

**TRUMBULL COUNTY  
EDUCATIONAL SERVICE CENTER**

**TRUMBULL COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS**

*(AUDITED)*

*FOR THE FISCAL YEAR ENDED*

*JUNE 30, 2006*

**LORI SIMIONE, TREASURER**

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Mary Taylor, CPA  
Auditor of State

Board of Education  
Trumbull County Educational Service Center  
6000 Youngstown Warren Road  
Niles, Ohio 44446

We have reviewed the *Independent Auditor's Report* of the Trumbull County Educational Service Center, Trumbull County, prepared by Julian and Grube, Inc., for the audit period July 1, 2005 through June 30, 2006. 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.

*Mary Taylor*

MARY TAYLOR, CPA  
Auditor of State

January 8, 2007

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**TRUMBULL COUNTY EDUCATIONAL SERVICE CENTER**  
**TRUMBULL COUNTY, OHIO**  
**BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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## **Julian & Grube, Inc.**

*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

### Independent Auditor's Report

Governing Board  
Trumbull County Educational Service Center  
6000 Youngstown Warren Rd.  
Niles, Ohio 44446

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, 2006, 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, 2006, 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 October 31, 2006, 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.

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

Julian & Grube, Inc.  
October 31, 2006

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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, 2006. 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 2006 are as follows:

- In total, net assets of governmental activities increased \$259,952 which represents a 4.82% increase from 2005.
- General revenues accounted for \$1,631,904 in revenue or 10.31% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$14,190,771 or 89.69% of total revenues of \$15,822,675.
- The ESC had \$15,562,723 in expenses related to governmental activities; only \$14,190,771 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (unrestricted grants and entitlements) of \$1,631,904 were adequate to provide for these programs.
- The ESC's only major governmental fund is the general fund. The general fund had \$15,012,641 in revenues and \$14,212,906 in expenditures. During fiscal year 2006, the general fund's fund balance increased \$799,735 from \$2,844,020 to \$3,643,755.

**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 2006?" 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 will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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* accounting, 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, NEOIMC and TSAC. These activities are presented as agency funds. 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  
TRUMBULL COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

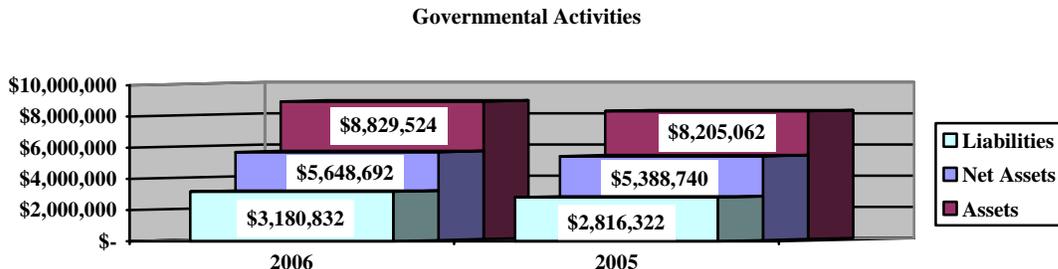
The table below provides a summary of the ESC's net assets for 2006 and 2005.

	<b>Net Assets</b>	
	Governmental Activities	Governmental Activities
	<u>2006</u>	<u>2005</u>
<b><u>Assets</u></b>		
Current and other assets	\$ 7,526,805	\$ 6,688,463
Capital assets, net	<u>1,302,719</u>	<u>1,516,599</u>
Total assets	<u>8,829,524</u>	<u>8,205,062</u>
<b><u>Liabilities</u></b>		
Current liabilities	2,736,198	2,433,713
Long-term liabilities	<u>444,634</u>	<u>382,609</u>
Total liabilities	<u>3,180,832</u>	<u>2,816,322</u>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	1,292,319	1,498,626
Restricted	422,758	553,679
Unrestricted	<u>3,933,615</u>	<u>3,336,435</u>
Total net assets	<u>\$ 5,648,692</u>	<u>\$ 5,388,740</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the ESC's assets exceeded liabilities by \$5,648,962.

At fiscal year-end, capital assets represented 14.75% of total assets. Capital assets include furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2006, were \$1,292,319. 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, \$422,758, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$3,933,615 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 2006 and 2005.



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The table below shows the change in net assets for fiscal years 2006 and 2005.

