



Dave Yost • Auditor of State

**TRUMBULL COUNTY EDUCATIONAL SERVICE CENTER
TRUMBULL COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Governing Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Trumbull County Educational Service Center, Trumbull County, Ohio (the Center), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Center's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Center's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Trumbull County Educational Service Center, Trumbull County, Ohio, as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary and Other Information

Our audit was conducted to opine on the Center's basic financial statements taken as a whole. The budgetary comparison schedule presents additional analysis and is not a required part of the basic financial statements.

The schedule is management's responsibility, and derives from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected the schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2015, on our consideration of the Center'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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

May 4, 2015

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(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, 2014. 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 2014 are as follows:

- In total, net position of governmental activities increased \$527,954, which represents an 11.67% increase from fiscal year 2013.
- General revenues accounted for \$989,369 in revenue or 6.13% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$15,161,988 or 93.87% of total revenues of \$16,151,357.
- The ESC had \$15,623,403 in expenses related to governmental activities; \$15,161,988 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (including unrestricted grants and entitlements) of \$989,369 were adequate to provide for these programs.
- The ESC's only major governmental fund is the general fund. The general fund had \$15,193,003 in revenues and \$14,906,485 in expenditures. During fiscal year 2014, the general fund's fund balance increased \$286,518 from \$4,180,995 to a balance of \$4,467,473.

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 position 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 Position 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 the ESC perform financially during 2014?" The statement of net position and the statement of activities answer this question. These statements include all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, and expenses using the accrual basis of accounting, similar to the accounting used by most private-sector companies. This basis of accounting considers 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, 2014
(UNAUDITED)

These two statements report the ESC's net position and changes in net position. The change in net position 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 position 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 position and statement of activities can be found on pages 13 and 14 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 the modified accrual basis of 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 to 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 position 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 15 through 18 of this report.

Reporting the ESC's Fiduciary Responsibilities

The ESC is the fiscal agent of NEOMIN (the Information Technology Center), the Trumbull Student Assistance Consortium, and the Trumbull County Schools Employee Insurance Benefit Consortium. 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 19. These activities are excluded from the ESC's other financial statements because the assets cannot be utilized by the ESC to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 21 through 43 of this report.

Supplementary Information

The ESC has presented a budgetary comparison schedule for the general fund as supplementary information on pages 45 and 46 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)

The ESC as a Whole

Recall that the statement of net position provides the perspective of the ESC as a whole. A comparative analysis of net position of the ESC's governmental activities at June 30, 2014 and June 30, 2013, and its components, is provided below.

	Net Position	
	Governmental Activities 2014	Governmental Activities 2013
	<u>2014</u>	<u>2013</u>
<u>Assets</u>		
Current and other assets	\$ 7,929,716	\$ 7,443,172
Capital assets, net	<u>207,939</u>	<u>308,230</u>
Total assets	<u>8,137,655</u>	<u>7,751,402</u>
<u>Liabilities</u>		
Current liabilities	2,223,475	2,331,843
Long-term liabilities	<u>861,895</u>	<u>895,228</u>
Total liabilities	<u>3,085,370</u>	<u>3,227,071</u>
<u>Net Position</u>		
Net investment in capital assets	197,999	289,635
Restricted	5,727	1,076
Unrestricted	<u>4,848,559</u>	<u>4,233,620</u>
Total net position	<u>\$ 5,052,285</u>	<u>\$ 4,524,331</u>

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2014, the ESC's assets exceeded liabilities by \$5,052,285.

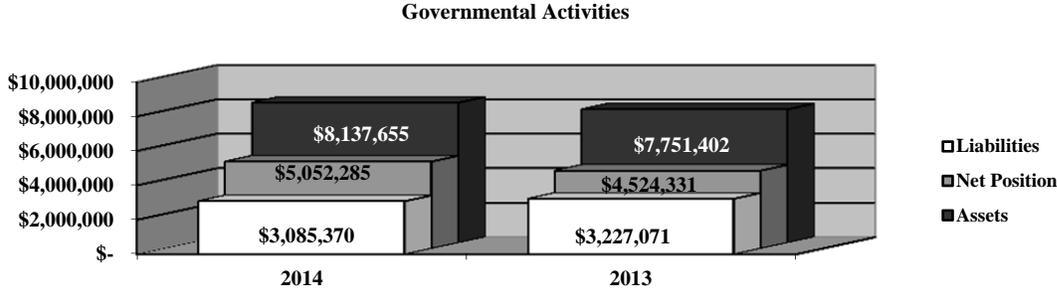
At fiscal year-end, capital assets represented 2.56% of total assets. Capital assets include furniture, textbooks, equipment and vehicles. The ESC's net investment in capital assets at June 30, 2014 was \$197,999. The capital assets are used to provide services to school districts and are not available for future spending. 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 position, \$5,727, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position of \$4,848,559 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, 2014
(UNAUDITED)

