

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

***GENERAL PURPOSE FINANCIAL STATEMENTS
(AUDITED)
FOR THE FISCAL YEAR ENDED
JUNE 30, 2002***

LORI SIMIONE, TREASURER



**Auditor of State
Betty Montgomery**

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

We have reviewed the Independent Auditor's Report of the Trumbull County Educational Service Center, Trumbull County, prepared by Trimble, Julian & Grube, Inc., for the audit period July 1, 2001 through June 30, 2002. 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 22, 2003

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

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Independent Auditor's Report

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

We have audited the accompanying general purpose financial statements of the Trumbull County Educational Service Center (the "ESC"), Trumbull County, as of and for the fiscal year ended June 30, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the ESC's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Trumbull County Educational Service Center, Trumbull County, as of June 30, 2002, and the results of its operations 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 October 24, 2002, on our consideration of the ESC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Trimble, Julian & Grube, Inc.
October 24, 2002

TRUMBULL COUNTY EDUCATIONAL SERVICE CENTER
TRUMBULL COUNTY, OHIO
 COMBINED BALANCE SHEET
 ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 2002

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
ASSETS AND OTHER DEBITS			
ASSETS:			
Equity in pooled cash and cash equivalents	\$ 1,604,064	\$ 335,888	\$ 97
Cash in segregated accounts	-	-	-
Receivables (net of allowances of uncollectibles):			
Due from other governments.	1,219,782	-	-
Prepayments	27,572	219	-
Property, plant and equipment (net of accumulated depreciation where applicable)	-	-	-
OTHER DEBITS:			
Amount to be provided for retirement of general long-term obligations	-	-	-
Total assets and other debits	<u>\$ 2,851,418</u>	<u>\$ 336,107</u>	<u>\$ 97</u>
LIABILITIES, EQUITY AND OTHER CREDITS			
LIABILITIES:			
Accounts payable	\$ 21,925	\$ 8,051	\$ -
Accrued wages and benefits.	1,231,245	40,637	-
Compensated absences payable.	8,898	-	-
Due to other governments.	128,960	1,829	-
Pension obligation payable	156,274	4,791	-
Deferred revenue	<u>1,206,562</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>2,753,864</u>	<u>55,308</u>	<u>-</u>
EQUITY AND OTHER CREDITS:			
Investment in general fixed assets	-	-	-
Fund balances:			
Reserved for encumbrances	77,946	48,554	-
Reserved for prepayments.	27,572	219	-
Unreserved-undesignated (deficit).	<u>(7,964)</u>	<u>232,026</u>	<u>97</u>
Total equity and other credits	<u>97,554</u>	<u>280,799</u>	<u>97</u>
Total liabilities, equity and other credits.	<u>\$ 2,851,418</u>	<u>\$ 336,107</u>	<u>\$ 97</u>

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

Fiduciary Fund Type	Account Groups		Total (Memorandum Only)
	General Fixed Assets	General Long-Term Obligations	
Agency			
\$ 2,986,829	\$ -	\$ -	\$ 4,926,878
2,867,801	-	-	2,867,801
-	-	-	1,219,782
-	-	-	27,791
-	3,782,275	-	3,782,275
-	-	499,625	499,625
<u>\$ 5,854,630</u>	<u>\$ 3,782,275</u>	<u>\$ 499,625</u>	<u>\$ 13,324,152</u>
\$ -	\$ -	\$ -	\$ 29,976
-	-	-	1,271,882
-	-	473,473	482,371
5,854,630	-	-	5,985,419
-	-	26,152	187,217
-	-	-	1,206,562
<u>5,854,630</u>	<u>-</u>	<u>499,625</u>	<u>9,163,427</u>
-	3,782,275	-	3,782,275
-	-	-	126,500
-	-	-	27,791
-	-	-	224,159
-	3,782,275	-	4,160,725
<u>\$ 5,854,630</u>	<u>\$ 3,782,275</u>	<u>\$ 499,625</u>	<u>\$ 13,324,152</u>

