STRS or SERS based on authority granted by State statute. Both STRS or SERS are funded on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the Board allocated employer contributions equal to 4.5% of covered payroll to the Health Care Reserve Fund. For the ESC, this amount equaled \$309,926 during the 2001 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$3.419 billion at June 30, 2000 (the latest information available). For the year ended June 30, 2000, net health care costs paid by STRS were \$283.137 million and there were 99,011 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more fiscal years of qualifying service credit, disability, and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium.

For this fiscal year, employer contributions to fund health care benefits were 9.8% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2001, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14% 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% of annual health care expenses. Expenses for health care at June 30, 2000 (the latest information available), were \$140.7 million and the target level was \$211.0 million. At June 30, 2000, SERS had net assets available for payment of health care benefits of \$252.3 million and there were approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$271,434 during the 2001 fiscal year.

**TRUMBULL COUNTY EDUCATIONAL SERVICE CENTER
TRUMBULL COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 12 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of GAAP, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual - All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis 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) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for Governmental funds (GAAP basis).

**TRUMBULL COUNTY EDUCATIONAL SERVICE CENTER
TRUMBULL COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 12 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the Governmental funds are as follows:

	Governmental Fund Types		
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
Budget Basis	\$ 33,484	\$(469,365)	\$19,292
Net Adjustment for Revenue Accruals	868,127	(608,831)	
Net Adjustment for Expenditure Accruals	(471,260)	574,465	(6,614)
Net Adjustment for Other Financing Sources (Uses)	253,627		
Net Adjustment for Fund Reclassification	(197,892)	58,005	
Encumbrances (Budget Basis)	<u>94,113</u>	<u>110,147</u>	<u>249</u>
GAAP Basis	<u>\$ 580,199</u>	<u>\$(335,579)</u>	<u>\$12,927</u>

**TRUMBULL COUNTY EDUCATIONAL SERVICE CENTER
TRUMBULL COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 13 - CONTINGENCIES

A. Grants

The ESC receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the ESC at June 30, 2001.

B. Litigation

As of the balance sheet date, the ESC was not involved in any litigation as either defendant or plaintiff.

C. School Funding Decision

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

**TRUMBULL COUNTY EDUCATIONAL SERVICE CENTER
TRUMBULL COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE 13 - CONTINGENCIES - (Continued)

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of November 19, 2001, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

As of the date of these financial statements, the ESC is unable to determine the effect, if any, this decision will have on its future State funding and on its financial operations.

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SUPPLEMENTAL DATA

**TRUMBULL COUNTY EDUCATIONAL SERVICE CENTER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(A) CASH FEDERAL RECEIPTS	(A) CASH FEDERAL DISBURSEMENTS
U. S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:				
Special Education Cluster:				
(B) Special Education-Handicapped	84.027	50088-6B-A1 00	\$3,000	\$3,000
Total Special Education Handicapped Grant			3,000	3,000
(B) Special Education-Preschool	84.173	50088-PG-S1 00P	3,676	4,022
(B) Special Education-Preschool	84.173	50088-PG-S1 01P	84,808	81,176
Total Special Education Preschool Grant			88,484	85,198
Total Special Education Cluster			91,484	88,198
Safe and Drug-Free Schools	84.186	50088-DR-S1 99	0	1,499
Safe and Drug-Free Schools	84.186	50088-DR-S1 00	9,854	66,915
Total Safe and Drug-Free Schools			9,854	68,414
Goals 2000	84.276	50088-G2-S5 00	0	55,082
Goals 2000	84.276	50088-G2-S3 01	84,000	77,951
Total Goals 2000			84,000	133,033
Eisenhower Professional Development Grant	84.281	50088-MS-S1 99C	0	54,084
Eisenhower Professional Development Grant	84.281	50088-MS-S1 00	111,262	71,482
Total Eisenhower Professional Development Grant			111,262	125,566
Total U. S. Department of Education			296,600	415,211
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASSED THROUGH THE OHIO DEPARTMENT OF MENTAL RETARDATION AND DEVELOPMENTAL DISABILITIES:				
Community Alternative Funding System Program	93.778	N/A	327,037	128,509
Total U. S. Department of Health and Human Services			327,037	128,509
Total Federal Financial Assistance			\$623,637	\$543,720

- (A) This schedule was prepared on the cash basis of accounting.
- (B) Included as part of "Special Education Grant Cluster" in determining major programs.

TRIMBLE, JULIAN & GRUBE, INC.

"SERVING OHIO LOCAL GOVERNMENTS"

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Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Governing Board
Trumbull County Educational Service Center
347 North Park Avenue
Warren, OH 44481

We have audited the general purpose financial statements of Trumbull County Educational Service Center (the "ESC") as of and for the year ended June 30, 2001, and have issued our report thereon dated November 19, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the ESC's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to the management of Trumbull County Educational Service Center in a separate letter dated November 19, 2001.

Governing Board
Trumbull County Educational Service Center

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the ESC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted another matter involving internal control over financial reporting that does not require inclusion in this report that we have reported to the management of Trumbull County Educational Service Center in a separate letter dated November 19, 2001.

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

Trimble, Julian & Grube, Inc.
November 19, 2001

TRIMBLE, JULIAN & GRUBE, INC.

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Report on Compliance With Requirements Applicable to Its Major Federal Program and on Internal Control Over Compliance in Accordance With *OMB Circular A-133*

Governing Board
Trumbull County Educational Service Center
347 North Park Avenue
Warren, OH 44481

Compliance

We have audited the compliance of Trumbull County Educational Service Center (the "ESC") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2001. The ESC's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the ESC's management. Our responsibility is to express an opinion on the ESC'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, Audit of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the ESC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the ESC's compliance with those requirements.

Governing Board
Trumbull County Educational Service Center

In our opinion, the ESC complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2001.

Internal Control Over Compliance

The management of the ESC 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 ESC's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*.

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

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

Trimble, Julian & Grube, Inc.
November 19, 2001

**TRUMBULL COUNTY EDUCATIONAL SERVICE CENTER
TRUMBULL COUNTY
JUNE 30, 2001**

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

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unqualified
<i>(d)(1)(ii)</i>	<i>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(ii)</i>	<i>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iii)</i>	<i>Was there any reported non-compliance at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any material internal control weakness conditions reported for major federal programs?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any other reportable internal control weakness conditions reported for major federal programs?</i>	No
<i>(d)(1)(v)</i>	<i>Type of Major Programs' Compliance Opinion</i>	Unqualified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under §.510?</i>	No

**TRUMBULL COUNTY EDUCATIONAL SERVICE CENTER
TRUMBULL COUNTY
JUNE 30, 2001**

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

1. SUMMARY OF AUDITOR'S RESULTS (Continued)

<i>(d)(1)(vii)</i>	<i>Major Programs:</i>	Safe and Drug-Free Schools, CFDA #84.186; Goals 2000, CFDA #84.276
<i>(d)(1)(viii)</i>	<i>Dollar Threshold: Type A/B Programs</i>	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	<i>Low Risk Auditee?</i>	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



**STATE OF OHIO
OFFICE OF THE AUDITOR**

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TRUMBULL EDUCATIONAL SERVICE CENTER

TRUMBULL 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 Bablitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 15, 2002**