The graph below illustrates the ESC's governmental activities assets, liabilities, and net position at June 30, 2014 and June 30, 2013.



Governmental Activities

Net position of the ESC's governmental activities increased \$527,954. Total governmental expenses of \$15,623,403 were offset by program revenues of \$15,161,988 and general revenues of \$989,369. Program revenues supported 97.05% of total expenses of the governmental activities.

The primary source of revenues for governmental activities is derived from charges for services. This revenue source represents 89.04% of total governmental revenue. During fiscal year 2014, charges for services and program revenues increased by \$955,470 while operating grant program revenues decreased 46.95% from fiscal year 2013.

The ESC anticipates the need to generate revenue going forward through contracts with school districts in Trumbull County in order to compensate for decreased funding from the State of Ohio.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)

The table below shows the change in net position for fiscal years 2014 and 2013.

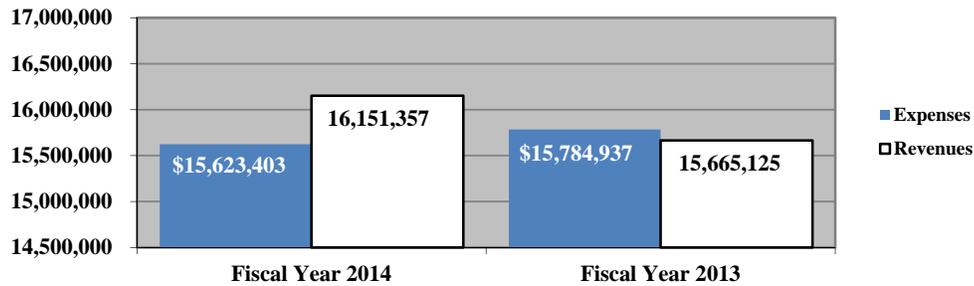
	Change in Net Position	
	Governmental Activities 2014	Governmental Activities 2013
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 14,381,886	\$ 13,426,416
Operating grants and contributions	780,102	1,470,447
General revenues:		
Unrestricted grants and entitlements	880,673	798,319
Investment earnings	29,559	24,058
Increase (decrease) in fair market value of investments	51,179	(75,125)
Miscellaneous	<u>27,958</u>	<u>21,010</u>
Total revenues	<u>16,151,357</u>	<u>15,665,125</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	766,722	518,465
Special	6,659,113	6,535,229
Support services:		
Pupil	4,012,056	3,934,845
Instructional staff	1,436,493	2,259,346
Board of education	70,014	69,919
Administration	1,643,261	1,890,139
Fiscal	339,657	321,086
Business	29,355	31,605
Operations and maintenance	190,929	208,431
Pupil transportation	15,697	14,574
Central	459,281	-
Interest and fiscal charges	<u>825</u>	<u>1,298</u>
Total expenses	<u>15,623,403</u>	<u>15,784,937</u>
Change in net position	527,954	(119,812)
Net position at beginning of year	<u>4,524,331</u>	<u>4,644,143</u>
Net position at end of year	<u>\$ 5,052,285</u>	<u>\$ 4,524,331</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)

The graph below presents the ESC's governmental activities revenue and expenses for fiscal years 2014 and 2013.

