

**TRUMBULL COUNTY
EDUCATIONAL SERVICE CENTER**

TRUMBULL COUNTY, OHIO

**BASIC FINANCIAL STATEMENTS
(AUDITED)
FOR THE FISCAL YEAR ENDED
JUNE 30, 2004**

LORI SIMIONE, TREASURER



**Auditor of State
Betty Montgomery**

Board of Education
Trumbull County Educational Service Center
347 North Park Avenue
Warren, Ohio 44481

We have reviewed the Independent Auditor's Report of the Trumbull County Educational Service Center, prepared by Trimble, Julian & Grube, Inc., for the audit period July 1, 2003 through June 30, 2004. 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 County Educational Service Center is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

January 25, 2005

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TRUMBULL COUNTY EDUCATIONAL SERVICE CENTER
TRUMBULL COUNTY, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the Trumbull County Educational Service Center, Trumbull County (the “ESC”) as of and for the fiscal year ended June 30, 2004, which collectively comprise the ESC’s basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the ESC’s management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, its major fund, and the aggregate remaining fund information of the Trumbull County Educational Service Center, Trumbull County, Ohio, as of June 30, 2004, and the respective changes in financial position thereof and the respective budgetary comparison for the general fund for the fiscal 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, 2004, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the ESC's basic financial statements. The accompanying schedule of receipts and 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Trimble, Julian & Grube, Inc.".

Trimble, Julian & Grube, Inc.
November 19, 2004

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

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

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets of governmental activities increased \$379,060 which represents a 8.39% increase from 2003.
- General revenues accounted for \$1,548,998 in revenue or 9.91% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$14,083,380 or 90.09% of total revenues of \$15,632,378.
- The ESC had \$15,253,318 in expenses related to governmental activities; only \$14,083,380 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (unrestricted grants and entitlements) of \$1,548,998 were adequate to provide for these programs.
- The ESC's only major governmental fund is the general fund. The general fund had \$14,945,975 in revenues and \$13,910,566 in expenditures. During fiscal year 2004, the general fund's fund balance increased \$1,035,409 from \$1,084,873 to \$2,120,282.

Using the Basic Financial Statements

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole ESC, presenting both an aggregate view of the ESC's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the ESC's most significant funds with all other nonmajor funds presented in total in one column. In the case of the ESC, the general fund is by far the most significant fund, and the only governmental fund reported as a major fund.

Reporting the ESC as a Whole

Statement of Net Assets and the Statement of Activities

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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These two statements report the ESC's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the ESC as a whole, the *financial position* of the ESC has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the reductions in state funding, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the ESC's programs and services, including instruction, support services, operation and maintenance, pupil transportation, and interest and fiscal charges.

The ESC's statement of net assets and statement of activities can be found on pages 12-13 of this report

Reporting the ESC's Most Significant Funds

Fund Financial Statements

The analysis of the ESC's major governmental fund begins on page 9. Fund financial reports provide detailed information about the ESC's major funds. The ESC uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the ESC's most significant funds. The ESC's only major governmental fund is the general fund.

Governmental Funds

Most of the ESC's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* account, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the ESC's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 14-18 of this report.

Reporting the ESC's Fiduciary Responsibilities

The ESC is the fiscal agent of the area A-site, NEOMIN. This activity is presented as an agency fund. All of the ESC's fiduciary activities are reported in separate Statements of Fiduciary Net Assets on page 19. These activities are excluded from the ESC's other financial statements because the assets cannot be utilized by the ESC to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 20-41 of this report.

The ESC as a Whole

Recall that the Statement of Net Assets provides the perspective of the ESC as a whole. A comparative analysis of governmental activities assets, liabilities, and net assets is provided.

**TRUMBULL COUNTY EDUCATIONAL SERVICE CENTER
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

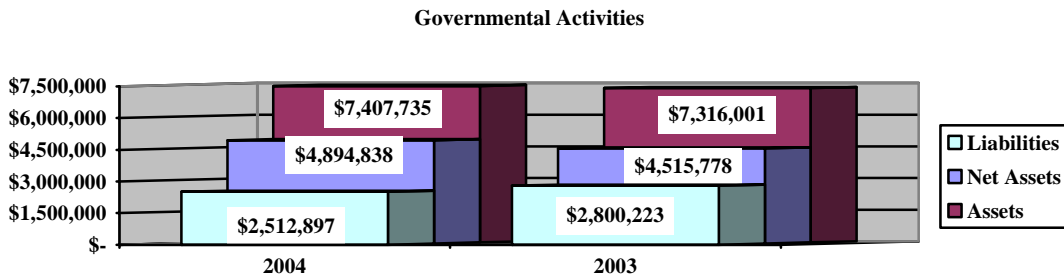
The table below provides a summary of the ESC's net assets for 2004 and 2003.

	Net Assets	
	Governmental Activities	Governmental Activities
	2004	2003
<u>Assets</u>		
Current and other assets	\$ 5,602,875	\$ 5,237,782
Capital assets, net	<u>1,804,860</u>	<u>2,078,219</u>
Total assets	<u>7,407,735</u>	<u>7,316,001</u>
<u>Liabilities</u>		
Current liabilities	2,190,159	2,521,938
Long-term liabilities	<u>322,738</u>	<u>278,285</u>
Total liabilities	<u>2,512,897</u>	<u>2,800,223</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	1,779,920	2,046,869
Restricted	376,420	411,913
Unrestricted	<u>2,738,498</u>	<u>2,056,996</u>
Total net assets	<u>\$ 4,894,838</u>	<u>\$ 4,515,778</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the ESC's assets exceeded liabilities by \$4,894,838.