	<b>Change in Net Assets</b>	
	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services and sales	\$ 12,006,163	\$ 11,499,197
Operating grants and contributions	2,165,978	2,626,292
Capital grants and contributions	18,630	99,519
General revenues:		
Grants and entitlements	1,252,198	1,113,835
Investment earnings	355,366	178,963
Miscellaneous	<u>24,340</u>	<u>36,637</u>
Total revenues	<u>15,822,675</u>	<u>15,554,443</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	921,545	922,841
Special	5,008,704	5,124,419
Support services:		
Pupil	3,510,250	3,461,760
Instructional staff	2,257,721	1,879,522
Board of education	96,163	84,909
Administration	2,822,597	2,882,400
Fiscal	293,652	284,083
Business	38,356	39,327
Operations and maintenance	22,700	75,164
Pupil transportation	28,566	31,407
Central	555,692	267,358
Operations of non-instructional services:		
Non-instructional services	5,559	5,527
Interest and fiscal charges	<u>1,218</u>	<u>1,824</u>
Total expenses	<u>15,562,723</u>	<u>15,060,541</u>
Change in net assets	259,952	493,902
Net assets at beginning of year	<u>5,388,740</u>	<u>4,894,838</u>
Net assets at end of year	<u>\$ 5,648,692</u>	<u>\$ 5,388,740</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**Governmental Activities**

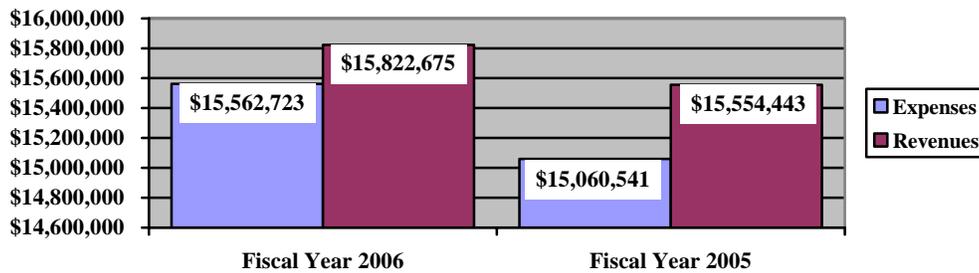
Net assets of the ESC's governmental activities increased \$259,952. Total governmental expenses of \$15,562,723 were offset by program revenues of \$14,190,771 and general revenues of \$1,631,904. Program revenues supported 91.18% of the total governmental expenses.

The primary source of revenues for governmental activities is derived from charges for services. This revenue source represents 75.88% 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 2006 and 2005.

**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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

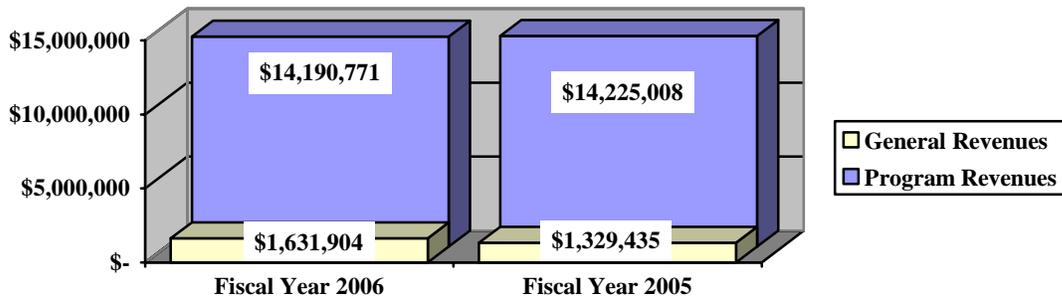
**Governmental Activities**

	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>
<b>Program expenses</b>				
Instruction:				
Regular	\$ 921,545	\$ 392,564	\$ 922,841	\$ 384,538
Special	5,008,704	(487,525)	5,124,419	(554,917)
Support services:				
Pupil	3,510,250	555,361	3,461,760	490,031
Instructional staff	2,257,721	(84,427)	1,879,522	(299,408)
Board of education	96,163	60,883	84,909	38,309
Administration	2,822,597	487,263	2,882,400	425,977
Fiscal	293,652	293,652	284,083	284,083
Business	38,356	38,356	39,327	39,327
Operations and maintenance	22,700	22,700	75,164	75,164
Pupil transportation	28,566	28,566	31,407	31,407
Central	555,692	60,728	267,358	(83,480)
Operations of non-instructional services:				
Non-instructional services	5,559	2,613	5,527	2,678
Interest and fiscal charges	<u>1,218</u>	<u>1,218</u>	<u>1,824</u>	<u>1,824</u>
Total expenses	<u>\$ 15,562,723</u>	<u>\$ 1,371,952</u>	<u>\$ 15,060,541</u>	<u>\$ 835,533</u>

For all governmental activities, general revenue support is 8.82%. The primary support of the ESC is programs in charges for services revenue from District's which the ESC provides services.

