



Dave Yost • Auditor of State

**TRUMBULL COUNTY EDUCATIONAL SERVICE CENTER
TRUMBULL COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountant's Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	12
Statement of Activities.....	13
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	14
Reconciliation of Total Government Fund Balances to Net Assets of Governmental Activities	15
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Assets and Liabilities - Fiduciary Funds	18
Notes to the Basic Financial Statements	19
Supplementary Information:	
Budgetary Schedule:	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) – General Fund	42
Notes to Supplementary Information	43
Independent Accountants' Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Required by <i>Government Auditing Standards</i>	45

THIS PAGE INTENTIONALLY LEFT BLANK.



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Governors:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Trumbull County Educational Service Center (the ESC), as of and for the year ended June 30, 2011, 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Trumbull County Educational Service Center, as of June 30, 2011, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2011, the District adopted the provisions of Governmental Accounting Standards Board No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which resulted in reclassifications to its governmental fund balances.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2012, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis, and required budgetary comparison schedule*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

February 13, 2012

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Unaudited)

The management's discussion and analysis of the Trumbull County Educational Service Center's (the "ESC") financial performance provides an overall review of the ESC's financial activities for the fiscal year ended June 30, 2011. 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 fiscal year 2011 are as follows:

- In total, net assets of governmental activities decreased \$220,011 which represents a 4.35% decrease from fiscal year 2010.
- General revenues accounted for \$1,128,033 in revenue or 7.02% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$14,933,106 or 92.98% of total revenues of \$16,061,139.
- The ESC had \$16,281,150 in expenses related to governmental activities; \$14,933,106 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (unrestricted grants and entitlements) of \$1,128,033 were not completely adequate to provide for these programs.
- The ESC's only major governmental fund is the general fund. The general fund had \$15,601,429 in revenues and other financing sources and \$15,945,794 in expenditures. During fiscal year 2011, the general fund's fund balance decreased \$344,365 from \$4,607,729 to \$4,263,364.

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 2011?" 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, 2011
(Unaudited)

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

All 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 14-17 of this report.

Reporting the ESC's Fiduciary Responsibilities

The ESC is the fiscal agent of NEOMIN (the Information Technology Center), NEOIMC and TSAC. These activities are presented as agency funds. All of the ESC's fiduciary activities are reported in a separate statement of assets and liabilities on page 18. 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 19 through 41 of this report.

Supplementary Information

The ESC has presented a budgetary comparison schedule for the general fund as supplementary information on pages 42 through 44 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Unaudited)

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.

The table below provides a summary of the ESC's net assets at June 30, 2011 and June 30, 2010.

	Net Assets	
	Governmental Activities	Governmental Activities
	<u>2011</u>	<u>2010</u>
<u>Assets</u>		
Current and other assets	\$ 7,971,770	\$ 7,781,026
Capital assets, net	<u>328,984</u>	<u>281,089</u>
Total assets	<u>8,300,754</u>	<u>8,062,115</u>
<u>Liabilities</u>		
Current liabilities	2,688,426	2,263,918
Long-term liabilities	<u>770,360</u>	<u>736,218</u>
Total liabilities	<u>3,458,786</u>	<u>3,000,136</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	294,472	281,089
Restricted	4,832	19,102
Unrestricted	<u>4,542,664</u>	<u>4,761,788</u>
Total net assets	<u>\$ 4,841,968</u>	<u>\$ 5,061,979</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2011, the ESC's assets exceeded liabilities by \$4,841,968.

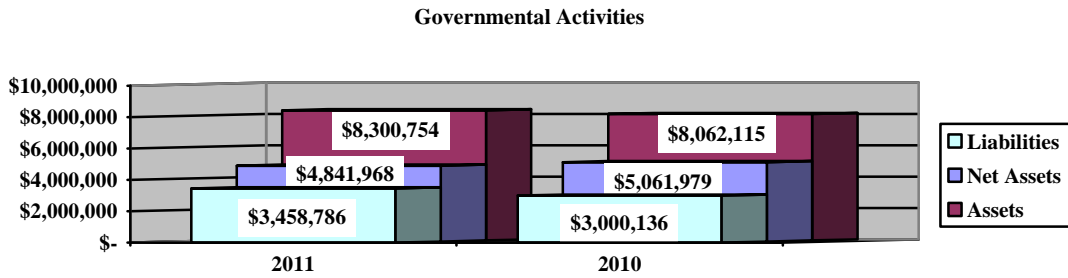
At fiscal year-end, capital assets represented 3.96% of total assets. Capital assets include furniture, textbooks, equipment and vehicles. Capital assets, net of related debt at June 30, 2011, were \$294,472. These capital assets are used to provide services to school districts and are not available for future spending. Reported net of related debt, resources to pay debt must come from other sources since capital assets may not be used for payment.

A portion of the ESC's net assets, \$4,832, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$4,542,664 may be used to meet the ESC's ongoing obligations to the students and creditors.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Unaudited)

The graph below illustrates the ESC's governmental activities assets, liabilities and net assets at June 30, 2011 and June 30, 2010.



The table below shows the change in net assets for fiscal years 2011 and 2010.