At fiscal year-end, capital assets represented 24.36% of total assets. Capital assets include furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2004, were \$1,779,920. These capital assets are used to provide services to the students and are not available for future spending. Although the ESC's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the ESC's net assets, \$376,420, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$2,738,498 may be used to meet the ESC's ongoing obligations to the students and creditors. The graph below illustrates the ESC's governmental activities assets, liabilities and net assets for 2004 and 2003.



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MANAGEMENT'S DISCUSSION AND ANALYSIS
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The table below shows the change in net assets for fiscal years 2004 and 2003.

	Change in Net Assets	
	Governmental Activities <u>2004</u>	Governmental Activities <u>2003</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 11,563,003	\$ 11,668,160
Operating grants and contributions	2,502,853	2,621,652
Capital grants and contributions	17,524	153,155
General revenues:		
Grants and entitlements	1,297,196	1,275,828
Investment earnings	110,946	146,518
Miscellaneous	<u>140,856</u>	<u>113,016</u>
Total revenues	<u>15,632,378</u>	<u>15,978,329</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 837,036	\$ 824,179
Special	4,865,168	5,047,404
Support services:		
Pupil	3,393,104	3,146,233
Instructional staff	3,807,428	3,933,077
Board of education	83,872	98,056
Administration	1,470,967	1,556,289
Fiscal	256,245	225,203
Business	93,053	148,742
Operations and maintenance	55,217	69,792
Pupil transportation	34,116	36,466
Central	353,829	416,579
Operations of non-instructional services	902	1,849
Interest and fiscal charges	<u>2,381</u>	<u>1,875</u>
Total expenses	<u>15,253,318</u>	<u>15,505,744</u>
Increase in net assets	<u>\$ 379,060</u>	<u>\$ 472,585</u>

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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Governmental Activities

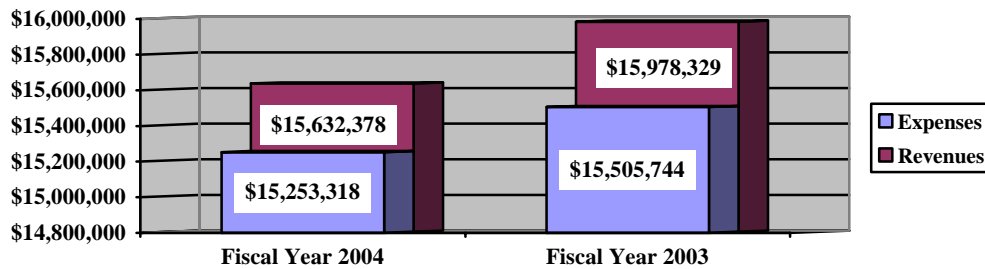
Net assets of the ESC's governmental activities increased \$379,060. Total governmental expenses of \$15,253,318 were offset by program revenues of \$14,083,380 and general revenues of \$1,548,998. Program revenues supported 92.33% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from charges for services, operating grants and contributions and entitlements. These three revenue sources represent 98.28% of total governmental revenue.

The ESC's financial condition has improved significantly in recent years, primarily due to new programs and an increase in requests for services from the districts. State support has decreased over the last two years. Future increases in funding will come from entrepreneurial programs offered by the ESC in response to the needs of the member districts.

The graph below presents the ESC's governmental activities revenue and expenses for fiscal years 2004 and 2003.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted state grants and entitlements. Certain 2003 amounts have been reclassified to conform with 2004 presentation.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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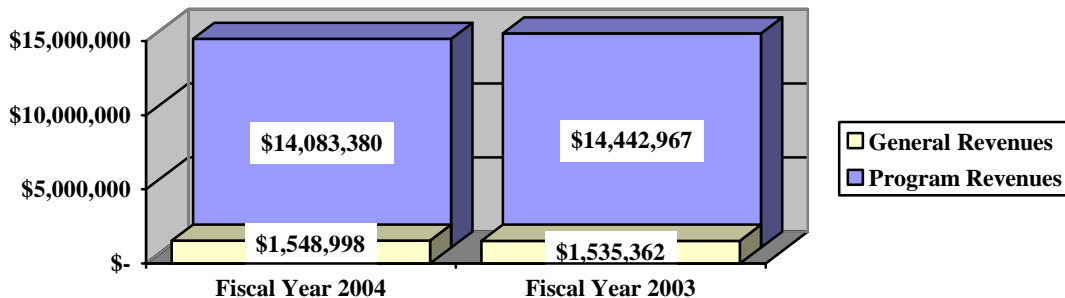
Governmental Activities

	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>	Total Cost of Services <u>2003</u>	Net Cost of Services <u>2003</u>
Program expenses				
Instruction:				
Regular	\$ 837,036	\$ (364,242)	\$ 824,179	\$ (378,129)
Special	4,865,168	350,216	5,047,404	71,000
Support services:				
Pupil	3,393,104	(586,878)	3,146,233	(345,186)
Instructional staff	3,807,428	(242,439)	3,933,077	1,156,598
Board of education	83,872	(35,522)	98,056	42,485
Administration	1,470,967	99,315	1,556,289	(1,543,582)
Fiscal	256,245	(256,245)	225,203	121,846
Business	93,053	(93,053)	148,742	(148,742)
Operations and maintenance	55,217	(55,217)	69,792	(55,144)
Pupil transportation	34,116	(34,116)	36,466	(36,466)
Central	353,829	49,006	416,579	(396,670)
Operations of non-instructional services	902	1,618	1,849	451,088
Interest and fiscal charges	<u>2,381</u>	<u>(2,381)</u>	<u>1,875</u>	<u>(1,875)</u>
Total expenses	<u><u>\$ 15,253,318</u></u>	<u><u>\$ (1,169,938)</u></u>	<u><u>\$ 15,505,744</u></u>	<u><u>\$ (1,062,777)</u></u>

For all governmental activities, general revenue support is 7.67%. The primary support of the ESC is programs in charge for services revenue from District's which the ESC provides services.