The graph below presents the ESC's governmental activities revenue for fiscal years 2006 and 2005.

**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, 2006

**The ESC's Funds**

The ESC's governmental funds (as presented on the balance sheet on page 14) reported a combined fund balance of \$4,063,522, which is higher than last year's total of \$3,385,954. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	<u>Fund Balance June 30, 2006</u>	<u>Fund Balance June 30, 2005</u>	<u>Increase/ (Decrease)</u>
General	\$ 3,643,755	\$ 2,844,020	\$ 799,735
Other Governmental	<u>419,767</u>	<u>541,934</u>	<u>(122,167)</u>
Total	<u>\$ 4,063,522</u>	<u>\$ 3,385,954</u>	<u>\$ 677,568</u>

**General Fund**

The ESC's general fund balance increased by \$799,735. The increase in fund balance can be attributed to an increase in tuition charged to Districts and an increase in earnings on investments due to an increase in the cash balance invested as well as an increase in interest rates compared to the previous year. Overall, expenditures remained constant. The table that follows assists in illustrating the financial activities and fund balance of the general fund for fiscal years 2006 and 2005.

	<u>2006 Amount</u>	<u>2005 Amount</u>	<u>Percentage Change</u>
<b><u>Revenues</u></b>			
Tuition	\$ 870,380	\$ 817,728	6.44 %
Earnings on investments	355,366	178,963	98.57 %
Contract services	11,318,964	10,752,317	5.27 %
Intergovernmental	2,407,806	2,751,970	(12.51) %
Other revenues	<u>60,125</u>	<u>96,418</u>	(37.64) %
Total	<u>\$ 15,012,641</u>	<u>\$ 14,597,396</u>	2.84 %
<b><u>Expenditures</u></b>			
Instruction	\$ 5,369,084	\$ 5,256,640	2.14 %
Support services	8,818,465	8,559,865	3.02 %
Operation of non-instructional services	5,559	5,527	0.58 %
Facilities acquisition and construction	11,007	11,933	(7.76) %
Debt service	<u>8,791</u>	<u>8,791</u>	- %
Total	<u>\$ 14,212,906</u>	<u>\$ 13,842,756</u>	2.67 %

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

***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 2006, the general fund original budgeted revenues of \$15,581,302 were decreased to \$15,542,367 for final revenues. Actual revenues for fiscal year 2006 were \$15,915,831. This represents a \$373,464 increase over final budgeted revenues. This increase is primarily due to conservative contract services estimates in the original and final budgeted amounts.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$16,408,764 were increased to \$17,858,412 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2006 totaled \$15,172,112, which was \$2,686,300 less than the final budget appropriations. The increases in appropriations were caused by the ESC's addition of new programs in fiscal year 2006 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 2006, the ESC had \$1,302,719 invested in furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2006 balances compared to 2005:

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

	Governmental Activities	
	2006	2005
Furniture and equipment	\$ 1,300,413	\$ 1,512,180
Vehicles	2,306	4,419
Total	\$ 1,302,719	\$ 1,516,599

The primary decrease occurred in furniture and equipment, which was due to current year depreciation of \$293,802 being greater than additions of \$88,794. Total disposals to capital assets for 2006 were \$8,872, net of accumulated depreciation. The overall decrease in capital assets of \$213,880 is primarily due to the recording of depreciation expense.

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

***Debt Administration***

At June 30, 2006, the ESC had \$10,400 in a capital lease obligation outstanding. Of this total, \$8,232 is due within one year and \$2,168 is due in greater than one year. The following table summarizes the capital lease obligation outstanding.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**Long-Term Obligations**

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Capital lease obligation	\$ 10,400	\$ 17,973
Total	<u>\$ 10,400</u>	<u>\$ 17,973</u>

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

**Current Financial Related Activities**

Overall, the 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 2006 due to additional service requests from districts. 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 2006.