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 2014	Net Cost of Services 2014	Total Cost of Services 2013	Net Cost of Services 2013
Program expenses				
Instruction:				
Regular	\$ 766,722	\$ 324,384	\$ 518,465	\$ 299,857
Special	6,659,113	(285,655)	6,535,229	(352,781)
Support services:				
Pupil	4,012,056	(113,767)	3,934,845	437,698
Instructional staff	1,436,493	(534,792)	2,259,346	(241,863)
Board of education	70,014	70,014	69,919	69,919
Administration	1,643,261	(34,513)	1,890,139	98,250
Fiscal	339,657	339,657	321,086	321,086
Business	29,355	29,355	31,605	31,605
Operations and maintenance	190,929	190,929	208,431	208,431
Pupil transportation	15,697	15,697	14,574	14,574
Central	459,281	459,281	-	-
Interest and fiscal charges	825	825	1,298	1,298
Total expenses	<u>\$ 15,623,403</u>	<u>\$ 461,415</u>	<u>\$ 15,784,937</u>	<u>\$ 888,074</u>

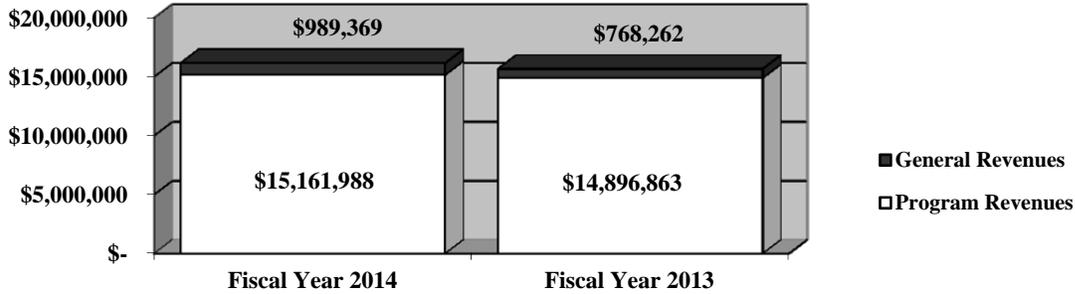
For all governmental activities, general revenue support is 2.95%. The primary support of the ESC is charges for services revenues from school districts whom the ESC serves.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)

The graph that follows presents the ESC's governmental activities revenue for fiscal years 2014 and 2013.

Governmental Activities - General and Program Revenues



The ESC's Funds

The ESC's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$4,462,154, which is higher than last year's total of \$4,133,676. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2014 and 2013.

	Fund Balance (Deficit) June 30, 2014	Fund Balance (Deficit) June 30, 2013	Change
General	\$ 4,467,473	\$ 4,180,955	\$ 286,518
Nonmajor governmental funds	(5,319)	(47,279)	41,960
Total	\$ 4,462,154	\$ 4,133,676	\$ 328,478

General Fund

During fiscal year 2014 the ESC's general fund balance increased by \$286,518.

The table that follows shows the revenues of the general fund for fiscal years 2014 and 2013.

	2014 Amount	2013 Amount	Change	Percentage Change
Revenues				
Tuition	\$ 14,078,806	\$ 13,141,713	\$ 937,093	7.13 %
Earnings on investments	27,496	30,634	(3,138)	(10.24) %
Increase (decrease) in FMV of investments	51,179	(75,125)	126,304	168.13 %
Intergovernmental	980,846	1,880,630	(899,784)	(47.84) %
Other revenues	54,676	52,454	2,222	4.24 %
Total	\$ 15,193,003	\$ 15,030,306	\$ 162,697	1.08 %

Revenues of the general fund increased \$162,697 or 1.08% from fiscal year 2013. Tuition increased \$937,093 or 7.13%. This increase is the result of higher tuition revenue from school districts from special education instruction. Earnings on investments earned by the general fund was consistent with fiscal year 2013; however, the ESC recognized an increase in the fair market value of its investments of \$51,179 during 2014, as opposed to fiscal year 2013 in which the ESC recognized a decrease in the fair market value of its federal agency security, negotiable certificate of deposit, and US government money market holdings of \$75,125. Intergovernmental revenue fell by \$899,784 or 47.84% due to lower foundation revenue from the State of Ohio.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)

The table that follows shows the expenditures of the general fund for fiscal years 2014 and 2013:

<u>Expenditures</u>	2014 Amount	2013 Amount	Change	Percentage Change
Instruction	\$ 6,964,990	\$ 6,835,370	\$ 129,620	1.90 %
Support services	7,932,015	8,602,260	(670,245)	(7.79) %
Debt service	9,480	9,480	-	-
Total	<u>\$ 14,906,485</u>	<u>\$ 15,447,110</u>	<u>\$ (540,625)</u>	(3.50) %

Expenditures of the general fund decreased \$540,625, or 3.50%. Instruction expenditures increased by 1.90%, while expenditures for support services decreased 7.79%. Lower support services expenditures during fiscal year 2014 related to decreases in spending for instructional staff and administrative services. Lower expenditures for instructional staff support services resulted from a significant decrease in purchased occupational therapy services during 2014. Among the administration support services, the ESC recognized lower expenditures for employee salaries and benefits and purchased professional and technical services during the year. Debt service expenditures for the ESC's capital lease obligation were equal to fiscal year 2013.