The graph below presents the ESC's governmental activities revenue for fiscal years 2004 and 2003.

Governmental Activities - General and Program Revenues



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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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The ESC's Funds

The ESC's governmental funds (as presented on the balance sheet on page 14) reported a combined fund balance of \$2,511,976, which is higher than last year's total of \$1,500,149. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	<u>Fund Balance</u> <u>June 30, 2004</u>	<u>Fund Balance</u> <u>June 30, 2003</u>	<u>Increase</u> <u>(Decrease)</u>
General	\$ 2,120,282	\$ 1,084,873	\$ 1,035,409
Other Governmental	<u>391,694</u>	<u>415,276</u>	<u>(23,582)</u>
Total	<u>\$ 2,511,976</u>	<u>\$ 1,500,149</u>	<u>\$ 1,011,827</u>

General Fund

The ESC's general fund balance increased by \$1,035,409. The increase in fund balance can be attributed to an increase in tuition charged to Districts. The table that follows assists in illustrating the financial activities and fund balance of the general fund for fiscal years 2004 and 2003.

	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Tuition	\$ 179,005	\$ 154,353	15.97 %
Earnings on investments	110,946	146,518	(24.28) %
Contract services	11,665,457	11,594,859	0.61 %
Extracurricular	2,614	3,977	(34.27) %
Intergovernmental	2,783,724	2,566,213	8.48 %
Other revenues	<u>204,229</u>	<u>312,180</u>	(34.58) %
Total	<u>\$ 14,945,975</u>	<u>\$ 14,778,100</u>	1.14 %
<u>Expenditures</u>			
Instruction	\$ 5,251,751	\$ 5,351,097	(1.86) %
Support services	8,638,089	8,689,377	(0.59) %
Operation of non-instructional services	902	1,849	(51.22) %
Facilities acquisition and construction	11,033	12,031	(8.30) %
Capital outlay	-	36,068	(100.00) %
Debt service	<u>8,791</u>	<u>6,593</u>	33.34 %
Total	<u>\$ 13,910,566</u>	<u>\$ 14,097,015</u>	(1.32) %

General Fund Budgeting Highlights

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

During the course of fiscal year 2004, the general fund original budgeted revenues of \$14,962,745 were increased to \$14,909,716 for final revenues. Actual revenues for fiscal year 2004 were \$15,059,110. This represents a \$149,394 increase over final budgeted revenues. This increase is primarily due to conservative contract services estimates in the original and final budgeted amounts.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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General fund original appropriations (appropriated expenditures plus other financing uses) of \$14,849,599 were increased to \$15,792,709 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$14,694,227, which was \$1,098,482 less than the final budget appropriations. The increases in appropriations were caused by the ESC's addition of new programs in fiscal year 2004 and the continued growth of the ESC Alternative School, Trumbull Academy. The ESC was able to add to its fund balance due to the fact that medical insurance costs were lower than anticipated in the original budget and additional fees were realized due to new programs and additional services to member school districts.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the ESC had \$1,804,860 invested in furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2004 balances compared to 2003:

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2004	2003
Furniture and equipment	\$ 1,798,136	\$ 2,069,191
Vehicles	6,724	9,028
Total	\$ 1,804,860	\$ 2,078,219

The primary decrease occurred in furniture and equipment, which was due to \$71,040 in disposals. Total additions to capital assets for 2004 were \$79,050 and total disposals were \$23,364 (net of accumulated depreciation). The overall decrease in capital assets of \$273,359 is primarily due to the recording of \$329,045 in depreciation expense for fiscal year 2004.

See Note 6 to the basic financial statements for additional information on the ESC's capital assets.

Debt Administration

At June 30, 2004, the ESC had \$24,940 in a capital lease obligation outstanding. Of this total, \$6,967 is due within one year and \$17,973 is due within greater than one year. The following table summarizes the capital lease obligation outstanding.

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2004	2003
Capital lease obligation	\$ 24,940	\$ 31,350
Total	\$ 24,940	\$ 31,350

See Note 7 and 8 to the basic financial statements for additional information on the ESC's capital lease and debt administration.

**TRUMBULL COUNTY EDUCATIONAL SERVICE CENTER
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Current Financial Related Activities

Overall, the Trumbull County ESC is strong financially. As the preceding information shows, the ESC relies heavily on contracts with local, city, and exempted village school districts in Trumbull County, state foundation revenue, and grants. Contracts with Trumbull County districts are expected to increase in fiscal year 2005 due to additional service requests from districts. In addition, the ESC is a partner with five other ESC's, OSBA, and MeccaTech in the Ohio ESC Medicaid Consortium, which may generate new revenue in fiscal year 2005. New contracts, along with the ESC's cash balance will provide the ESC with the necessary funds to meet its operating expenses in fiscal year 2005. However, the future financial stability of the ESC is not without challenges.