During 2006, the ESC made a decision to move the central office to a new location. This decision was made to resolve the challenge regarding long-term office space for the center. Renovations were completed and the center moved to the space in July, 2006. The ESC was able to commit to a lease agreement due to its strong financial condition. 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.

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, 6000 Youngstown-Warren Road, Niles, Ohio 44446.

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**BASIC  
FINANCIAL STATEMENTS**

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

STATEMENT OF NET ASSETS  
JUNE 30, 2006

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . . . .	\$ 6,383,147
Receivables:	
Accounts . . . . .	102
Intergovernmental . . . . .	1,120,626
Accrued interest . . . . .	2,020
Prepayments . . . . .	20,910
Capital assets, net. . . . .	1,302,719
 Total assets. . . . .	 8,829,524
<b>Liabilities:</b>	
Accounts payable. . . . .	471
Accrued wages and benefits . . . . .	1,525,605
Pension obligation payable. . . . .	240,651
Intergovernmental payable . . . . .	969,471
Long-term liabilities:	
Due within one year . . . . .	126,712
Due in more than one year . . . . .	317,922
 Total liabilities . . . . .	 3,180,832
<b>Net Assets:</b>	
Invested in capital assets, net of related debt. . . . .	1,292,319
Restricted for:	
Capital projects . . . . .	12,942
Locally funded programs. . . . .	15,047
State funded programs. . . . .	18,530
Federally funded programs . . . . .	376,239
Unrestricted . . . . .	3,933,615
 Total net assets . . . . .	 \$ 5,648,692

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, 2006

		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
<b>Governmental activities:</b>					
Instruction:					
Regular . . . . .	\$ 921,545	\$ 231,994	\$ 296,987	\$ -	\$ (392,564)
Special . . . . .	5,008,704	4,299,766	1,196,463	-	487,525
Support services:					
Pupil . . . . .	3,510,250	2,936,680	18,209	-	(555,361)
Instructional staff . . . . .	2,257,721	2,199,443	124,075	18,630	84,427
Board of education . . . . .	96,163	-	35,280	-	(60,883)
Administration . . . . .	2,822,597	2,335,334	-	-	(487,263)
Fiscal . . . . .	293,652	-	-	-	(293,652)
Business . . . . .	38,356	-	-	-	(38,356)
Operations and maintenance . . . . .	22,700	-	-	-	(22,700)
Pupil transportation . . . . .	28,566	-	-	-	(28,566)
Central . . . . .	555,692	-	494,964	-	(60,728)
Operation of non-instructional services . . . . .	5,559	2,946	-	-	(2,613)
Interest and fiscal charges . . . . .	1,218	-	-	-	(1,218)
Totals . . . . .	\$ 15,562,723	\$ 12,006,163	\$ 2,165,978	\$ 18,630	(1,371,952)
<b>General Revenues:</b>					
					1,252,198
					355,366
					24,340
					1,631,904
					259,952
					5,388,740
					\$ 5,648,692

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents . . . . .	\$ 5,957,469	\$ 425,678	\$ 6,383,147
Receivables:			
Accounts . . . . .	102	-	102
Intergovernmental . . . . .	1,119,795	831	1,120,626
Accrued interest . . . . .	2,020	-	2,020
Prepayments . . . . .	19,516	1,394	20,910
Total assets . . . . .	<u>\$ 7,098,902</u>	<u>\$ 427,903</u>	<u>\$ 7,526,805</u>
<b>Liabilities:</b>			
Accounts payable . . . . .	\$ 471	\$ -	\$ 471
Accrued wages and benefits . . . . .	1,523,053	2,552	1,525,605
Compensated absences payable . . . . .	43,276	-	43,276
Pension obligation payable . . . . .	239,336	1,315	240,651
Intergovernmental payable . . . . .	965,202	4,269	969,471
Deferred revenue . . . . .	683,809	-	683,809
Total liabilities . . . . .	<u>3,455,147</u>	<u>8,136</u>	<u>3,463,283</u>
<b>Fund Balances:</b>			
Reserved for encumbrances . . . . .	119,308	55,809	175,117
Reserved for prepayments . . . . .	19,516	1,394	20,910
Unreserved, undesignated, reported in:			
General fund . . . . .	3,504,931	-	3,504,931
Special revenue funds . . . . .	-	351,016	351,016
Capital projects funds . . . . .	-	11,548	11,548
Total fund balances . . . . .	<u>3,643,755</u>	<u>419,767</u>	<u>4,063,522</u>
Total liabilities and fund balances . . . . .	<u>\$ 7,098,902</u>	<u>\$ 427,903</u>	<u>\$ 7,526,805</u>