Capital Assets

At the end of fiscal year 2014, the ESC had \$207,939 invested in furniture, equipment, textbooks and vehicles. The entire balance is reported in the ESC's governmental activities. The following table compares balances at June 30, 2014 to balances at June 30, 2013.

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

	Governmental Activities	
	2014	2013
Furniture, equipment and textbooks	\$ 205,529	\$ 303,891
Vehicles	2,410	4,339
Total	<u>\$ 207,939</u>	<u>\$ 308,230</u>

The decrease from fiscal year 2013 is due to a depreciation expense of \$102,720. See Note 6 to for additional information regarding the ESC's capital assets.

Debt Administration

At June 30, 2014, the ESC had \$9,940 in capital lease obligations outstanding. Of this total, \$9,154 is due within one year and \$786 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:

	Governmental Activities			Outstanding Balance June 30, 2014
	Outstanding Balance June 30, 2013	Additions	Reductions	
	Capital lease obligation	<u>\$ 18,595</u>	<u>\$ -</u>	

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)

Current Financial Related Activities

Overall, the ESC is strong financially. As the preceding analysis demonstrates, the ESC relies heavily on contracts with local, city, and exempted village school districts in Trumbull County, State foundation revenue, and operating grants. Despite increasing expenses in fiscal year 2014, the overall financial impact of contracts for services provided to Trumbull County districts remained consistent with the prior year due to cost savings implemented by the ESC. Opportunities for new contracts and the ESC's available cash balance will provide the ESC with the necessary funds to meet its operating needs going forward. Under HB153, which was effective for fiscal year 2014, local, city and exempted village school districts were given the option to choose any ESC for services; all of the districts in Trumbull County have signed contracts with the Trumbull County ESC.

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 Average Daily Membership (ADM) of Trumbull County school districts. The continued decline in ADM will directly impact per-pupil funding from the State of Ohio.

Another challenge facing the ESC is the need to provide additional contract services to Trumbull County school districts to offset 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 necessary 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 Simone, Treasurer, Trumbull County ESC, 6000 Youngstown-Warren Road, Niles, Ohio 44446.

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

STATEMENT OF NET POSITION
JUNE 30, 2014

	Governmental Activities
Assets:	
Equity in pooled cash and investments	\$ 6,657,452
Receivables:	
Intergovernmental	1,250,468
Accrued interest	9,864
Prepayments	11,932
Capital assets, net	207,939
Total assets.	8,137,655
Liabilities:	
Accounts payable	8,567
Accrued wages and benefits payable	1,600,803
Pension obligation payable	242,872
Intergovernmental payable.	370,803
Unearned revenue	430
Long-term liabilities:	
Due within one year	79,383
Due in more than one year	782,512
Total liabilities.	3,085,370
Net position:	
Net investment in capital assets	197,999
Restricted for:	
State funded programs	24
Federally funded programs	5,703
Unrestricted	4,848,559
Total net position.	\$ 5,052,285

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, 2014

		Program Revenues		Net (Expense) Revenue and Changes in Net Position Governmental Activities
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	
Governmental activities:				
Instruction:				
Regular	\$ 766,722	\$ 45,806	\$ 396,532	\$ (324,384)
Special	6,659,113	6,762,056	182,712	285,655
Support services:				
Pupil	4,012,056	4,095,839	29,984	113,767
Instructional staff	1,436,493	1,800,411	170,874	534,792
Board of education	70,014	-	-	(70,014)
Administration	1,643,261	1,677,774	-	34,513
Fiscal	339,657	-	-	(339,657)
Business	29,355	-	-	(29,355)
Operations and maintenance	190,929	-	-	(190,929)
Pupil transportation	15,697	-	-	(15,697)
Central	459,281	-	-	(459,281)
Interest and fiscal charges	825	-	-	(825)
Total governmental activities	\$ 15,623,403	\$ 14,381,886	\$ 780,102	\$ (461,415)
 General revenues:				
Grants and entitlements not restricted to specific programs				880,673
Investment earnings				29,559
Increase in fair market value of investments				51,179
Miscellaneous				27,958
Total general revenues				989,369
Change in net position				527,954
Net position at beginning of year				4,524,331
Net position at end of year				\$ 5,052,285