The first challenge is the legislation regarding Ohio's Regional Education Delivery System and the implementation of that system by the Ohio Department of Education. This system will directly affect the ESC's and the method used to fund the ESC's.

Additionally, there is uncertainty regarding the ESC's administrative office space. Under state law, the Trumbull County Commissioners are no longer required to provide rent-free space to the ESC. Depending on further negotiations, there may be a need to acquire new space or to pay rent for our current space.

The next challenge facing the ESC is the decline in enrollment in Trumbull County over the past several years and the projected decline in the future. The ESC receives funding based on the ADM of Trumbull County school districts, so the continued decline will directly impact state funding.

The last challenge facing the ESC is the need for more services to Trumbull County school districts with declining state support. Trumbull County ESC constantly strives to provide more services in the most cost efficient manner.

The ESC's systems of budgeting and internal controls are well regarded. All of the ESC's financial abilities will be needed to meet the financial challenges of the future.

Contacting the ESC's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the ESC's finances and to show the ESC's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Lori Simione, Treasurer, Trumbull County ESC, 347 N. Park Avenue, Warren, Ohio 44481-1134.

**BASIC
FINANCIAL STATEMENTS**

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

STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 4,171,560
Receivables:	
Accounts	1,032
Intergovernmental	1,398,168
Accrued interest	179
Prepayments	31,936
Capital assets, net.	1,804,860
 Total assets.	 7,407,735
 Liabilities:	
Accounts payable.	11,421
Accrued wages and benefits	1,463,987
Pension obligation payable.	206,486
Intergovernmental payable	508,265
Long-term liabilities:	
Due within one year	66,563
Due in more than one year	256,175
 Total liabilities	 2,512,897
 Net Assets:	
Invested in capital assets, net of related debt.	1,779,920
Restricted for:	
Capital projects	14,983
Other purposes	361,437
Unrestricted	2,738,498
 Total net assets	 \$ 4,894,838

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 837,036	\$ 202,992	\$ 269,802	\$ -	\$ (364,242)
Special	4,865,168	3,702,555	1,512,829	-	350,216
Support services:					
Pupil	3,393,104	2,796,604	9,622	-	(586,878)
Instructional staff	3,807,428	3,353,128	194,337	17,524	(242,439)
Board of education	83,872	-	48,350	-	(35,522)
Administration	1,470,967	1,505,204	65,078	-	99,315
Fiscal	256,245	-	-	-	(256,245)
Business	93,053	-	-	-	(93,053)
Operations and maintenance	55,217	-	-	-	(55,217)
Pupil transportation	34,116	-	-	-	(34,116)
Central	353,829	-	402,835	-	49,006
Operation of non-instructional services	902	2,520	-	-	1,618
Interest and fiscal charges	2,381	-	-	-	(2,381)
Totals	\$ 15,253,318	\$11,563,003	\$ 2,502,853	\$ 17,524	(1,169,938)
General Revenues:					
Grants and entitlements not restricted to specific programs					
					1,297,196
Investment earnings					110,946
Miscellaneous					140,856
Total general revenues					1,548,998
Change in net assets					379,060
Net assets at beginning of year					4,515,778
Net assets at end of year					\$ 4,894,838

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents	\$ 3,771,263	\$ 400,297	\$ 4,171,560
Receivables:			
Accounts	1,032	-	1,032
Intergovernmental	1,353,093	45,075	1,398,168
Accrued interest	179	-	179
Prepayments	31,731	205	31,936
 Total assets	 \$ 5,157,298	 \$ 445,577	 \$ 5,602,875
 Liabilities:			
Accounts payable	\$ 9,721	\$ 1,700	\$ 11,421
Accrued wages and benefits	1,419,574	44,413	1,463,987
Pension obligation payable.	165,623	3,765	169,388
Intergovernmental payable	504,260	4,005	508,265
Deferred revenue	937,838	-	937,838
 Total liabilities	 3,037,016	 53,883	 3,090,899
 Fund Balances:			
Reserved for prepayments	31,731	205	31,936
Unreserved, undesignated, reported in:			
General fund	2,088,551	-	2,088,551
Special revenue funds.	-	376,506	376,506
Capital projects funds.	-	14,983	14,983
 Total fund balances	 2,120,282	 391,694	 2,511,976
 Total liabilities and fund balances	 \$ 5,157,298	 \$ 445,577	 \$ 5,602,875

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

Total governmental fund balances		\$ 2,511,976
<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.		1,804,860
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.		
Contract Services		937,838
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	\$ 297,798	
Pension obligation payable	37,098	
Capital lease obligation	24,940	
Total		<u>(359,836)</u>
Net assets of governmental activities		<u><u>\$ 4,894,838</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
From local sources:			
Tuition.	\$ 179,005	\$ -	\$ 179,005
Earnings on investments.	110,946	-	110,946
Contract services	11,665,457	-	11,665,457
Extracurricular.	2,614	-	2,614
Other local revenues.	204,229	1,500	205,729
Intergovernmental - state	2,234,338	409,647	2,643,985
Intergovernmental - federal	549,386	576,624	1,126,010
Total revenues.	14,945,975	987,771	15,933,746
Expenditures:			
Current:			
Instruction:			
Regular	433,313	229,355	662,668
Special.	4,818,438	25,838	4,844,276
Support Services:			
Pupil.	3,345,542	24,530	3,370,072
Instructional staff	3,417,619	306,770	3,724,389
Board of education	83,872	-	83,872
Administration.	1,355,967	74,915	1,430,882
Fiscal	249,537	-	249,537
Business	92,473	-	92,473
Operations and maintenance.	55,079	-	55,079
Pupil transportation	34,116	-	34,116
Central.	3,884	349,945	353,829
Operation of non-instructional services	902	-	902
Facilities acquisition and construction	11,033	-	11,033
Debt service:			
Principal retirement	6,410	-	6,410
Interest and fiscal charges	2,381	-	2,381
Total expenditures	13,910,566	1,011,353	14,921,919
Net change in fund balances.	1,035,409	(23,582)	1,011,827
Fund balances at beginning of year	1,084,873	415,276	1,500,149
Fund balances at end of year.	\$ 2,120,282	\$ 391,694	\$ 2,511,976