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TRUMBULL COUNTY EDUCATIONAL SERVICE CENTER
TRUMBULL COUNTY, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES/(DEFICIT)
 ALL GOVERNMENTAL FUND TYPES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	Governmental Fund Types			Total (Memorandum Only)
	General	Special Revenue	Capital Projects	
Revenues:				
From local sources:				
Tuition	\$ 68,494	\$ -	\$ -	\$ 68,494
Earnings on investments	189,412	-	-	189,412
Contractual services	9,884,614	-	-	9,884,614
Other local revenues	221,083	411,581	-	632,664
Intergovernmental - State	2,290,739	841,425	20,784	3,152,948
Intergovernmental - Federal	-	264,559	-	264,559
	<u>12,654,342</u>	<u>1,517,565</u>	<u>20,784</u>	<u>14,192,691</u>
Total revenues.				
Expenditures:				
Current:				
Instruction:				
Regular	243,581	258,260	-	501,841
Special	3,441,063	4,442	-	3,445,505
Vocational	-	273	-	273
Support services:				
Pupil	3,026,677	5,075	-	3,031,752
Instructional staff	3,097,331	1,179,813	202,307	4,479,451
Board of Education.	71,629	-	-	71,629
Administration	1,492,217	43,023	-	1,535,240
Fiscal.	222,314	3,695	-	226,009
Business	132,252	-	-	132,252
Operations and maintenance	78,937	47,619	-	126,556
Pupil transportation	32,576	9,732	-	42,308
Central	4,776	372,056	-	376,832
Community services.	1,198	-	-	1,198
Facilities acquisition and construction.	11,887	-	-	11,887
Intergovernmental pass-through	473,160	-	-	473,160
	<u>12,329,598</u>	<u>1,923,988</u>	<u>202,307</u>	<u>14,455,893</u>
Total expenditures				
Excess (deficiency) of revenues over (under) expenditures	324,744	(406,423)	(181,523)	(263,202)
Fund balances (deficit), July 1 (restated)	(227,190)	687,222	181,620	641,652
Fund balances, June 30	<u>\$ 97,554</u>	<u>\$ 280,799</u>	<u>\$ 97</u>	<u>\$ 378,450</u>

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

TRUMBULL COUNTY EDUCATIONAL SERVICE CENTER
TRUMBULL COUNTY, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
 ALL GOVERNMENTAL FUND TYPES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	General			Special Revenue		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:						
From local sources:						
Tuition	\$ 101,332	\$ 102,830	\$ 1,498	\$ -	\$ -	\$ -
Earnings on investments	186,653	189,412	2,759	-	-	-
Contractual services	10,011,694	10,132,066	120,372	141,665	128,116	(13,549)
Other local revenues	187,155	217,562	30,407	22,575	22,753	178
Intergovernmental - State	2,257,366	2,290,739	33,373	1,222,196	1,019,733	(202,463)
Intergovernmental - Federal	535,697	543,617	7,920	574,708	809,954	235,246
Total revenues	<u>13,279,897</u>	<u>13,476,226</u>	<u>196,329</u>	<u>1,961,144</u>	<u>1,980,556</u>	<u>19,412</u>
Expenditures:						
Current:						
Instruction:						
Regular	381,508	235,379	146,129	294,187	293,405	782
Special	4,218,608	4,105,683	112,925	7,644	4,442	3,202
Vocational	-	-	-	100	100	-
Support services:						
Pupil	3,099,287	3,037,064	62,223	5,454	5,075	379
Instructional staff	3,192,583	3,124,495	68,088	1,725,810	1,689,421	36,389
Board of Education	131,970	123,964	8,006	-	-	-
Administration	1,724,572	1,653,396	71,176	101,752	97,304	4,448
Fiscal	288,831	244,709	44,122	3,695	3,695	-
Business	150,521	143,432	7,089	-	-	-
Operations and maintenance	104,047	90,285	13,762	47,619	47,619	-
Pupil transportation	41,546	32,817	8,729	9,732	9,732	-
Central	11,200	4,776	6,424	373,022	372,056	966
Community services	3,000	1,198	1,802	-	-	-
Facilities acquisition and construction	11,887	11,887	-	-	-	-
Intergovernmental pass-through	473,365	473,160	205	8,303	7,050	1,253
Total expenditures	<u>13,832,925</u>	<u>13,282,245</u>	<u>550,680</u>	<u>2,577,318</u>	<u>2,529,899</u>	<u>47,419</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(553,028)</u>	<u>193,981</u>	<u>747,009</u>	<u>(616,174)</u>	<u>(549,343)</u>	<u>66,831</u>
Other financing sources (uses):						
Operating transfers in	-	-	-	5,000	-	(5,000)
Refund of prior year's expenditures	1,891	1,919	28	-	-	-
Refund of prior year's receipts	(78,740)	(78,050)	690	(13,649)	(13,649)	-
Total other financing sources (uses)	<u>(76,849)</u>	<u>(76,131)</u>	<u>718</u>	<u>(8,649)</u>	<u>(13,649)</u>	<u>(5,000)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)	<u>(629,877)</u>	<u>117,850</u>	<u>747,727</u>	<u>(624,823)</u>	<u>(562,992)</u>	<u>61,831</u>
Fund balances, July 1	1,821,464	1,821,464	-	925,420	925,420	-
Prior year encumbrances appropriated (restated)	<u>94,113</u>	<u>94,113</u>	<u>-</u>	<u>127,176</u>	<u>127,176</u>	<u>-</u>
Fund balances, June 30	<u>\$ 1,285,700</u>	<u>\$ 2,033,427</u>	<u>\$ 747,727</u>	<u>\$ 427,773</u>	<u>\$ 489,604</u>	<u>\$ 61,831</u>