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

	General	Nonmajor Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and investments	\$ 6,640,209	\$ 17,243	\$ 6,657,452
Receivables:			
Intergovernmental	1,226,399	24,069	1,250,468
Accrued interest	9,864	-	9,864
Prepayments	11,932	-	11,932
Total assets.	\$ 7,888,404	\$ 41,312	\$ 7,929,716
Liabilities:			
Accounts payable	\$ 8,567	\$ -	\$ 8,567
Accrued wages and benefits payable	1,573,132	27,671	1,600,803
Compensated absences payable.	20,492	-	20,492
Intergovernmental payable	368,902	1,901	370,803
Unearned revenue.	430	-	430
Pension obligation payable	239,004	3,868	242,872
Total liabilities.	2,210,527	33,440	2,243,967
Deferred inflows of resources:			
Tuition revenue not available	1,207,232	-	1,207,232
Accrued interest not available.	3,172	-	3,172
Intergovernmental revenue not available	-	13,191	13,191
Total deferred inflows of resources	1,210,404	13,191	1,223,595
Fund balances:			
Nonspendable:			
Prepayments	11,932	-	11,932
Restricted:			
Other purposes.	-	5,727	5,727
Committed:			
Other purposes.	-	13,833	13,833
Assigned:			
Student instruction	768	-	768
Student and staff support	49,755	-	49,755
Other purposes.	2,659	-	2,659
Unassigned (deficit).	4,402,359	(24,879)	4,377,480
Total fund balances (deficit)	4,467,473	(5,319)	4,462,154
Total liabilities, deferred inflows of resources, and fund balances	\$ 7,888,404	\$ 41,312	\$ 7,929,716

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2014

Total governmental fund balances		\$	4,462,154
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			207,939
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows of resources in the funds.			
Intergovernmental receivable	1,220,423		
Accrued interest receivable	3,172		
Total	1,223,595		1,223,595
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	(9,940)		
Compensated absences	(831,463)		
Total	(841,403)		(841,403)
Net position of governmental activities		\$	5,052,285

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, 2014

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Tuition	\$ 14,078,806	\$ -	\$ 14,078,806
Earnings on investments	27,496	-	27,496
Increase in fair market value of investments	51,179	-	51,179
Contributions and donations	15,721	60,425	76,146
Contract services	26,018	-	26,018
Other local revenues	12,937	-	12,937
Intergovernmental - state	967,443	491,329	1,458,772
Intergovernmental - federal	13,403	114,984	128,387
Total revenues	<u>15,193,003</u>	<u>666,738</u>	<u>15,859,741</u>
Expenditures:			
Current:			
Instruction:			
Regular	407,448	355,022	762,470
Special	6,557,542	82,727	6,640,269
Support services:			
Pupil	3,996,000	26,022	4,022,022
Instructional staff	1,229,051	161,007	1,390,058
Board of education	70,014	-	70,014
Administration	1,611,514	-	1,611,514
Fiscal	337,851	-	337,851
Business	19,012	-	19,012
Operations and maintenance	190,929	-	190,929
Pupil transportation	15,697	-	15,697
Central	461,947	-	461,947
Debt service:			
Principal retirement	8,655	-	8,655
Interest and fiscal charges	825	-	825
Total expenditures	<u>14,906,485</u>	<u>624,778</u>	<u>15,531,263</u>
Net change in fund balances	286,518	41,960	328,478
Fund balances (deficit) at beginning of year	<u>4,180,955</u>	<u>(47,279)</u>	<u>4,133,676</u>
Fund balances (deficit) at end of year	<u>\$ 4,467,473</u>	<u>\$ (5,319)</u>	<u>\$ 4,462,154</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, 2014

Net change in fund balances - total governmental funds	\$	328,478
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
 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.		
Capital asset additions	\$ 5,441	
Current year depreciation	(102,720)	
Total		(97,279)
 The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net position.		
		(3,012)
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Tuition	276,362	
Earnings on investments	2,063	
Intergovernmental	13,191	
Total		291,616
 Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position.		
		8,655
 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.		
		(504)
Change in net position of governmental activities	\$	527,954