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds \$ 1,011,827

*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 those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$329,045) exceeds capital outlay (\$79,050) in the current period. (249,995)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, and trade-ins) is to decrease net assets. (23,364)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (301,368)

Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 6,410

Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. (64,450)

Change in net assets of governmental activities \$ 379,060

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Tuition.	\$ 182,695	\$ 182,048	\$ 183,198	\$ 1,150
Earnings on investments.	145,516	145,000	110,767	(34,233)
Extracurricular.	3,513	3,500	2,614	(886)
Contract services.	11,851,064	11,809,063	11,933,931	124,868
Other local revenues.	167,699	167,105	203,197	36,092
Intergovernmental - state	2,210,835	2,203,000	2,234,338	31,338
Intergovernmental - federal	401,423	400,000	391,065	(8,935)
Total revenues	<u>14,962,745</u>	<u>14,909,716</u>	<u>15,059,110</u>	<u>149,394</u>
Expenditures:				
Current:				
Instruction:				
Regular	530,744	566,384	442,539	123,845
Special	4,708,328	5,024,500	4,794,928	229,572
Support Services:				
Pupil	3,233,544	3,450,683	3,311,731	138,952
Instructional staff.	3,398,137	3,626,329	3,423,571	202,758
Board of education.	148,771	158,761	83,090	75,671
Administration.	1,435,924	1,532,349	1,385,571	146,778
Fiscal.	325,199	347,037	249,400	97,637
Business	122,648	130,884	92,771	38,113
Operations and maintenance	76,209	81,327	55,686	25,641
Pupil transportation	46,639	49,771	34,116	15,655
Central	4,685	5,000	3,884	1,116
Operation of non-instructional services	1,874	2,000	902	1,098
Facilities acquisition and construction.	11,713	12,500	11,033	1,467
Total expenditures	<u>14,044,415</u>	<u>14,987,525</u>	<u>13,889,222</u>	<u>1,098,303</u>
Excess of revenues over (under) expenditures	<u>918,330</u>	<u>(77,809)</u>	<u>1,169,888</u>	<u>1,247,697</u>
Other financing uses:				
Refund of prior year receipts	(331,204)	(331,204)	(331,204)	-
Other uses of funds	(473,980)	(473,980)	(473,801)	179
Total other financing uses	<u>(805,184)</u>	<u>(805,184)</u>	<u>(805,005)</u>	<u>179</u>
Net change in fund balance.	113,146	(882,993)	364,883	1,247,876
Fund balance at beginning of year	3,257,640	3,257,640	3,257,640	-
Prior year encumbrances appropriated	138,988	138,988	138,988	-
Fund balance at end of year	<u>\$ 3,509,774</u>	<u>\$ 2,513,635</u>	<u>\$ 3,761,511</u>	<u>\$ 1,247,876</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2004

	Agency
Assets:	
Equity in pooled cash and cash equivalents.	\$ 2,827,268
Cash in segregated accounts	6,993,084
Receivables:	
Due from other governments	94,596
Total assets.	\$ 9,914,948
Liabilities:	
Due to others.	\$ 6,993,084
Intergovernmental payable	2,921,864
Total liabilities	\$ 9,914,948

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 1 - DESCRIPTION OF THE ESC

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 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 34,828 students and other community members in Trumbull County.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the ESC have been prepared in conformity with accounting principles generally accepted in the United States of America (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 also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The ESC's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". The reporting entity is composed of the primary government, component units and other organization that are included to ensure that the basic 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 of the ESC.

Component units are legally separate organizations for which the ESC is financially accountable. The ESC is financially accountable for an organization if the ESC appoints a voting majority of the organizations' government board and (1) the ESC is able to significantly influence the programs or services performed or provided by the organization; or (2) the ESC is legally entitled to or can otherwise access organizations resources; or (3) the ESC is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the ESC is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the ESC in that the ESC approves the budget, the issuance of debt or the levying of taxes. Based upon the application of this criteria, the ESC has no component units. The basic financial statements of the reporting entity include only those of the ESC (the primary government). The following organizations are described due to their relationship to the ESC:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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 year 2004 is reported in the basic financial statements as an agency fund.

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 on 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 year 2004 is reported in the basic 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 BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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 on the Governing Board.

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. Financial activity for fiscal year 2004 is reported in the basic financial statements as an agency fund.

PUBLIC ENTITY RISK POOLS

Ohio School Boards Association Workers' Compensation Group Rating Plan

The ESC participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

The Plan'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 OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participating school ESCs pay an enrollment fee to the Plan to cover the costs of administering the program.

B. Fund Accounting

The ESC uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses 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 paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the ESC's major governmental fund:

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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

PROPRIETARY FUNDS

Proprietary funds are used to account for the ESC's ongoing activities which are similar to those often found in the private sector. The ESC has no proprietary funds.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. The ESC's only fiduciary funds are agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The ESC's agency funds account for various resources held for other organizations.