Change in Net Assets

	Governmental Activities <u>2011</u>	Governmental Activities <u>2010</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 13,417,287	\$ 13,577,851
Operating grants and contributions	1,515,819	1,634,348
General revenues:		
Grants and entitlements	1,042,945	1,051,768
Investment earnings	65,034	32,076
Miscellaneous	<u>20,054</u>	<u>77,697</u>
Total revenues	<u>16,061,139</u>	<u>16,373,740</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Unaudited)

<u>Expenses</u>	Governmental Activities <u>2011</u>	Governmental Activities <u>2010</u>
Program expenses:		
Instruction:		
Regular	\$ 626,908	\$ 657,638
Special	6,089,880	6,135,759
Support services:		
Pupil	4,158,676	4,257,991
Instructional staff	2,160,139	1,976,747
Board of education	90,563	104,443
Administration	2,586,739	2,663,556
Fiscal	292,751	308,310
Business	46,808	44,919
Operations and maintenance	199,593	203,901
Pupil transportation	24,122	27,738
Central	3,000	3,040
Interest and fiscal charges	<u>1,971</u>	<u>-</u>
Total expenses	<u>16,281,150</u>	<u>16,384,042</u>
Change in net assets	(220,011)	(10,302)
Net assets at beginning of year	<u>5,061,979</u>	<u>5,072,281</u>
Net assets at end of year	<u>\$ 4,841,968</u>	<u>\$ 5,061,979</u>

Governmental Activities

Net assets of the ESC's governmental activities decreased \$220,011. Total governmental expenses of \$16,281,150 were offset by program revenues of \$14,933,106 and general revenues of \$1,128,033. Program revenues supported 91.72% of total governmental expenses.

The primary source of revenues for governmental activities is derived from charges for services. This revenue source represents 83.54% of total governmental revenue.

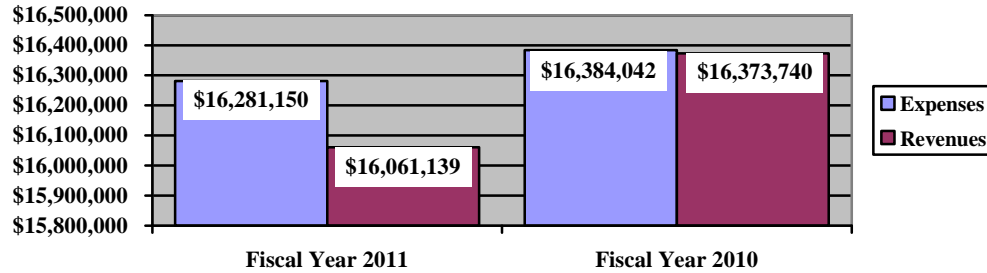
The ESC's financial condition has improved significantly in recent years, primarily due to new programs and an increase in requests for services from the districts. State support has decreased over the last two years. Future increases in funding will come from entrepreneurial programs offered by the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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Unaudited)

The graph below presents the ESC's governmental activities revenue and expenses for fiscal years 2011 and 2010.

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.

Governmental Activities

	Total Cost of Services 2011	Net Cost of Services 2011	Total Cost of Services 2010	Net Cost of Services 2010
Program expenses				
Instruction:				
Regular	\$ 626,908	\$ 316,858	\$ 657,638	\$ 175,752
Special	6,089,880	(220,209)	6,135,759	(96,222)
Support services:				
Pupil	4,158,676	525,173	4,257,991	419,937
Instructional staff	2,160,139	(248,107)	1,976,747	(254,278)
Board of education	90,563	90,563	104,443	104,443
Administration	2,586,739	318,521	2,663,556	237,303
Fiscal	292,751	292,751	308,310	308,310
Business	46,808	46,808	44,919	44,919
Operations and maintenance	199,593	199,593	203,901	203,901
Pupil transportation	24,122	24,122	27,738	27,738
Central	3,000	-	3,040	40
Interest and fiscal charges	1,971	1,971	-	-
Total expenses	<u>\$ 16,281,150</u>	<u>\$ 1,348,044</u>	<u>\$ 16,384,042</u>	<u>\$ 1,171,843</u>

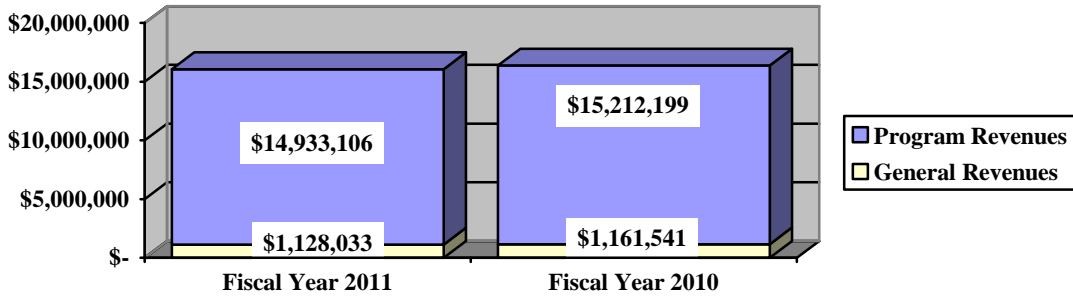
For all governmental activities, general revenue support is 8.28%. The primary support of the ESC is charges for services revenue from districts whom the ESC serves.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Unaudited)

The graph below presents the ESC's governmental activities revenue for fiscal years 2011 and 2010.

Governmental Activities - General and Program Revenues



The ESC's Funds

The ESC's governmental funds (as presented on the balance sheet on page 14) reported a combined fund balance of \$4,276,522, which is less than last year's total of \$4,625,502. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2011 and 2010.