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

Capital Projects			Total (Memorandum only)		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
\$ -	\$ -	\$ -	\$ 101,332	\$ 102,830	\$ 1,498
-	-	-	186,653	189,412	2,759
-	-	-	10,153,359	10,260,182	106,823
-	-	-	209,730	240,315	30,585
20,784	20,784	-	3,500,346	3,331,256	(169,090)
-	-	-	1,110,405	1,353,571	243,166
<u>20,784</u>	<u>20,784</u>	<u>-</u>	<u>15,261,825</u>	<u>15,477,566</u>	<u>215,741</u>
-	-	-	675,695	528,784	146,911
-	-	-	4,226,252	4,110,125	116,127
-	-	-	100	100	-
-	-	-	3,104,741	3,042,139	62,602
209,855	209,758	97	5,128,248	5,023,674	104,574
-	-	-	131,970	123,964	8,006
-	-	-	1,826,324	1,750,700	75,624
-	-	-	292,526	248,404	44,122
-	-	-	150,521	143,432	7,089
-	-	-	151,666	137,904	13,762
-	-	-	51,278	42,549	8,729
-	-	-	384,222	376,832	7,390
-	-	-	3,000	1,198	1,802
-	-	-	11,887	11,887	-
-	-	-	481,668	480,210	1,458
<u>209,855</u>	<u>209,758</u>	<u>97</u>	<u>16,620,098</u>	<u>16,021,902</u>	<u>598,196</u>
<u>(189,071)</u>	<u>(188,974)</u>	<u>97</u>	<u>(1,358,273)</u>	<u>(544,336)</u>	<u>813,937</u>
-	-	-	5,000	-	(5,000)
-	-	-	1,891	1,919	28
-	-	-	(92,389)	(91,699)	690
-	-	-	(85,498)	(89,780)	(4,282)
(189,071)	(188,974)	97	(1,443,771)	(634,116)	809,655
188,822	188,822	-	2,935,706	2,935,706	-
249	249	-	221,538	221,538	-
<u>\$ -</u>	<u>\$ 97</u>	<u>\$ 97</u>	<u>\$ 1,713,473</u>	<u>\$ 2,523,128</u>	<u>\$ 809,655</u>

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 1 - DESCRIPTION OF THE ENTITY

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

The ESC operates under a locally-elected five-member Governing Board 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 35,620 students and other community members in Trumbull County.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general purpose financial statements (GPFS) of the District 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 District's significant accounting policies are described below.

A. The Reporting Entity

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

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

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

JOINTLY GOVERNED ORGANIZATIONS

North East Ohio Management Information Network (NEOMIN)

NEOMIN is a jointly governed organization among twenty-eight school districts and two educational service centers. The organization was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to the administrative and instructional functions among member districts. Each of the districts supports NEOMIN based upon a per pupil charge.