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
JUNE 30, 2014

	Agency
Assets:	
Equity in pooled cash and investments	\$ 2,141,949
Cash in segregated accounts	11,185,275
Receivables:	
Intergovernmental.	73,071
Prepayments	13,455
Total assets.	\$ 13,413,750
Liabilities:	
Accounts payable	\$ 4,883
Intergovernmental payable	2,223,592
Due to others	7,811,275
Claims payable	3,374,000
Total liabilities.	\$ 13,413,750

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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 oversees the ESC's staff who provide services to 29,120 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 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*" and GASB Statement No. 61, "*The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34*". 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 government's 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, 2014

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

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

JOINTLY GOVERNED ORGANIZATIONS

Northeast Ohio Management Information Network (NEOMIN)

NEOMIN is a jointly governed organization among twenty-nine 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 superintendents of the Trumbull and Ashtabula County Educational Service Centers (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 2014 is reported in the basic financial statements as an agency fund.

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, 2014, there were sixteen 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 2014 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

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 plus deferred outflows of resources and liabilities plus deferred inflows of resources 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.

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 position and changes in net position. 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 fund is an agency fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The ESC's agency fund accounts for various resources held for other organizations.

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net position 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

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, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operation of the ESC are included on the statement of net position.

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

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows of resources, liabilities, and deferred inflows of resources 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the ESC must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the ESC on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: tuition, grants, and contract services.

Deferred Inflows of Resources and Deferred Outflows of Resources - A deferred inflow of resources is an acquisition of net position by the ESC that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the ESC that is applicable to a future reporting period.

Property taxes for which there is an enforceable legal claim as of June 30, 2014, but which were levied to finance fiscal year 2015 operations, and other revenues received in advance of the fiscal year for which they were intended to finance, have been recorded as deferred inflows. Grants not received within the available period, and grants and entitlements received before the eligibility requirements are met, are recorded as deferred inflows on the governmental fund financial statements.

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

Unearned Revenue - On the governmental fund financial statements and the statement of net position, unearned revenue is recorded as a liability for amounts resulting from exchange transactions received for services to be provided by the ESC in a future reporting period.

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 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

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 2014, investments were limited to negotiable certificates of deposit, Federal Home Loan Mortgage Corporation (FHLMC) securities, Federal National Mortgage Association (FNMA) securities, Federal Farm Credit Bank (FFCB) securities, and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as nonnegotiable certificates of deposit, are reported at cost.

The ESC has invested funds in STAR Ohio during fiscal year 2014. 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 at which the investment could be sold on June 30, 2014.

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 2014 amounted to \$27,496, which includes \$19,859 assigned from other ESC funds.

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

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

G. Capital Assets

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

**TRUMBULL COUNTY EDUCATIONAL SERVICE CENTER
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

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>	<u>Governmental Activities 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.

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, 2014 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.

**TRUMBULL COUNTY EDUCATIONAL SERVICE CENTER
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

I. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds; however, compensated absences 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. Capital lease obligations are recognized as a liability on the governmental fund financial statements when due.

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 in the general fund.

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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

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 Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component “net investment in capital assets,” consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the ESC or 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 position is available.

L. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the governmental funds balance sheet and on the statement of net position 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 that management 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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

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 2014.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2014, the ESC has implemented GASB Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees".

GASB Statement No. 70 improves the recognition, measurement, and disclosures for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The implementation of GASB Statement No. 70 did not have an effect on the financial statements of the ESC.

B. Deficit Fund Balances

Fund balances at June 30, 2014 included the following individual fund deficits:

<u>Nonmajor governmental funds</u>	<u>Deficit</u>
Alternative Schools	\$ 5,128
Public School Preschool	19,203
Race to the Top	12
IDEA Part B	173
Miscellaneous State Grants	363

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.

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

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

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the ESC and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, 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 \$100 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, \$11,185,275 was on deposit in the account the ESC maintains as fiscal agent for the Trumbull County Employee Insurance Benefits Consortium (See Note 10.B.) and is included on the fiduciary statement of net position 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 carrying amount of the ESC's deposits or the total amount of "Deposits with Financial Institutions", as reported below.