	Fund Balance <u>June 30, 2011</u>	Fund Balance <u>June 30, 2010</u>	<u>Decrease</u>
General	\$ 4,263,364	\$ 4,607,729	\$ (344,365)
Other governmental	<u>13,158</u>	<u>17,773</u>	<u>(4,615)</u>
Total	<u>\$ 4,276,522</u>	<u>\$ 4,625,502</u>	<u>\$ (348,980)</u>

General Fund

The ESC's general fund balance decreased by \$344,365.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Unaudited)

The table that follows shows the activities and fund balance of the general fund for fiscal years 2011 and 2010:

	<u>2011 Amount</u>	<u>2010 Amount</u>	<u>Increase/ (Decrease)</u>	<u>Percentage Change</u>
<u>Revenues</u>				
Tuition	\$ 13,289,712	\$ 14,026,923	\$ (737,211)	(5.26) %
Earnings on investments	71,320	35,119	36,201	103.08 %
Intergovernmental	2,147,140	2,131,575	15,565	0.73 %
Other revenues	<u>52,026</u>	<u>105,001</u>	<u>(52,975)</u>	(50.45) %
Total	<u>\$ 15,560,198</u>	<u>\$ 16,298,618</u>	<u>\$ (738,420)</u>	(4.53) %
<u>Expenditures</u>				
Instruction	\$ 6,429,406	\$ 6,390,715	\$ 38,691	0.61 %
Support services	9,455,974	9,461,531	(5,557)	(0.06) %
Facilities acquisition and construction	10,493	11,840	(1,347)	(11.38) %
Capital outlay	41,231	-	41,231	100.00 %
Debt service	<u>8,690</u>	<u>-</u>	<u>8,690</u>	100.00 %
Total	<u>\$ 15,945,794</u>	<u>\$ 15,864,086</u>	<u>\$ 81,708</u>	0.52 %

Revenues of the general fund decreased \$738,420 or 4.53%. Tuition decreased \$737,211 or 5.26%. This decrease is the result of lower special education foundation deduction receipts from various member districts during the fiscal year. Earnings on investments increased \$36,201 or 103.08% due to interest rates and current market conditions. Other revenues decreased \$52,975 or 50.45% due to less revenue from contract services credited to the general fund during the year.

Expenditures of the general fund increased \$81,708, or 0.52%. Expenditures on instruction increased by 0.61%, while expenditures for the use of facilities fell by \$1,347, or 11.38%. The ESC additionally recognized capital outlay and debt service expenditures during the fiscal year associated with a new capital lease.

Capital Assets

At the end of fiscal year 2011, the ESC had \$328,984 invested in furniture, equipment, textbooks and vehicles. The entire balance is reported in the ESC's governmental activities. The following table shows fiscal year 2011 balances compared to 2010:

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

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Furniture and equipment	\$ 320,788	\$ 270,964
Vehicles	<u>8,196</u>	<u>10,125</u>
Total	<u>\$ 328,984</u>	<u>\$ 281,089</u>

The increase over the prior year is due to the net effect of additions of \$143,948 exceeding current year depreciation of \$83,313 and disposals of \$12,740. See Note 6 to for additional information regarding the ESC's capital assets.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Unaudited)

Debt Administration

At June 30, 2011, the ESC had \$34,512 in capital leases outstanding. Of this total, \$7,735 is due within one year and \$26,777 is due in more than one year. See Note 8 for additional information regarding the ESC's long-term obligations.

The following table summarizes the ESC's debt activity during the year:

	Outstanding Balance <u>June 30, 2010</u>	<u>Governmental Activities</u>		Outstanding Balance <u>June 30, 2011</u>
		<u>Additions</u>	<u>Reductions</u>	
		Capital Lease	\$ -	
Total	<u>\$ -</u>	<u>\$ 41,231</u>	<u>\$ (6,719)</u>	<u>\$ 34,512</u>

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 remained consistent with the prior year due to cost savings implemented by the ESC. New contracts and the ESC's cash balance will provide the ESC with the necessary funds to meet its operating expenses going forward.

During fiscal year 2007, 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.

One 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. Also, state adm funding has been reduced 10% for fiscal year 2012 and 15% for fiscal year 2013.

Another 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 citizens, 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.

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

STATEMENT OF NET ASSETS
JUNE 30, 2011

	Governmental Activities
Assets:	
Equity in pooled cash and investments.	\$ 6,562,202
Receivables:	
Intergovernmental	1,376,639
Accrued interest	21,059
Prepayments	11,870
Capital assets, net.	328,984
 Total assets.	 8,300,754
 Liabilities:	
Accounts payable.	18,095
Accrued wages and benefits	1,625,039
Pension obligation payable.	245,309
Intergovernmental payable	799,783
Unearned revenue	200
Long-term liabilities:	
Due within one year.	104,585
Due in more than one year.	665,775
 Total liabilities	 3,458,786
 Net Assets:	
Invested in capital assets, net	
of related debt.	294,472
Restricted for:	
State funded programs.	4,832
Unrestricted.	4,542,664
 Total net assets	 \$ 4,841,968

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, 2011

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 626,908	\$ 68,777	\$ 241,273	\$ (316,858)
Special	6,089,880	5,137,781	1,172,308	220,209
Support services:				
Pupil	4,158,676	3,633,503	-	(525,173)
Instructional staff	2,160,139	2,309,008	99,238	248,107
Board of education	90,563	-	-	(90,563)
Administration	2,586,739	2,268,218	-	(318,521)
Fiscal	292,751	-	-	(292,751)
Business	46,808	-	-	(46,808)
Operations and maintenance	199,593	-	-	(199,593)
Pupil transportation	24,122	-	-	(24,122)
Central	3,000	-	3,000	-
Interest and fiscal charges	1,971	-	-	(1,971)
Totals	\$ 16,281,150	\$ 13,417,287	\$ 1,515,819	(1,348,044)
General Revenues:				
Grants and entitlements not restricted to specific programs				1,042,945
Investment earnings				65,034
Miscellaneous				20,054
Total general revenues				1,128,033
Change in net assets				(220,011)
Net assets at beginning of year				5,061,979
Net assets at end of year				\$ 4,841,968