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the ESC as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the ESC. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the ESC.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the ESC are included on the statement of net assets.

Fund Financial Statements - Fund financial statements report detailed information about the ESC. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Agency funds do not report a measurement focus as they do not report operations.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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. Fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions - 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 ESC, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the ESC receives value without directly giving equal value in return, include grants, entitlements and donations.

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 ESC must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the ESC on a reimbursement basis. On a modified accrual basis, revenue from nonexchange 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: tuition, grants, and contract services.

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Contractual services provided by the ESC during the fiscal year for which payment is not received in the available period. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures - 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. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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 \$37.00. This amount is provided from State Resources.

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 level 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 may not exceed the appropriation totals at legal level of control. Any revisions that alter the total of the fund appropriation must be approved by the ESC's Governing Board.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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 original and 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 year 2004.

F. Cash and Investments

To improve cash management, cash received by the ESC is pooled in a central bank account except for cash held in segregated accounts, are mentioned in this pool. 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 basic financial statements.

During fiscal year 2004, investments were limited to overnight repurchase agreements and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). 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.

The ESC has invested funds in STAR Ohio during fiscal year 2004. 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, 2004.

Under existing Ohio statutes all investment earning are assigned to the general fund unless statutorily required to be credited to a specific fund. The Governing Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$110,946, which includes \$53,938 assigned from other ESC funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the ESC are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

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

G. Capital Assets

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

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

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 date received. The ESC maintains a capitalization threshold of one thousand dollars. The ESC 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.

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

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Furniture and equipment	5 - 20 years
Vehicles	6 - 10 years

H. Compensated Absences

Compensated absences of the ESC consist of vacation leave and severance liability to the extent that payments 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 vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age fifty or greater with at least ten years of service and all employees with at least 20 years of service regardless of their age and with at least five years of service with the ESC were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2004, and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

In the governmental fund financial statements, compensated absences are reported to the extent that a known liability for an employees retirement/resignation has been incurred by fiscal year-end. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees are paid.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

I. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, compensated absences, and contractually required pension contributions 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 year.

J. Fund Balance Reserves

The ESC reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for prepayments.

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist 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 through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The ESC applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

L. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the governmental funds balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the governmental funds time of the purchase and the expenditure/expense is reported in the year in which services are consumed. At fiscal year-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 on the fund financial statements.

M. Estimates

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

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

N. Interfund Activity

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 are reported as interfund transfers. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basis financial statements. Interfund activities between governmental funds are eliminated in the statement of activities. The ESC had no interfund activity during fiscal year 2004.

O. 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 Governing Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2004.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Deficit Fund Balances

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

	<u>Deficit</u>
<u>Nonmajor Funds</u>	
Public Preschool	\$ 11,461
EHA Preschool	13,697
Alternative Schools	24,729

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances results from adjustments for accrued liabilities.

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The ESC maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the financial statements as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of 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 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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

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 (FDIC), by eligible securities pledged by the finance 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 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 or 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 thirty 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) 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 Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating 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 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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

Cash in Segregated Accounts: At year-end, \$6,993,084 was on deposit in the account the ESC maintains as fiscal agent for the Trumbull County School Employee Insurance Benefits Consortium (see Note 10.B.) and is included on the fiduciary statement of net assets as “Cash in Segregated Accounts”. The balance is covered by federal deposit insurance, by collateral held by the Trumbull County Educational Service Center, or by collateral held by a qualified third-party trustee in the name of the ESC. This amount is not included in the total amount of deposits reported below.

Cash on hand: At fiscal year-end, the ESC had \$250 in undeposited cash on hand which is included on the combined balance sheet of the ESC as part of “Equity in Pooled Cash and Cash Equivalents”.

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

Deposits: At fiscal year-end, the carrying amount of the ESC’s deposits was \$(453,477) and the bank balance was \$15,000. A liability was not recorded for the negative carrying amount of deposits because there was no actual overdraft, due to the “zero balance” nature of the ESC’s bank accounts. The negative carrying amount of deposits is due to the sweeping of monies into overnight repurchase agreements which are reported as “investments”. The entire bank balance was covered by federal depository insurance.

Investments: The ESC’s investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at fiscal year-end. Category 1 includes investments that are insured or registered or securities held by the ESC. 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, but not in the ESC’s name. Investments in STAR Ohio are not categorized as they are not evidenced by securities that exist in physical or book entry form.

	<u>Category 3</u>	<u>Reported Amount</u>	<u>Fair Value</u>
Repurchase agreements	<u>\$ 7,404,120</u>	\$ 7,404,120	\$ 7,404,120
Total	<u>\$ 7,404,120</u>		
Investment in STAR Ohio		<u>47,935</u>	<u>47,935</u>
Total investments		<u>\$ 7,452,055</u>	<u>\$ 7,452,055</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 13,991,912	\$ -
Investments of the cash management pool:		
Repurchase agreements	(7,404,120)	7,404,120
Investment in STAR Ohio	(47,935)	47,935
Cash in segregated accounts	(6,993,084)	-
Cash on hand	<u>(250)</u>	<u>-</u>
GASB Statement No. 3	<u>\$ (453,477)</u>	<u>\$ 7,452,055</u>

NOTE 5 - RECEIVABLES

Receivables at June 30, 2004 consisted of accounts, accrued interest (billings to Districts for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities	
Accounts	\$ 1,032
Intergovernmental	1,398,168
Accrued interest	<u>179</u>
Total	<u>\$ 1,399,379</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within subsequent years.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 6 - CAPITAL ASSETS