Superintendents of the participating school districts are eligible to be voting members of the Governing Board, which consists of ten members; the Trumbull and Ashtabula County superintendents (permanent members), three superintendents from Ashtabula County school districts, three superintendents from Trumbull County school districts, and a principal and a treasurer (non-voting members who must be employed by a participating school district, or fiscal agent of NEOMIN). The degree of control exercised by any participating school district is limited to its representation on the Governing Board. The ESC serves as fiscal agent for NEOMIN. Financial activity for fiscal 2002 is reported in the general purpose financial statements as an agency fund.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

North East Ohio Instructional Media Center (NEOIMC)

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

NEOIMC is governed by an advisory committee made up of a member from a parochial school, a joint vocational school, one county superintendent from each participating county, one city superintendent, and two local superintendents whose terms rotate every two years. The Trumbull County Superintendent holds a permanent position of the advisory committee. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. The ESC serves as fiscal agent of NEOIMC but does not hold membership. Financial activity for fiscal 2002 is reported in the financial statements as an agency fund.

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

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

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

Region 12 Professional Development Center (RPDC)

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

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

The RPDC is governed by a governing board made up of 19 representatives of the participating school districts, the business community, and Youngstown State University. Members' terms rotate annually. The degree of control exercised by any participating school district is limited to its representation of the Governing Board.

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 for TSAC. Financial activity for fiscal 2002 is reported in the financial statements as an agency fund.

The ESC also participates in three group purchasing pools for insurance, described in Note 8.

B. Fund Accounting

The ESC uses funds and account groups to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain ESC activities or functions. Funds are classified into two categories: governmental and fiduciary. Each category is divided into separate fund types.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

GOVERNMENTAL FUNDS

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

General Fund - The general fund is the general operating fund of the ESC and is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the ESC for any purpose, provided it is expended or transferred in accordance with applicable Ohio statute.

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

Capital Projects Funds - The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

FIDUCIARY FUNDS

Agency Funds - These funds are used to account for assets held by the County in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency funds are presented on a budgetary basis, with note disclosure, regarding items which, in other funds, would be subject to accrual (See Note 3.C.).

ACCOUNT GROUPS

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

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

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

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

C. Measurement Focus/Basis of Accounting

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

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

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

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

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

D. Budgets

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

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

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

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

Part (B) of the budget is provided by the school districts served by the ESC, and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the school district's served by the ESC by \$37.00. This amount is provided from State Resources.

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FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

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

APPROPRIATIONS

The annual appropriation resolution is legally enacted by the ESC's Governing Board at the fund level of expenditures, which is the legal 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 the legal level of control. Any revisions that alter the total of any fund appropriation must be approved by the ESC's Governing Board.

The ESC's Governing Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions. All supplemental appropriations were legally enacted by the Governing Board during fiscal 2002.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control in the appropriated governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balance for subsequent year expenditures on the modified accrual basis of accounting compared to encumbrances outstanding at year-end reported as expenditures on the budget basis of accounting. Note 11 provides a reconciliation of the budgetary and GAAP basis of accounting.

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

E. Cash and Investments

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

During 2002, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio) and repurchase agreements.

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

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2002.

Under existing Ohio statutes, all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal 2002 totaled \$189,412, which included \$134,511 assigned from other funds of the ESC.

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

F. Prepayments

Prepayments for governmental funds represent cash disbursements, which have occurred and are therefore not current expendable resources. These items are reported as fund assets on the balance sheet using the allocation method, which amortizes their cost over the periods benefitting from the advance payment. At 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.

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

G. Fixed Assets and Depreciation

General Fixed Assets Account Group

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

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

H. Pass-Through Grants

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

I. Compensated Absences

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

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

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

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

Accumulated vacation and sick leave of governmental fund type employees meeting the above requirements have been recorded in the appropriate governmental fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The balance of the liability is recorded in the general long-term obligations account group.

J. Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after fiscal year-end are considered not to have used current, available financial resources.

K. Fund Equity

Reserved fund balances indicate that portion of fund equity, which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances and prepayments. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds.