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash investments	\$ 6,547,759	\$ 14,443	\$ 6,562,202
Receivables:			
Intergovernmental	1,376,639	-	1,376,639
Accrued interest	21,059	-	21,059
Prepayments	11,870	-	11,870
Total assets	<u>\$ 7,957,327</u>	<u>\$ 14,443</u>	<u>\$ 7,971,770</u>
Liabilities:			
Accounts payable	\$ 18,095	\$ -	\$ 18,095
Accrued wages and benefits	1,625,039	-	1,625,039
Compensated absences payable	45,211	-	45,211
Intergovernmental payable	798,871	912	799,783
Unearned revenue	200	-	200
Deferred revenue	961,611	-	961,611
Pension obligation payable	244,936	373	245,309
Total liabilities	<u>3,693,963</u>	<u>1,285</u>	<u>3,695,248</u>
Fund Balances:			
Nonspendable:			
Prepays	11,870	-	11,870
Unclaimed funds	103	-	103
Restricted:			
Other purposes	-	4,832	4,832
Committed:			
Other purposes	-	9,611	9,611
Assigned:			
Student instruction	11,931	-	11,931
Student and staff support	41,550	-	41,550
Other purposes	2,659	-	2,659
Unassigned (deficit)	4,195,251	(1,285)	4,193,966
Total fund balances	<u>4,263,364</u>	<u>13,158</u>	<u>4,276,522</u>
Total liabilities and fund balances	<u>\$ 7,957,327</u>	<u>\$ 14,443</u>	<u>\$ 7,971,770</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, 2011

Total governmental fund balances		\$	4,276,522
 <i>Amounts reported for governmental activities on 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.			328,984
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.			
Intergovernmental receivable	\$	947,532	
Accrued interest receivable		14,079	
Total		<u>961,611</u>	961,611
Long-term liabilities, including capital lease obligations, are not due and payable in the current period and therefore are not reported in the funds.			
Capital lease obligations		(34,512)	
Compensated absences		(690,637)	
Total			<u>(725,149)</u>
Net assets of governmental activities		\$	<u><u>4,841,968</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Tuition	\$ 13,289,712	\$ -	\$ 13,289,712
Earnings on investments	71,320	-	71,320
Contributions and donations	15,755	1,345	17,100
Contract services	16,217	-	16,217
Other local revenues	20,054	-	20,054
Intergovernmental - state	2,130,219	175,533	2,305,752
Intergovernmental - federal	16,921	218,991	235,912
Total revenues	<u>15,560,198</u>	<u>395,869</u>	<u>15,956,067</u>
Expenditures:			
Current:			
Instruction:			
Regular	343,540	241,267	584,807
Special	6,085,866	53,152	6,139,018
Support services:			
Pupil	4,158,496	-	4,158,496
Instructional staff	2,060,332	103,065	2,163,397
Board of education	90,563	-	90,563
Administration	2,599,833	-	2,599,833
Fiscal	296,262	-	296,262
Business	37,346	-	37,346
Operations and maintenance	189,020	-	189,020
Pupil transportation	24,122	-	24,122
Central	-	3,000	3,000
Facilities acquisition and construction	10,493	-	10,493
Capital outlay	41,231	-	41,231
Debt service:			
Principal retirement	6,719	-	6,719
Interest and fiscal charges	1,971	-	1,971
Total expenditures	<u>15,945,794</u>	<u>400,484</u>	<u>16,346,278</u>
Excess of expenditures over revenues	<u>(385,596)</u>	<u>(4,615)</u>	<u>(390,211)</u>
Other financing sources:			
Capital lease transaction	41,231	-	41,231
Total other financing sources	<u>41,231</u>	<u>-</u>	<u>41,231</u>
Net change in fund balances	(344,365)	(4,615)	(348,980)
Fund balances at beginning of year	<u>4,607,729</u>	<u>17,773</u>	<u>4,625,502</u>
Fund balances at end of year	<u>\$ 4,263,364</u>	<u>\$ 13,158</u>	<u>\$ 4,276,522</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, 2011

Net change in fund balances - total governmental funds \$ (348,980)

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

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

Capital asset additions	\$	143,948	
Current year depreciation		(83,313)	
Total		60,635	60,635

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. (12,740)

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

Tuition		111,358	
Earnings on investments		(6,286)	
Total		105,072	105,072

Repayment of capital lease principal during the year is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 6,719

Issuance of capital leases are recorded as other financing sources in the funds; however, in the statement of activities, they are not reported as other financing sources as they increase liabilities on the statement of net assets. (41,231)

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 10,514

Change in net assets of governmental activities \$ (220,011)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2011

	Agency
Assets:	
Equity in pooled cash	
and investments	\$ 2,444,769
Cash in segregated accounts.	6,920,812
Receivables:	
Intergovernmental.	163,511
Prepayments	14,516
Total assets.	\$ 9,543,608
Liabilities:	
Accounts payable.	\$ 614
Compensated absences.	9,511
Due to others.	2,453,515
Intergovernmental payable	7,079,968
Total liabilities	\$ 9,543,608