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, 2006

<b>Total governmental fund balances</b>	\$	4,063,522
<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.		1,302,719
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Contract Services		683,809
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	\$ (390,958)	
Capital lease obligation	<u>(10,400)</u>	
Total		<u>(401,358)</u>
<b>Net assets of governmental activities</b>	<b>\$</b>	<b><u><u>5,648,692</u></u></b>

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, 2006

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
From local sources:			
Tuition. . . . .	\$ 870,380	\$ -	\$ 870,380
Earnings on investments. . . . .	355,366	-	355,366
Contract services . . . . .	11,318,964	-	11,318,964
Other local revenues. . . . .	60,125	355,467	415,592
Intergovernmental - state . . . . .	2,269,820	300,618	2,570,438
Intergovernmental - federal . . . . .	137,986	337,130	475,116
Total revenues. . . . .	<u>15,012,641</u>	<u>993,215</u>	<u>16,005,856</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular . . . . .	420,002	293,814	713,816
Special. . . . .	4,949,082	28,113	4,977,195
Support Services:			
Pupil. . . . .	3,509,199	18,088	3,527,287
Instructional staff . . . . .	2,057,854	223,897	2,281,751
Board of education . . . . .	96,163	-	96,163
Administration. . . . .	2,790,618	-	2,790,618
Fiscal . . . . .	286,252	-	286,252
Business . . . . .	36,218	-	36,218
Operations and maintenance. . . . .	13,595	-	13,595
Pupil transportation . . . . .	28,566	-	28,566
Central. . . . .	-	551,470	551,470
Operation of non-instructional services. . . . .	5,559	-	5,559
Facilities acquisition and construction . . . . .	11,007	-	11,007
Debt service:			
Principal retirement . . . . .	7,573	-	7,573
Interest and fiscal charges . . . . .	1,218	-	1,218
Total expenditures . . . . .	<u>14,212,906</u>	<u>1,115,382</u>	<u>15,328,288</u>
Net change in fund balances. . . . .	799,735	(122,167)	677,568
<b>Fund balances at beginning of year . . . . .</b>	<u>2,844,020</u>	<u>541,934</u>	<u>3,385,954</u>
<b>Fund balances at end of year. . . . .</b>	<u>\$ 3,643,755</u>	<u>\$ 419,767</u>	<u>\$ 4,063,522</u>

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, 2006

**Net change in fund balances - total governmental funds** \$ 677,568

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

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

Capital asset additions	\$ 88,794	
Current year depreciation	<u>(293,802)</u>	
Total		(205,008)

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (8,872)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (183,181)

Principal payments on capital lease obligations are expenditures in the governmental funds, but the principal payments reduce long-term liabilities on the statement net assets. 7,573

Some expenses reported in the statement of activities do not require the use of financial resources and therefore are not reported as expenditures in governmental funds. (28,128)