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

L. Interfund Transactions

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

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not report transfers of resources as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund.
3. Short-term interfund loans made pursuant to Governing Board Resolution are reflected as "interfund loans receivable or payable." Such interfund loans are repaid in the following fiscal year. The ESC had no short-term interfund loans receivable or payable at June 30, 2002.
4. Quasi-external transactions are similar to the purchase of goods or services from a vendor; i.e., the fund which provides a service records revenue, and the fund which receives that service records an expenditure/expense.
5. Residual equity transfers are non-recurring or non-routine permanent transfers of equity, generally made when a fund is closed.
6. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources. The ESC had no long-term advances receivable or payable at June 30, 2002.

M. Estimates

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

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

N. Memorandum Only - Total Columns

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Prior Period Adjustment

The ESC overstated its contract services revenues related to excess costs due from other districts at June 30, 2001. The effect of this adjustment on fund balance as previously reported is as follows:

	<u>General</u>
Fund balance as previously recorded	\$ 822,453
Restatement for contract services revenue	<u>(1,049,643)</u>
Restated fund balance as of July 1, 2001	<u>\$ (227,190)</u>

In addition, prior year encumbrances on the Combined Statement of Revenues, Expenditures and Change in Fund Balances Budget and Actual Comparison (Non-GAAP Budgetary Basis) - All Governmental Fund Types - Special Revenue Fund Type has been restated due to reclassification of funds.

B. Deficit Fund Balances

Fund balances at June 30, 2002 included the following individual fund deficits:

	<u>Deficit Balance</u>
<u>Special Revenue Funds</u>	
EHA Preschool Grant for the Handicapped	\$ 3,856
Public School Preschool	2,337
Alternative School Grants	20,467
Drug-Free Grant	1

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

The deficit fund balances in the EHA Preschool Grant for the Handicapped, Public School Preschool, Alternative School Grants and Drug Free Grant special revenue funds are caused by the application of GAAP, namely in the reporting of accrued wages, benefit, and pension obligations attributable to the fiscal year. These deficits will be eliminated by anticipated future intergovernmental revenues or other subsidies not recognized and recorded at June 30. These funds complied with Ohio state law which does not permit a cash basis deficit at year-end.

C. Agency Funds

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

ASSETS

Due from other governments	\$208,456
Accounts receivable	12,404

LIABILITIES

Accounts payable	9,786
Due to other governments	13,294
Pension obligation payable	951

NOTE 4 -EQUITY IN POOLED CASH AND CASH EQUIVALENTS

State statutes classify monies held by the ESC into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the ESC treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public moneys deposited with the institution.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed 30 days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);

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

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days from the date of purchase in an amount not to exceed 25% of the interim moneys available for investment at any one time; and,
8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Cash in Segregated Accounts: At year-end, \$2,867,801 was on deposit in the account the ESC maintains as fiscal agent for the Trumbull County School Employee Insurance Benefits Consortium (see Note 8) and is included on the Combined Balance Sheet as "Cash in Segregated Accounts". The balance is covered by federal depository 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 year-end, the ESC had \$250 in undeposited cash on hand, which is included on the combined balance sheet as part of "Equity in Pooled Cash and Cash Equivalents", but is not included in the total amount of deposits reported below.

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

Deposits: At year-end the carrying amount of the ESC's deposits was \$(1,898,565) 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.

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

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

	<u>Category 3</u>	<u>Fair Value</u>
Repurchase agreements	\$6,778,412	\$6,778,412
Not subject to categorization:		
Investment in STAR Ohio	-	46,781
Total investments	<u>\$6,778,412</u>	<u>\$6,825,193</u>

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

	<u>Equity in Pooled Cash and Cash Equivalents</u>	<u>Investments</u>
GASB Statement No. 9	\$ 7,794,679	\$ -
Investments of the cash management pool:		
Investment in STAR Ohio	(46,781)	46,781
Repurchase agreements	(6,778,412)	6,778,412
Cash on hand	(250)	-
Cash in segregated accounts	<u>(2,867,801)</u>	-
GASB Statement No. 3	<u>\$(1,898,565)</u>	<u>\$6,825,193</u>

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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NOTE 5 - RECEIVABLES

Receivables at June 30, 2002 consisted of intergovernmental grants (to the extent eligibility requirements have been met by fiscal year-end). Intergovernmental grants receivable have been presented as "Due from other governments" on the combined balance sheet. Intergovernmental receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes and the stable condition of state programs.