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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 31,264 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 local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The ESC also applies Financial Accounting Standards Board (FASB) guidance issued on or before November 30, 1989, to its governmental activities provided it does not conflict with or contradict GASB pronouncements. The most significant of the ESC’s 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 and component units. 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, food service 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 organization’s Governing 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. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary governments financial statements incomplete or misleading. 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).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

The following organizations are described due to their relationship to the ESC:

JOINTLY GOVERNED ORGANIZATIONS

North East Ohio Management Information Network (NEOMIN)

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

Superintendents of the participating school districts are eligible to be voting members of the Governing Board, which consists of ten members; the Trumbull and Ashtabula County superintendents (permanent members), three superintendents from Ashtabula County school districts, three superintendents from Trumbull County school districts, and a principal and a treasurer (non-voting members who must be employed by a participating school district, or fiscal agent of NEOMIN). The degree of control exercised by any participating school district is limited to its representation on the Governing Board. The ESC serves as fiscal agent for NEOMIN. Financial activity for fiscal year 2011 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 2011 is reported in the basic financial statements as an agency fund.

Trumbull Student Assistance Consortium (TSAC)

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

TSAC is governed by an executive management Council made up of five superintendents of the participating districts. Members' terms rotate annually. The degree of control exercised by any participating school district is limited to its representation on the Council. The ESC serves as fiscal agent of the TSAC. Financial activity for fiscal year 2011 is reported in the basic financial statements as an agency fund.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

PUBLIC ENTITY RISK POOLS

Trumbull County Schools Employee Insurance Benefit Consortium (Consortium)

The Consortium is a Council of Governments established pursuant to Ohio Revised Code Chapter 167. The Council of Governments (the Consortium) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio as defined by Chapter 167 of the Ohio Revised Code.

The Consortium is a shared risk pool as defined by Governmental Accounting Standards Board Statement No. 10 and amended by GASB Statement No. 30. It was formed to carry out a cooperative program for the provisions and administration of health care benefits for member employees in accordance with the Council bylaws.

The governing body of the Consortium is an Assembly composed of the Superintendents of the members and any other representative of members who have been appointed by the respective governing bodies of the members. All representatives serve without compensation. As of June 30, 2011, there were fifteen participating members of the Consortium. The Insurance Committee (Executive Board) functions as the advisory body to the Assembly. It consists of five representatives of the members, four of whom are appointed by the President of the Trumbull County Superintendents' Association, and the fifth of whom by the Superintendent of the Fiscal Agent. The Trumbull County Educational Service Center serves as the Consortium's fiscal agent and the Treasurer of the Consortium is the Treasurer of the Fiscal Agent. The Consortium administers medical, prescription, dental, and vision benefit plans for employees of the participating school systems and their eligible dependents.

The ESC serves as fiscal agent for the Consortium. Financial assets and liabilities for fiscal year 2011 are reported in the basic financial statements as an agency fund. Financial information is available from the Trumbull County ESC (fiscal agent), 6000 Youngstown Warren Road, Niles, Ohio 44446.

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 and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

Other governmental funds of the ESC are used to account for specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects.

PROPRIETARY FUNDS

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

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.

Revenues - Exchange and Nonexchange 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.

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Revenues received in advance of the fiscal year for which they are intended to finance have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

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. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgetary Process

Although not legally required, the ESC adopts its budget for all funds. The budget includes the estimated resources and expenditures for each fund and consists of three parts; Part (A) includes entitlement funding from the State, Part (B) includes the cost of all other lawful expenditures of the ESC (which are apportioned by the State Department of Education to each local board of education under the supervision of the ESC), and Part (C) includes the adopted appropriation resolution.

In fiscal year 2004, the ESC requirement to file budgetary information with the Ohio Department of Education was eliminated. Even though the budgetary process for the ESC was discretionary, the ESC continued to have its Governing Board approve appropriations and estimated resources. The ESC's Governing Board adopts an annual appropriation resolution, which is the Governing Board's authorization to spend resources and sets annual limits on expenditures at the level of control selected by the Governing Board. The level of control has been established by the Governing Board at the fund level for all funds. Budgetary information for the general fund has been presented as supplementary information to the basic financial statements.

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 investments" on the basic financial statements.

During fiscal year 2011, investments were limited to nonnegotiable certificates of deposit, federal agency securities, U.S. government money market mutual funds 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 nonnegotiable certificates of deposit, are reported at cost.

The ESC has invested funds in STAR Ohio during fiscal year 2011. 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 shares price which is the price the investment could be sold for on June 30, 2011.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund or 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 2011 amounted to \$71,320, which includes \$6,708 assigned from other ESC funds.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

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 disposals 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 five hundred dollars. The ESC does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets.

Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Furniture, equipment and textbooks	3 - 20 years
Vehicles	6 - 10 years

H. Compensated Absences

Compensated absences of the ESC consist of vacation leave and sick leave 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave 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 sick leave 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 sick leave payments has been calculated using pay rates in effect at June 30, 2011 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.

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 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

Fund balance is divided into five classifications based primarily on the extent to which the ESC is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

Restricted - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the ESC Governing Board (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the ESC Governing Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the ESC for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the ESC Governing Board, which includes giving the Treasurer the authority to constrain monies for intended purposes.

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The ESC applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

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. 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

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 reported as nonspendable 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.

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 2011.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2011, the ESC has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types. The implementation of GASB Statement No. 54 did not have an effect on fund balances as previously reported; however, the current presentation of fund balance classifications have been modified from prior years to reflect the requirements of this new standard.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the ESC.