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

	<u>Balance 06/30/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/04</u>
<i>Capital assets, being depreciated:</i>				
Furniture and equipment	\$ 3,974,165	\$ 79,050	\$ (71,040)	\$ 3,982,175
Vehicles	<u>16,135</u>	<u>-</u>	<u>-</u>	<u>16,135</u>
Total capital assets, being depreciated	<u>3,990,300</u>	<u>79,050</u>	<u>(71,040)</u>	<u>3,998,310</u>
<i>Less: accumulated depreciation:</i>				
Furniture and equipment	(1,904,974)	(326,741)	47,676	(2,184,039)
Vehicles	<u>(7,107)</u>	<u>(2,304)</u>	<u>-</u>	<u>(9,411)</u>
Total accumulated depreciation	<u>(1,912,081)</u>	<u>(329,045)</u>	<u>47,676</u>	<u>(2,193,450)</u>
Governmental activities capital assets, net	<u>\$ 2,078,219</u>	<u>\$ (249,995)</u>	<u>\$ (23,364)</u>	<u>\$ 1,804,860</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 240,268
Special	12,393

Support Services:

Pupil	8,609
Instructional Staff	35,682
Administration	26,812
Fiscal	2,813
Business	2,330
Operations and Maintenance	<u>138</u>

Total depreciation expense \$ 329,045

NOTE 7 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In a prior fiscal year, the ESC entered into a capitalized lease agreement for the acquisition of copier equipment.

These lease agreements met the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in the financial statements for the governmental funds.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 7 - CAPITALIZED LEASES - LESSEE DISCLOSURE – (Continued)

Capital assets consisting of office equipment have been capitalized in the amount of \$36,068. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2004 totaled \$6,410 in the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2004:

<u>Fiscal Year Ending June 30,</u>	<u>Copier</u>
2005	\$ 8,791
2006	8,791
2007	8,791
2008	<u>2,198</u>
Total minimum lease payments	28,571
Less: amount representing interest	<u>(3,631)</u>
Total	<u>\$ 24,940</u>

NOTE 8 - LONG-TERM OBLIGATIONS

During the fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

	<u>Balance Outstanding 06/30/03</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding 06/30/04</u>	<u>Amounts Due in One Year</u>
Capital lease obligation	\$ 31,350	\$ -	\$ (6,410)	\$ 24,940	\$ 6,967
Compensated absences	<u>246,935</u>	<u>125,484</u>	<u>(74,621)</u>	<u>297,798</u>	<u>59,596</u>
Total	<u>\$ 278,285</u>	<u>\$ 125,484</u>	<u>\$ (81,031)</u>	<u>\$ 322,738</u>	<u>\$ 66,563</u>

Compensated absences will be paid from the fund from which the employee's salaries are paid. The capital lease obligation is being repaid from the general fund.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 9 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and state laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers do not earn vacation time.

Each employee earns sick leave at the rate of one and one-fourth days per month. Upon retirement, payment is made for twenty-five percent of the total sick leave accumulation, up to a maximum accumulation of 51 days for both certificated and classified employees. An employee receiving such payment must meet the retirement provisions set by STRS and SERS and have ten or more years of service with the state and five or more years with the ESC.

B. Insurance Benefits

The ESC provides life insurance in the amount of \$50,000 to all full-time employees.

NOTE 10 - RISK MANAGEMENT

A. Comprehensive

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 2004, 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/\$2,000,000 annual aggregate and an excess liability policy of \$2,000,000 per claim and aggregate. Leased vehicles are covered by Nationwide Insurance Company. There is \$250 deductible for comprehensive and a \$500 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 \$2,000,000 annual aggregate/\$2,000,000 single occurrence limit and no deductible.

Property insurance is provided by Indiana Insurance Co., The Griffith Agency, with a deductible of \$1,000.

During fiscal year 2004, the ESC participated in the Ohio School Plan (OSP), a public entity insurance purchasing pool. The ESC entered into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The ESC pays this annual premium to the OSP.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 10 - RISK MANAGEMENT - (Continued)

The types and amounts of coverage provided by the OSP are as follows:

General Liability:	
Each Occurrence	\$ 1,000,000
Aggregate Limit	3,000,000
Products - Completed Operations Aggregate Limit	1,000,000
Personal and Advertising Injury Limit - Each Offense	1,000,000
Fire Damage Limit - Any One Event	10,000
Medical Expense Limit	10,000
Employees' Liability:	
Each Offense	1,000,000
Aggregate	3,000,000
Employers' Liability:	
Each Occurrence	1,000,000
Disease - Each Employee	1,000,000
Educational Legal Liability:	
Errors and Omissions Injury Limit	1,000,000
Errors and Omissions Aggregate Limit	2,000,000
Employment Practices Injury Limit	1,000,000
Employment Practices Injury Aggregate Limit	2,000,000

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.