<u>General Fund</u>	<u>Amount</u>
Due from other governments	\$1,219,782

NOTE 6 - FIXED ASSETS

A summary of the changes in the general fixed asset account group during the fiscal year follows:

	<u>Balance July 1, 2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2002</u>
Furniture/equipment	\$3,646,065	\$150,614	\$(30,539)	\$3,766,140
Vehicles	31,255	-	(15,120)	16,135
Total	<u>\$3,677,320</u>	<u>\$150,614</u>	<u>\$(45,659)</u>	<u>\$3,782,275</u>

NOTE 7 - LONG-TERM OBLIGATIONS

During the year ended June 30, 2002, the following changes occurred in liabilities reported in the general long-term obligations account group. Compensated absences and the pension obligation payable will ultimately be paid from the fund from which the employee is paid. Compensated absences are presented net of actual increases and decreases because of the impracticality of determining these values.

	<u>Balance July 1, 2001</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2002</u>
Compensated absences	\$446,352	\$27,121	\$ -	\$473,473
Pension obligation payable	-	26,152	-	26,152
Total	<u>\$446,352</u>	<u>\$53,273</u>	<u>\$ -</u>	<u>\$499,625</u>

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 8 - 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 2002, 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 \$250.

During fiscal year 2002, 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.

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	500,000
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

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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NOTE 8 - RISK MANAGEMENT - (Continued)

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 \$75.29 monthly for family coverage and \$24.04 monthly for single coverage. Premiums for life insurance are \$7.00 per employee for \$50,000 of term coverage.

The ESC pays medical/surgical premiums as follows:

<u>Carrier</u>	<u>Certified/ Single</u>	<u>Classified/ Single</u>	<u>Certified/ Family</u>	<u>Classified/ Family</u>
Medical Mutual PPO	\$357.92	\$287.84	\$929.28	\$718.27
Medical Mutual Traditional	383.39	343.64	598.76	798.70
Medical Mutual HMO	357.31	434.09	928.22	987.83

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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NOTE 8 - RISK MANAGEMENT - (Continued)

C. Public Entity Risk Pools

Group Insurance Purchasing Pools

For fiscal year 2002, the ESC participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the ESC by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

The ESC participates in the OSP, an insurance purchasing pool. The OSP is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of directors consisting of school district superintendents and treasurers, as well as the president of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member entities.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 9 - 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 administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215, or by calling (614) 222-5853.

Plan members are required to contribute 9% of their annual covered salary and the ESC is required to contribute at an actuarially determined rate, which was 14% for 2002; 5.46% was the portion to fund pension obligations. The contribution rates of plan members and employers are established and may be amended by the School Employees Retirement Board, up to maximum amounts allowed by State statute. The adequacy of the contribution rates is determined annually. The ESC's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$401,849, \$396,485, and \$227,896, 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 basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 9.3% of their annual covered salary and the ESC is required to contribute 14%; 9.5% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The ESC's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001 and 2000 were \$1,003,897, \$964,214, and \$901,560, respectively; 100% has been contributed for each year.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2002, members of the Governing Board have elected Social Security. The Board's liability is 6.2% of wages paid.

NOTE 10 - 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 percent of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the ESC, this amount equaled \$322,681 during fiscal 2002.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$3.256 billion at June 30, 2001 (the latest information available). For the fiscal year ended June 30, 2001 (the latest information available), net health care costs paid by STRS were \$300.772 million and STRS had 102,132 eligible benefit recipients.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 10 - POSTEMPLOYMENT BENEFITS - (Continued)

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 8.54 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2001 (the latest information available), were \$161.440 million and the target level was \$242.2 million. At June 30, 2001 (the latest information available), SERS had net assets available for payment of health care benefits of \$315.7 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 \$275,883 during the 2002 fiscal year.

NOTE 11 - BUDGETARY BASIS OF ACCOUNTING

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

The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual Comparison (Non-GAAP Budgetary Basis) - All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 11 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

(c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for governmental funds (GAAP basis).