B. Deficit Fund Balances

Fund balances at June 30, 2011 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Public preschool	\$ 675
Alternative school grant	332
Preschool disability grant	278

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 resulted 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 monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories.

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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 items (1) and (2) above 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.

Protection of the 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.

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 fiscal 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 investments."

B. Cash in Segregated Accounts

At fiscal year end, \$6,920,812 was on deposit in the account the ESC maintains as fiscal agent for the Trumbull County Employee Insurance Benefits Consortium (See Note 9.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 ESC, 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Deposits with Financial Institutions

At June 30, 2011, the carrying amount of all ESC deposits was \$4,871,587. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2011, \$4,603,438 of the ESC's bank balance of \$4,926,007 was covered by the FDIC, while \$322,569 was exposed to custodial risk as discussed below.

Custodial credit risk is the risk that, in the event of bank failure, the ESC's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the ESC. The ESC has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the ESC to a successful claim by the FDIC.

D. Investments

As of June 30, 2011, the ESC had the following investments and maturities:

Investment type	Fair Value	Investment Maturities				
		6 months or less	7 to 12 months	13 to 18 months	19 to 24 months	Greater than 24 months
FHLB	\$ 1,410,085	\$ 908,100	\$ -	\$ -	\$ -	\$ 501,985
FHLMC	698,411	200,486	-	-	-	497,925
FNMA	1,503,955	-	-	-	1,503,955	-
U.S. government money market mutual fund	67,557	67,557	-	-	-	-
STAR Ohio	455,126	455,126	-	-	-	-
Total	\$ 4,135,134	\$ 1,631,269	\$ -	\$ -	\$ 1,503,955	\$ 999,910

The weighted average maturity of investments is 2.34 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 in federal agency securities were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio and the U.S. government money market mutual fund an AAAM money market rating.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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 investments or collateral securities that are in the possession of an outside party. The federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent, but not in the ESC's name. The ESC has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk: The ESC 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, 2011:

<u>Investment Type</u>	<u>Fair Value</u>	<u>% of Total</u>
FHLB	\$ 1,410,085	34.10
FHLMC	698,411	16.89
FNMA	1,503,955	36.37
Fifth Third money market	67,557	1.63
STAR Ohio	<u>455,126</u>	<u>11.01</u>
Total	<u>\$ 4,135,134</u>	<u>100.00</u>

E. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2011:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 4,871,587
Investments	4,135,134
Cash on hand	<u>250</u>
Total	<u>\$ 9,006,971</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 6,562,202
Agency funds	<u>2,444,769</u>
Total	<u>\$ 9,006,971</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 5 - RECEIVABLES

Receivables at June 30, 2011 consisted of intergovernmental (billings to districts for user charged services and student fees) and accrued interest. 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:

Intergovernmental	\$ 1,376,639
Accrued interest	<u>21,059</u>
Total	<u>\$ 1,397,698</u>

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

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	<u>Balance</u> <u>June 30, 2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2011</u>
<i>Capital assets, being depreciated:</i>				
Furniture, equipment and textbooks	\$ 1,237,460	\$ 143,948	\$ (187,786)	\$ 1,193,622
Vehicles	<u>13,500</u>	<u>-</u>	<u>-</u>	<u>13,500</u>
Total capital assets, being depreciated	<u>1,250,960</u>	<u>143,948</u>	<u>(187,786)</u>	<u>1,207,122</u>
<i>Less: accumulated depreciation</i>				
Furniture, equipment and textbooks	(966,496)	(81,384)	175,046	(872,834)
Vehicles	<u>(3,375)</u>	<u>(1,929)</u>	<u>-</u>	<u>(5,304)</u>
Total accumulated depreciation	<u>(969,871)</u>	<u>(83,313)</u>	<u>175,046</u>	<u>(878,138)</u>
Governmental activities capital assets, net	<u>\$ 281,089</u>	<u>\$ 60,635</u>	<u>\$ (12,740)</u>	<u>\$ 328,984</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 29,959
Special	6,361

Support services:

Pupil	7,115
Instructional staff	14,556
Administration	15,341
Fiscal	413
Business	9,488
Operations and maintenance	<u>80</u>

Total depreciation expense	<u>\$ 83,313</u>
----------------------------	------------------

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 7 - CAPITAL LEASES - LESSEE DISCLOSURE

During fiscal year 2011, the ESC entered into a capitalized lease for copier equipment. These lease agreements meet the criteria of 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 have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary schedule.

Capital assets consisting of furniture and equipment have been capitalized in the amount of \$41,231. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2011 was \$7,559, leaving a current book value of \$33,672. A corresponding liability was recorded in the government-wide financial statements. Principal payments in the 2011 fiscal year totaled \$6,719 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2011:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2012	\$ 9,480
2013	9,480
2014	9,480
2015	9,480
2016	<u>790</u>
Total minimum lease payments	38,710
Less amount representing interest	<u>(4,198)</u>
Total	<u>\$ 34,512</u>

NOTE 8 - LONG-TERM OBLIGATIONS

During the fiscal year 2011, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>June 30, 2010</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>June 30, 2011</u>	Amounts Due in <u>One Year</u>
Capital lease	\$ -	\$ 41,231	\$ (6,719)	\$ 34,512	\$ 7,735
Compensated absences	<u>736,218</u>	<u>86,679</u>	<u>(87,049)</u>	<u>735,848</u>	<u>96,850</u>
Total	<u>\$ 736,218</u>	<u>\$ 127,910</u>	<u>\$ (93,768)</u>	<u>\$ 770,360</u>	<u>\$ 104,585</u>

Compensated absences: Compensated absences will be paid from the fund from which the employee's salaries are paid, which is the general fund.