**Change in net assets of governmental activities** \$ 259,952

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, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
From local sources:				
Tuition. . . . .	\$ 479,276	\$ 478,078	\$ 870,380	\$ 392,302
Earnings on investments. . . . .	200,501	200,000	349,824	149,824
Contract services. . . . .	12,268,947	12,238,289	12,238,289	-
Other local revenues. . . . .	76,190	76,000	49,532	(26,468)
Intergovernmental - state . . . . .	2,255,636	2,250,000	2,269,820	19,820
Intergovernmental - federal . . . . .	300,752	300,000	137,986	(162,014)
Total revenues . . . . .	<u>15,581,302</u>	<u>15,542,367</u>	<u>15,915,831</u>	<u>373,464</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	557,194	609,721	411,556	198,165
Special . . . . .	5,147,190	5,632,416	4,918,565	713,851
Support Services:				
Pupil . . . . .	3,764,497	4,119,376	3,525,294	594,082
Instructional staff. . . . .	2,235,493	2,446,233	1,980,626	465,607
Board of education. . . . .	137,917	150,918	132,161	18,757
Administration. . . . .	2,983,045	3,264,257	2,789,069	475,188
Fiscal. . . . .	291,393	318,863	283,916	34,947
Business . . . . .	148,380	162,368	48,429	113,939
Operations and maintenance . . . . .	60,807	66,539	6,442	60,097
Pupil transportation . . . . .	33,238	36,371	28,566	7,805
Central . . . . .	1,371	1,500	-	1,500
Operation of non-instructional services . . . . .	5,666	6,200	5,559	641
Facilities acquisition and construction. . . . .	11,423	12,500	11,007	1,493
Total expenditures . . . . .	<u>15,377,614</u>	<u>16,827,262</u>	<u>14,141,190</u>	<u>2,686,072</u>
Excess of revenues over (under) expenditures . . . . .	<u>203,688</u>	<u>(1,284,895)</u>	<u>1,774,641</u>	<u>3,059,536</u>
<b>Other financing uses:</b>				
Refund of prior year receipts . . . . .	<u>(1,031,150)</u>	<u>(1,031,150)</u>	<u>(1,030,922)</u>	<u>228</u>
Total other financing uses . . . . .	<u>(1,031,150)</u>	<u>(1,031,150)</u>	<u>(1,030,922)</u>	<u>228</u>
Net change in fund balance. . . . .	(827,462)	(2,316,045)	743,719	3,059,764
<b>Fund balance at beginning of year . . . . .</b>	5,057,772	5,057,772	5,057,772	-
<b>Prior year encumbrances appropriated . . . . .</b>	25,650	25,650	25,650	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 4,255,960</u>	<u>\$ 2,767,377</u>	<u>\$ 5,827,141</u>	<u>\$ 3,059,764</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, 2006

		<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents. . . . .	\$	3,460,457
Cash in segregated accounts . . . . .		4,981,689
Receivables:		
Due from other governments . . . . .		197,662
Total assets. . . . .	\$	8,639,808
<b>Liabilities:</b>		
Accounts payable . . . . .	\$	6,878
Due to others. . . . .		3,501,012
Intergovernmental payable . . . . .		5,131,918
Total liabilities . . . . .	\$	8,639,808

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER**

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, which provides services to 33,843 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'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" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations 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 the organization's 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 these 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, 2006

**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 2006 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 2006 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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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 2006 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 pays 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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

*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.

**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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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 the legal level of control. Any revisions that alter the total of the fund appropriation must be approved by the ESC's Governing Board. Although the legal level of budgetary control was established at the fund level of expenditures, the ESC has elected to present budgetary statement comparisons at the fund and function level of expenditures.

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 2006.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

**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. 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 2006, investments were limited to overnight repurchase agreements, federal securities, 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 2006. 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, 2006.

Under existing Ohio statutes all investment earnings 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 2006 amounted to \$355,366, which includes \$142,773 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 ESC'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.

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.

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

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, 2006, 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 employee's 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, 2006

**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 encumbrances and 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 first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The ESC has no net assets restricted by enabling legislation.

**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 and on the statement of net assets 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  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**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 basic financial statements. Interfund activities between governmental funds are eliminated in the statement of activities.

**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 2006.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Changes in Accounting Principles**

For fiscal year 2006, the District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 42, GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

**B. Deficit Fund Balances**

Fund balances at June 30, 2006 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Public Preschool	\$ 917
Alternative School Grant	669
Preschool Disability Grant	1,405

These funds complied with Ohio state law, which does not permit a cash basis deficit at fiscal 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 result from adjustments for accrued liabilities.

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

Inactive deposits are public deposits that 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.

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
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 banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the 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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**A. Cash on Hand**

At year-end, the ESC had \$250 in undeposited cash on hand which is included on the financial statements of the ESC as part of "Equity in Pooled Cash and Cash Equivalents."

**B. Cash in Segregated Accounts**

At year-end, \$4,981,689 was on deposit in the account the ESC maintains as fiscal agent for the Trumbull County 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 with Financial Institutions" reported below.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

**C. Deposits with Financial Institutions**

At June 30, 2006, the carrying amount of all ESC deposits was \$(486,029), exclusive of the \$7,687,312 repurchase agreement included in investments below. The negative carrying amount of deposits is due to the sweeping of monies into overnight repurchase agreements which are reported as "investments". Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, the ESC's bank balance of \$30,665 was covered by Federal Deposit Insurance Corporation.