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

	Excess (Deficiency) of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Financing Uses		
	<u>Governmental Fund Types</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
Budget basis	\$ 117,850	\$(562,992)	\$(188,974)
Net adjustment for revenue accruals	(821,884)	(462,991)	-
Net adjustment for expenditure accruals	852,790	550,100	7,451
Net adjustment for other financing sources/(uses)	76,131	13,649	-
Encumbrances (GAAP basis)	<u>99,857</u>	<u>55,811</u>	<u>-</u>
GAAP basis	<u>\$ 324,744</u>	<u>\$(406,423)</u>	<u>\$(181,523)</u>

NOTE 12 - CONTINGENCIES

A. Grants

The ESC receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the ESC at June 30, 2002.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 12 - CONTINGENCIES - (Continued)

B. Litigation

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

C. School Funding Decision

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

A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a timeline for distribution is not specified.

Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

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

The State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001. In November, 2001, the Court granted the request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 21, 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement. The case is now under reconsideration by the Court.

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

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SUPPLEMENTAL DATA

**TRUMBULL COUNTY EDUCATIONAL SERVICE CENTER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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				
<u>N/A:</u>				
Library Services and Technology Act (LSTA)	45.310	I-14-01	\$156,415	\$156,413
Library Services and Technology Act (LSTA)	45.310	III-10-02	14,763	3,138
Total Library Services and Technology Act			171,178	159,551
U. S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:				
<u>N/A:</u>				
Special Education-Preschool	84.173	050088-PG-S1-2001-P	-	3,632
Special Education-Preschool	84.173	050088-PG-S1-2002-P	93,381	93,381
Total Special Education - Preschool			93,381	97,013
Safe and Drug-Free Schools	84.186	050088-DR-S1-2000	-	2,720
Goals 2000	84.276	050088-G2-53-2001	-	6,049
Eisenhower Professional Development	84.281	N/A	-	44,240
Total U. S. Department of Education			93,381	150,022
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASSED THROUGH THE OHIO DEPARTMENT OF MENTAL RETARDATION AND DEVELOPMENTAL DISABILITIES:				
<u>N/A:</u>				
Community Alternative Funding System Program	93.778	N/A	543,617	543,617
Total U. S. Department of Health and Human Services			543,617	543,617
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE PASSED THROUGH				
<u>N/A:</u>				
Ohio Reads	94.006	00ASCOH036-Y7-GI-10	141,660	116,052
Total Federal Financial Assistance			\$949,836	\$969,242

(A) This schedule was prepared on the cash basis of accounting.

TRIMBLE, JULIAN & GRUBE, INC.

"SERVING OHIO LOCAL GOVERNMENTS"

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

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

We have audited the general purpose financial statements of Trumbull County Educational Service Center (the "ESC") as of and for the year ended June 30, 2002, and have issued our report thereon dated October 24, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Governing Board
Trumbull County Educational Service Center

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the ESC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting that do not require inclusion in this report that we have reported to the management of Trumbull County Educational Service Center in a separate letter dated October 24, 2002.

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

Trimble, Julian & Grube, Inc.
October 24, 2002

TRIMBLE, JULIAN & GRUBE, INC.

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

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

Compliance

We have audited the compliance of Trumbull County Educational Service Center (the "ESC") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the fiscal year ended June 30, 2002. 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 ESC's compliance based on our audit.

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

Governing Board
Trumbull County Educational Service Center

In our opinion, the ESC complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2002.

Internal Control Over Compliance

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

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

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

Trimble, Julian & Grube, Inc.
October 24, 2002

**TRUMBULL COUNTY EDUCATIONAL SERVICE CENTER
TRUMBULL COUNTY
JUNE 30, 2002**

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

1. SUMMARY OF AUDITOR'S RESULTS

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

**TRUMBULL COUNTY EDUCATIONAL SERVICE CENTER
TRUMBULL COUNTY
JUNE 30, 2002**

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

1. SUMMARY OF AUDITOR'S RESULTS (Continued)

<i>(d)(1)(vii)</i>	<i>Major Program:</i>	Community Alternative Funding System Program - CFDA #93.778
<i>(d)(1)(viii)</i>	<i>Dollar Threshold: Type A/B Programs</i>	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	<i>Low Risk Auditee?</i>	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



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Betty Montgomery**

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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
JANUARY 30, 2003**