C. Deposits with Financial Institutions

At June 30, 2014, the carrying amount of all ESC deposits was \$1,858,878 including \$647,653 in a Conservative Deposit Account. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2014, \$1,699,543 of the ESC's bank balance of \$1,949,543 was exposed to custodial risk as discussed below, while \$250,000 was covered by the FDIC.

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.

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

D. Investments

As of June 30, 2014, 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
FHLMC 3134G3NT3 1%	\$ 500,855	\$ -	\$ -	\$ -	\$ -	\$ 500,855
FHLMC 3137EADQ9 5%	1,000,430	-	-	-	1,000,430	-
FNMA 3135G0WJ8 .875%	983,220	-	-	-	-	983,220
FNMA 3136G1SE0 1.85%	501,205	501,205	-	-	-	-
FFCB 3133ECLP7 0.3%	1,001,020	-	-	1,001,020	-	-
FFCB 3133ECVR2 .35%	500,920	-	-	500,920	-	-
FFCB 3133ECMM3 0.6%	997,380	-	-	-	-	997,380
CD Northpointe Bank 1%	250,000	-	-	-	250,000	-
CD United Bank of Michigan 1%	250,000	-	-	250,000	-	-
CD Huntington National Bank .5%	250,000	250,000	-	-	-	-
CD Bank of Holland Michigan .5%	250,000	-	250,000	-	-	-
CD Talmer West Bank .35%	150,000	150,000	-	-	-	-
CD Discover Bank .3%	250,000	-	-	250,000	-	-
STAR Ohio	55,393	55,393	-	-	-	-
Total	\$ 6,940,423	\$ 956,598	\$ 250,000	\$ 2,001,940	\$ 1,250,430	\$ 2,481,455

The weighted average maturity of investments is 1.81 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 AA+ and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAm money market rating. The ESC's negotiable certificates of deposit were not rated.

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 negotiable certificates of deposit are covered by federal deposit insurance and are not exposed to custodial credit risk. 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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, 2014:

<u>Investment Type</u>	<u>Fair Value</u>	<u>% of Total</u>
FHLMC 3134G3NT3 1%	\$ 500,855	7.22
FHLMC 3137EADQ9 .5%	1,000,430	14.41
FNMA 3135G0WJ8 .875%	983,220	14.17
FNMA 3136G1SE0 1.85%	501,205	7.23
FFCB (Due in 13 to 18 Months)	1,501,940	21.64
FFCB (Due in Greater than 24 Months)	997,380	14.37
CD Northpointe Bank 1%	250,000	3.60
CD United Bank of Michigan 1%	250,000	3.60
CD Huntington National Bank	250,000	3.60
CD Bank of Holland Michigan .5%	250,000	3.60
CD Talmer West Bank	150,000	2.16
CD Discover Bank .3%	250,000	3.60
STAR Ohio	55,393	0.80
Total	<u>\$ 6,940,423</u>	<u>100.00</u>

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

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 position as of June 30, 2014:

Cash and investments per note

Carrying amount of deposits	\$ 1,858,878
Cash in segregated accounts	11,185,275
Investments	6,940,423
Cash on hand	100
Total	<u>\$ 19,984,676</u>

Cash and investments per statement of net position

Governmental activities	\$ 6,657,452
Agency fund	13,327,224
Total	<u>\$ 19,984,676</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 5 - RECEIVABLES

Receivables at June 30, 2014 consisted of intergovernmental, including billings to districts for user charged services, and accrued interest. All receivables are considered collectible in full. A summary of the principal items of receivables reported on the statement of net position follows:

Governmental activities:

Intergovernmental	\$ 1,250,468
Accrued interest	<u>9,864</u>
Total	<u>\$ 1,260,332</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, 2014, was as follows:

	Balance June 30, 2013	Additions	Disposals	Balance June 30, 2014
<i>Capital assets, being depreciated:</i>				
Furniture, equipment and textbooks	\$ 1,229,835	\$ 5,441	\$ (36,320)	\$ 1,198,956
Vehicles	<u>13,500</u>	<u>-</u>	<u>-</u>	<u>13,500</u>
Total capital assets, being depreciated	<u>1,243,335</u>	<u>5,441</u>	<u>(36,320)</u>	<u>1,212,456</u>
<i>Less: accumulated depreciation</i>				
Furniture, equipment and textbooks	(925,944)	(100,791)	33,308	(993,427)
Vehicles	<u>(9,161)</u>	<u>(1,929)</u>	<u>-</u>	<u>(11,090)</u>
Total accumulated depreciation	<u>(935,105)</u>	<u>(102,720)</u>	<u>33,308</u>	<u>(1,004,517)</u>
Governmental activities capital assets, net	<u>\$ 308,230</u>	<u>\$ (97,279)</u>	<u>\$ (3,012)</u>	<u>\$ 207,939</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 6,575
Special	16,828