**D. Investments**

As of June 30, 2006, the ESC had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>		
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>
Repurchase Agreement	\$ 7,687,312	\$ 7,687,312	\$ -	\$ -
STAR Ohio	50,952	50,952	-	-
FHLMC Discount Note	646,427	246,925	399,502	-
FNMA Discount Note	673,200	292,560	380,640	-
FHLB Discount Note	578,492	578,492	-	-
FNMA Discount Note	493,750	-	-	493,750
FHLB	199,250	-	-	199,250
	<u>\$ 10,329,383</u>	<u>\$ 8,856,241</u>	<u>\$ 780,142</u>	<u>\$ 693,000</u>

The weighted average maturity of investments is .16 years.

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

*Credit Risk:* The ESC's investments, except for the repurchase agreement as discussed below and STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the ESC will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Of the ESC's investment in repurchase agreements, the entire balance is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the ESC.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

*Concentration of Credit Risk:* The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the ESC at June 30, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Repurchase Agreement	\$ 7,687,312	74.42
STAR Ohio	50,952	0.49
FHLMC Discount Note	646,427	6.26
FNMA Discount Note	673,200	6.52
FHLB Discount Note	578,492	5.60
FNMA Discount Note	493,750	4.78
FHLB	199,250	1.93
	<u>\$ 10,329,383</u>	<u>100.00</u>

**E. Reconciliation of Cash and Investment to the Statement of Net Assets**

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2006:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ (486,029)
Investments	10,329,383
Cash on hand	<u>250</u>
Total	<u>\$ 9,843,604</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 6,383,147
Agency funds	<u>3,460,457</u>
Total	<u>\$ 9,843,604</u>

**NOTE 5 - RECEIVABLES**

Receivables at June 30, 2006 consisted of accounts, (billings to Districts for user charged services and student fees), accrued interest 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	\$ 102
Intergovernmental	1,120,626
Accrued Interest	<u>2,020</u>
Total	<u>\$ 1,122,748</u>

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 6 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	<u>Balance June 30, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2006</u>
<i>Capital assets, being depreciated:</i>				
Furniture and equipment	4,023,501	88,794	(162,461)	3,949,834
Vehicles	<u>16,135</u>	<u>-</u>	<u>-</u>	<u>16,135</u>
Total capital assets, being depreciated	<u>4,039,636</u>	<u>88,794</u>	<u>(162,461)</u>	<u>3,965,969</u>
<i>Less: accumulated depreciation</i>				
Furniture and equipment	(2,511,321)	(291,689)	153,589	(2,649,421)
Vehicles	<u>(11,716)</u>	<u>(2,113)</u>	<u>-</u>	<u>(13,829)</u>
Total accumulated depreciation	<u>(2,523,037)</u>	<u>(293,802)</u>	<u>153,589</u>	<u>(2,663,250)</u>
Governmental activities capital assets, net	<u>\$ 1,516,599</u>	<u>\$ (205,008)</u>	<u>\$ (8,872)</u>	<u>\$ 1,302,719</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 203,821
Special	12,335

Support Services:

Pupil	5,772
Instructional Staff	43,059
Administration	23,126
Fiscal	3,053
Business	2,138
Operations and Maintenance	<u>498</u>

Total depreciation expense	<u>\$ 293,802</u>
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**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. These expenditures are reflected as program/function expenditures on a budgetary basis. Capital assets consisting of office equipment acquired by capital lease have been originally capitalized in the amount of \$36,068 which represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2006, was \$25,248 leaving a current book value of \$10,820.

A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2006 totaled \$7,573 in the general fund.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 7 - CAPITALIZED LEASES - LESSEE DISCLOSURE - (Continued)**

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, 2006:

<u>Fiscal Year Ending June 30,</u>	<u>Copier</u>
2007	\$ 8,791
2008	<u>2,198</u>
Total minimum lease payments	10,989
Less: amount representing interest	<u>(589)</u>
Total	<u>\$ 10,400</u>

**NOTE 8 - LONG-TERM OBLIGATIONS**

During the fiscal year 2006, the following changes occurred in governmental activities long-term obligations:

	<u>Balance Outstanding June 30, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding June 30, 2006</u>	<u>Amounts Due in One Year</u>
Capital lease obligation	\$ 17,973	\$ -	\$ (7,573)	\$ 10,400	\$ 8,232
Compensated absences	<u>364,636</u>	<u>189,101</u>	<u>(119,503)</u>	<u>434,234</u>	<u>118,480</u>
Total	<u>\$ 382,609</u>	<u>\$ 189,101</u>	<u>\$ (127,076)</u>	<u>\$ 444,634</u>	<u>\$ 126,712</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 (see Note 7).