B. Employee Medical/Surgical and Dental Insurance

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 \$78.30 monthly for family coverage and \$25.01 monthly for single coverage. Premiums for life insurance are \$6.00 per employee for \$50,000 of term coverage.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 10 - RISK MANAGEMENT - (Continued)

The ESC pays medical/surgical premiums for employees hired before July 1, 2003, as follows:

<u>Carrier</u>	<u>Certified/ Single</u>	<u>Classified/ Single</u>	<u>Certified/ Family</u>	<u>Classified/ Family</u>
Medical Mutual PPO	\$ 361.21	\$ 361.21	\$ 939.14	\$ 939.14
Medical Mutual Traditional	370.08	N/A	514.93	N/A
Medical Mutual HMO	364.98	N/A	949.03	N/A

The ESC pays medical/surgical premiums for classified employees hired after July 1, 2003 as follows

<u>Carrier</u>	<u>Classified/ Single</u>	<u>Classified/ Family</u>
Medical Mutual PPO	\$ 343.15	\$ 892.18

C. OSBA Group Workers' Compensation Rating Plan

For fiscal year 2004, the ESC participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). 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 ESCs is calculated as one experience and a common premium rate is applied to all school ESCs 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 ESCs 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 11 - 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 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 State Statute 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, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

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NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 10% of their annual covered salary and the ESC is required to contribute at an actuarially determined rate of 14% for 2004, 9.09% was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The ESC's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$379,673, \$356,994, and \$401,849, respectively; 100% has been contributed for each year.

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 retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided 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. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

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% 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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 10% of their annual covered salary and the ESC is required to contribute 14%; 13% 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. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The ESC's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$972,288, \$943,877, and \$1,003,897, respectively; 100% has been contributed for each year. Contributions to the DC and Combined Plans for fiscal year 2004 were \$3,743 made by the ESC and \$13,527 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2004, certain members of the Governing Board have elected Social Security. The ESC's liability is 6.2 percent of wages paid.

NOTE 12 - 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 partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and 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 pay a portion of the 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 State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the ESC, this amount equaled \$69,449 during fiscal year 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$2.8 billion at June 30, 2003 (the latest information available). For the fiscal year ended June 30, 2003 (the latest information available), net health care costs paid by STRS were \$352.301 million and STRS had 108,294 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and 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 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 4.91% 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 2004, the minimum pay has been established at \$25,400. 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2003 (the latest information available) were \$204.931 million and the target level was \$307.4 million. At June 30, 2003, (the latest information available) SERS had net assets available for payment of health care benefits of \$303.6 million and SERS had approximately 50,000 participants receiving health care benefits. For the ESC, the amount to fund health care benefits, including surcharge, equaled \$177,088 during the 2004 fiscal year.

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING

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

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund 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 and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses 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, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance	
	<u>General Fund</u>
Budget basis	\$ 364,883
Net adjustment for revenue accruals	(113,135)
Net adjustment for expenditure accruals	(31,096)
Net adjustment for other sources/uses	805,005
Adjustment for encumbrances	<u>9,752</u>
GAAP basis	<u>\$ 1,035,409</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 14 - 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the ESC. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the ESC.

B. Litigation

The District is involved in no material litigation as either plaintiff or defendant.

C. State School Funding Decision

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The ESC is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

SUPPLEMENTAL DATA

**TRUMBULL COUNTY EDUCATIONAL SERVICE CENTER
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(A) CASH FEDERAL RECEIPTS	(A) CASH FEDERAL DISBURSEMENTS
OFFICE OF LIBRARY SERVICES, INSTITUTE OF MUSEUM AND LIBRARY SERVICES, NATIONAL FOUNDATION OF THE ARTS AND HUMANITIES PASSED THROUGH N/A:				
Library Services and Technology Act (LSTA)	45.310	N/A	\$63,894	\$57,639
Total Office of Library Services, Institute of Museum and Library Services, National Foundation of the Arts and Humanities			<u>63,894</u>	<u>57,639</u>
U. S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:				
<i>Special Education Cluster:</i>				
(B) Title VI-B	84.027	050088-6B-SA-2003-P	8,677	1,548
(B) Special Education-Preschool	84.173	050088-PG-S1-2003-P	92,986	92,986
Total Special Education Cluster			<u>101,663</u>	<u>94,534</u>
English Language Acquisition	84.365	050088-T3-S1-2003	13,875	13,875
Total U. S. Department of Education			<u>115,538</u>	<u>108,409</u>
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	391,065	515,494
Total U. S. Department of Health and Human Services			<u>391,065</u>	<u>515,494</u>
Total Federal Financial Assistance			<u>\$570,497</u>	<u>\$681,542</u>

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

TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters 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, Ohio 44481

We have audited the financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the Trumbull County Educational Service Center, Trumbull County, (the “ESC”) as of and for the fiscal year ended June 30, 2004 which collectively comprise the ESC’s basic financial statements, and have issued our report thereon dated November 19, 2004. 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.

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 opinions on the financial statements and not to provide an opinion 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 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 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.

Governing Board
Trumbull County Educational Service Center

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the ESC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of basic 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Governing Board of the 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.

A handwritten signature in cursive script that reads "Trimble, Julian & Grube, Inc.".

Trimble, Julian & Grube, Inc.
November 19, 2004

TRIMBLE, JULIAN & GRUBE, INC.

"SERVING OHIO LOCAL GOVERNMENTS"

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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, Ohio 44481

Compliance

We have audited the compliance of the Trumbull County Educational Service Center, Trumbull County, (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 fiscal year ended June 30, 2004. The ESC's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the ESC's management. Our responsibility is to express an opinion on the 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 with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. 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 Trumbull County Educational Service Center's compliance with those requirements.

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

Governing Board
Trumbull County Educational Service Center

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 its 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 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 its 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 solely for the information and use of the management, the Governing Board of the 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, 2004

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for its major federal program?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for its major federal program?	No
<i>(d)(1)(v)</i>	Type of Major Program Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Program:	Community Alternative Funding System; CFDA 93.778.
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2004**

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



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TRUMBULL COUNTY 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 Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 10, 2005**