Capital lease obligation: Capital lease obligations will be paid from the general fund (See Note 7 for details).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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 70 days for certificated and classified employees. An employee receiving such payment must meet the retirement provisions set by STRS Ohio and SERS and have ten or more years of service with the State and five or more years with the ESC.

B. Insurance Benefits

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

NOTE 10 - RISK MANAGEMENT

A. Comprehensive

During fiscal year 2011, the ESC purchased insurance through Ohio Casualty.

Property insurance is provided by 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 10 - RISK MANAGEMENT - (Continued)

The types and amounts of coverage provided by Ohio Casualty are as follows:

Property Liability:	
Blanket building and personal property	\$ 4,595,759
Inland Marine:	
Computer hardware	121,683
Umbrella Coverage:	
Each Occurrence	5,000,000
Aggregate Limit	5,000,000
Crime Coverage:	
Theft, disappearance and destruction	10,000
General Liability:	
Each Occurrence	1,000,000
Aggregate Limit	3,000,000
Products - Completed Operations Aggregate Limit	3,000,000
Personal and Advertising Injury Limit - Each Offense	1,000,000
Fire Damage Limit - Any One Event	300,000
Medical Expense Limit	15,000
Employees' Liability:	
Each Offense	1,000,000
Aggregate	3,000,000
Sexual misconduct and molestation liability:	
Each Occurrence	1,000,000
Aggregate	1,000,000
Innocent party defense	300,000
School Leaders Errors and Omissions Liability:	
Injury Limit	1,000,000
Aggregate Limit	1,000,000
Non-monetary relief defense	100,000

B. Employee Medical/Surgical and Dental Insurance

The ESC has contracted with Trumbull County Schools Employee Insurance Benefits Consortium (the "Consortium") to provide employee medical/surgical and dental benefits (See Note 2.A). The Consortium is a shared risk pool comprised of fifteen 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 10 - RISK MANAGEMENT - (Continued)

Premiums are as follows:

<u>Carrier</u>	<u>Single</u>	<u>Family</u>
Medical Mutual PPO Plan 1	\$ 427.48	\$ 1,111.86
Medical Mutual PPO Plan 2	383.66	998.27
Medical Mutual PPO Plan 3	345.29	898.44
Dental	28.44	89.02
Life (\$50,000 coverage)	60.00	-

The ESC pays 95% of medical premiums for classified and certified employees enrolled in PPO Plan 1. For classified and certified employees enrolled in PPO Plan 2, the ESC pays 90% and the employees pay 10% of the cost of the premiums. For classified and certified employees enrolled in PPO Plan 3, the ESC pays 100% of the premium. The ESC pays 100% of dental and life for both classified and certified employees. For administrative employees, the ESC pays 90% and administrators pay 10% of the cost of the premiums.

C. Workers' Compensation

The ESC pays the State Workers' Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that the State calculates. The ESC utilizes Sheakley UniService, Inc. as a third party administrator.

For fiscal year 2011, the ESC did not participate in the Ohio Association of School Business Officials Workers' Compensation Group Rating Program as it had in fiscal year 2010.

NOTE 11 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The ESC contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor 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. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Media/Financial Reports".

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 11 - PENSION PLANS - (Continued)

Funding Policy - 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 2011, 11.77 percent and 0.04 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The ESC's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$383,295, \$411,135 and \$283,288, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

B. State Teachers Retirement System of Ohio

Plan Description - The ESC participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. 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 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org, under "Publications".

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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For fiscal year 2011, 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 recommendations 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 11 - PENSION PLANS - (Continued)

The ESC's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010 and 2009 were \$991,835, \$1,004,749 and \$975,308, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were \$28,631 made by the ESC and \$20,450 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2011, certain members of the Governing Board have elected Social Security. The ESC's liability is 6.2 percent of wages paid.

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The ESC participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "*Media/Financial Reports*".

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2011, 1.43 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the actuarially determined amount was \$35,800.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The ESC's contributions for health care (including surcharge) for the fiscal years ended June 30, 2011, 2010 and 2009 were \$95,030, \$77,130 and \$190,466, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, this actuarially required allocation was 0.76 percent of covered payroll. The ESC's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$24,666, \$24,449 and \$23,374, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

B. State Teachers Retirement System of Ohio

Plan Description - The ESC contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org, under "Publications" or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The ESC's contributions for health care for the fiscal years ended June 30, 2011, 2010 and 2009 were \$76,295, \$77,288 and \$75,024, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

NOTE 13 - CONTINGENCIES

A. Grants

The ESC receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 14 - STATE FUNDING

The ESC is funded by the State Board of Education from State funds for the cost of Part (A) of the budget.

Part (B) of the budget is funded in the following way: \$6.50 times the Average Daily Membership (ADM- the total number of pupils under the ESC's supervision) is apportioned by the State Board of Education from the local school districts to which the ESC provides services from payments made under the State's foundation program. Simultaneously, \$37.00 times the sum of the ADM is paid by the State Board of Education from State funds to the ESC.

If additional funding is required and if a majority of the Boards of Education of the participating school districts approve, the cost of Part (B) of the budget that is in excess of \$43.50 times ADM approved by the State Board of Education is apportioned to the participating school districts through reductions in their state foundation. The State Board of Education initiates and supervises the procedure by which the participating boards approve or disapprove the apportionment. The local school districts to which the ESC provides services have agreed to pay \$8.50 per pupil to provide additional funding for services provided by the ESC.