**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 60 days for certificated and 50 days for 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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 10 - RISK MANAGEMENT**

**A. Comprehensive**

During fiscal year 2006, 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	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

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

The vehicle liability insurance carries a \$1,000,000 combined single occurrence limitation. There is \$250 deductible for comprehensive and a \$500 deductible for collision.

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.

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

**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. Premiums are as follows:

<u>Carrier</u>	<u>Single</u>	<u>Family</u>
Medical Mutual PPO	\$ 396.97	\$ 1,032.11
Dental	26.53	83.07
Life (\$50,000 coverage)	6.00	6.00

The ESC pays 100 % of medical, dental and life premiums for classified employees hired before July 1, 2003. For classified employees hired after July 1, 2003, the ESC pays 95% and employees pay 5% of the cost of the premiums, with a \$50.00 per month limit. For certified employees, the ESC pays 95% and employees pay 5% of the cost of the premiums, with a \$50.00 per month limit. For administrative employees, the ESC pays 90% and administrators pay 10% of the cost of the premiums.

**C. OSBA Workers' Compensation Group Rating Plan**

For fiscal year 2006, the ESC participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (Note 2.A.). The intent of the Plan is to achieve the benefit of a reduced premium for the ESC by virtue of its grouping and representation with other participants in the Plan. 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 Plan. Each participant pays its workers' compensation premium to the state based on the rate for the Plan 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 Plan.

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 Plan. Participation in the Plan is limited to school ESCs that can meet the Plan's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the Plan.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 11 - PENSION PLANS**

**A. School Employees Retirement System**

The ESC contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, [www.ohsers.org](http://www.ohsers.org), under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the ESC is required to contribute at an actuarially determined rate. The current ESC rate is 14 percent of annual covered payroll. A portion of the ESC's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The ESC's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$339,497, \$286,803, and \$246,516, respectively; 100% has been contributed for all fiscal years.

**B. State Teachers Retirement System**

The ESC participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 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 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 11 - PENSION PLANS - (Continued)**

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The ESC was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The ESC's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$950,247, \$918,492, and \$902,839, respectively; 100% has been contributed for all fiscal years. Contributions to the DC and Combined Plans for fiscal year 2006 were \$1,950 made by the ESC and \$14,845 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, 2006, certain members of the Governing Board have elected Social Security. The District's liability is 6.2% of wages paid.

**NOTE 12 - POSTEMPLOYMENT BENEFITS**

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

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the ESC, this amount equaled \$73,096 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.3 billion. For the fiscal year ended June 30, 2005 (the latest information available), net health care costs paid by STRS were \$254.780 million and STRS had 115,395 eligible benefit recipients.

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TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)**

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2005. 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 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, ESC paid \$113,307 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178.221 million. At June 30, 2005 (the latest information available), SERS had net assets available for payment of health care benefits of \$267.5 million, which is about 168 percent of next years projected net health care costs of \$158.776 million. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 58,123 participants currently receiving health care benefits.

**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).

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TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 13 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

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

<b>Net Change in Fund Balance</b>	<u>General Fund</u>
Budget basis	\$ 743,719
Net adjustment for revenue accruals	(903,190)
Net adjustment for expenditure accruals	(191,443)
Net adjustment for other sources/uses	1,030,922
Adjustment for encumbrances	<u>119,727</u>
GAAP basis	<u>\$ 799,735</u>

**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 ESC is involved in no material litigation as either plaintiff or defendant.



**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

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333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**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  
6000 Youngstown Warren Rd.  
Niles, Ohio 44446

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, 2006 which collectively comprise the ESC’s basic financial statements, and have issued our report thereon dated October 31, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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*. We noted a certain matter that we have reported to the management of the ESC in a separate letter dated October 31, 2006.

This report is intended solely for the information and use of management and the Governing Board of the Trumbull County Educational Service Center, 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 "Julian & Grube, Inc." with a stylized flourish at the end.

Julian & Grube, Inc.  
October 31, 2006



**Mary Taylor, CPA**  
Auditor of State

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 23, 2007