NOTE 15 - OTHER COMMITMENTS

The ESC utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the ESC's commitments for encumbrances in the governmental funds were as follows:

<u>Fund</u>	<u>Year-End</u> <u>Encumbrances</u>
General fund	\$ <u>43,125</u>

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

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>Actual</u>
Revenues:				
From local sources:				
Tuition	\$ 14,872,549	\$ 13,825,241	\$ 13,617,872	\$ (207,369)
Earnings on investments	53,788	50,000	30,321	(19,679)
Extracurricular	58	54	-	(54)
Contributions and donations	29,368	27,300	15,755	(11,545)
Contract services	20,439	19,000	20,969	1,969
Other local revenues	19,364	18,000	20,074	2,074
Intergovernmental - state	2,280,875	2,120,258	2,130,219	9,961
Intergovernmental - federal	18,288	17,000	16,921	(79)
Total revenues	<u>17,294,729</u>	<u>16,076,853</u>	<u>15,852,131</u>	<u>(224,722)</u>
Expenditures:				
Current:				
Instruction:				
Regular	470,453	475,073	342,664	132,409
Special	6,397,067	6,463,969	6,056,685	407,284
Support services:				
Pupil	4,361,461	4,506,751	4,184,409	322,342
Instructional staff	2,248,935	2,309,263	2,085,712	223,551
Board of education	145,154	146,228	99,356	46,872
Administration	3,049,069	3,058,256	2,607,572	450,684
Fiscal	335,187	330,744	301,326	29,418
Business	76,733	81,242	47,522	33,720
Operations and maintenance	250,242	233,555	193,718	39,837
Pupil transportation	39,604	37,350	25,122	12,228
Central	1,985	2,000	-	2,000
Facilities acquisition and construction	11,911	12,000	10,493	1,507
Total expenditures	<u>17,387,801</u>	<u>17,656,431</u>	<u>15,954,579</u>	<u>1,701,852</u>
Deficiency of revenues under expenditures	<u>(93,072)</u>	<u>(1,579,578)</u>	<u>(102,448)</u>	<u>1,477,130</u>
Other financing uses:				
Refund of prior year's receipts	<u>(386,155)</u>	<u>(364,044)</u>	<u>(294,539)</u>	<u>69,505</u>
Total other financing uses	<u>(386,155)</u>	<u>(364,044)</u>	<u>(294,539)</u>	<u>69,505</u>
Net change in fund balance	(479,227)	(1,943,622)	(396,987)	1,546,635
Fund balance at beginning of year (restated).	6,848,383	6,848,383	6,848,383	-
Prior year encumbrances appropriated . . .	25,154	25,154	25,154	-
Fund balance at end of year	<u>\$ 6,394,310</u>	<u>\$ 4,929,915</u>	<u>\$ 6,476,550</u>	<u>\$ 1,546,635</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTE TO THE SUPPLEMENTARY INFORMATION

Although not legally required, the ESC adopts its budget for all funds. The budget includes the estimated resources and expenditures for each fund and consists of three parts: Part (A) includes entitlement funding from the State, Part (B) includes the cost of all other lawful expenditures of the ESC (which are apportioned by the State Department of Education to each local board of education under the supervision of the ESC), and Part (C) includes the adopted appropriation resolution.

In fiscal year 2004, the ESC requirement to file budgetary information with the Ohio Department of Education was eliminated. Even though the budgetary process for the ESC was discretionary, the ESC continued to have its Board approve appropriations and estimated resources. The ESC's Board adopts an annual appropriation resolution, which is the Board's authorization to spend resources and sets annual limits on expenditures at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds. Budgetary information for the general fund has been presented as supplementary information to the basic financial statements.

While reporting financial position and changes in financial position/fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis is based upon accounting for certain transactions on a basis of cash receipts and disbursements plus encumbrances.

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

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ (396,987)
Net adjustment for revenue accruals	(291,933)
Net adjustment for expenditure accruals	(52,581)
Net adjustment for other sources/uses	335,770
Adjustment for encumbrances	61,366
GAAP basis	\$ (344,365)

Certain funds that are budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the unclaimed funds and rotary funds. The balances in these funds did not change during fiscal year 2011.

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

NOTE TO THE SUPPLEMENTARY INFORMATION

Budgetary Prior Period Adjustment

In prior years, certain funds that are legally budgeted in separate special revenue funds were considered part of the general fund on a budgetary basis. The ESC has elected to report only the budgeted general fund in the budgetary schedule. Additionally, in a prior period the ESC erroneously overstated the general fund ending cash balance and the book balance of certain securities by \$31,110 due to the overstatement of earnings on investments on a budgetary basis. The required restatement of the general fund's budgetary basis fund balance at June 30, 2010 is as follows:

Budgetary Basis	General
Fund cash balance at June 30, 2010	\$ 6,882,255
Funds budgeted elsewhere	(2,762)
Adjustment related to overstatement	(31,110)
Restated fund cash balance at July 1, 2010	\$ 6,848,383



Dave Yost • Auditor of State

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

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

To the Board of Governors:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Trumbull County Educational Service Center, (the ESC) as of and for the year ended June 30, 2011, which collectively comprise the ESC's basic financial statements and have issued our report thereon dated February 13, 2012, in which we noted the District implemented Government Accounting Standards Board Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the ESC's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the ESC's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the ESC's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the ESC's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

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

We intend this report solely for the information and use of management, the Board of Governors, and others within the ESC. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

February 13, 2012



Dave Yost • 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
MARCH 8, 2012