Support services:

Pupil	6,576
Instructional staff	43,348
Administration	19,055
Fiscal	33
Business	10,175
Central	<u>130</u>
Total depreciation expense	<u>\$ 102,720</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 7 - CAPITAL LEASES - LESSEE DISCLOSURE

During fiscal year 2011, the ESC entered into a capitalized lease for copier equipment. The lease agreement meets the criteria to be reported as a capital lease. 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, 2014 was \$32,297, leaving a current book value of \$8,934. A corresponding liability was recorded in the government-wide financial statements. Principal payments in the 2014 fiscal year totaled \$8,655 and were 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, 2014:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2015	\$ 9,480
2016	<u>790</u>
Total minimum lease payments	10,270
Less amount representing interest	<u>(330)</u>
Total	<u>\$ 9,940</u>

NOTE 8 - LONG-TERM OBLIGATIONS

During the fiscal year 2014, the following changes occurred in governmental activities long-term obligations:

	<u>Balance Outstanding June 30, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding June 30, 2014</u>	<u>Amounts Due in One Year</u>
Capital lease	\$ 18,595	\$ -	\$ (8,655)	\$ 9,940	\$ 9,154
Compensated absences	<u>876,633</u>	<u>121,450</u>	<u>(146,128)</u>	<u>851,955</u>	<u>70,229</u>
Total	<u>\$ 895,228</u>	<u>\$ 121,450</u>	<u>\$ (154,783)</u>	<u>\$ 861,895</u>	<u>\$ 79,383</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).

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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 2014, 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.

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

The types and amounts of coverage provided by 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.

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

Premiums are as follows:

Plan	Single	Family
Medical Mutual PPO Plan 1	\$ 531.36	\$ 1,382.05
Medical Mutual PPO Plan 2	476.89	1,240.84
Medical Mutual PPO Plan 3	422.44	1,099.64
Dental - Classified and Certified	27.87	87.24
Dental - Administrators, Technology, NEOMIN	25.08	78.51
Life (\$50,000 coverage)	4.75	

The ESC pays 90% of medical premiums for classified and certified employees enrolled in PPO Plans 1 and 2. For classified and certified employees enrolled in PPO Plan 3, the ESC pays 100% of the cost of premiums. The ESC pays 100% of dental and life premiums 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 Ohio Bureau of Workers' Compensation 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.

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 "Employers/Audit Resources".

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 2014, 13.05 percent and 0.05 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 14 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, 2014, 2013 and 2012 were \$421,443, \$412,134 and \$400,732, respectively; 100 percent has been contributed for fiscal years 2014 2013 and 2012.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 11 - PENSION PLANS - (Continued)

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 2014, plan members were required to contribute 11 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 14 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The ESC's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2014, 2013 and 2012 were \$983,030, \$1,003,180 and \$999,616, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012. Contributions to the DC and Combined Plans for fiscal year 2014 were \$40,546 made by the ESC and \$31,858 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, 2014 certain members of the Governing Board have elected Social Security. The ESC's liability is 6.2 percent of wages paid.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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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 Section 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 monthly premium for calendar year 2014 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income and the 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 "Employers/Audit Resources".

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 2014, 0.14 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 2014, the actuarially determined amount was \$20,250.

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, 2014, 2013 and 2012 were \$48,786, \$44,294 and \$57,150, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2014, 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, 2014, 2013, and 2012 were \$23,807, \$23,281 and \$23,665, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

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 2014, 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, 2014, 2013 and 2012 were \$75,618, \$77,168 and \$76,894, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 14 - STATE FUNDING - (Continued)

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 Encumbrances</u>
General fund	\$ 50,523
Total	<u>\$ 50,523</u>

SUPPLEMENTARY INFORMATION

**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, 2014

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Tuition.	\$ 14,950,299	\$ 15,088,394	\$ 14,570,513	\$ (517,881)
Earnings on investments	24,771	25,000	25,490	490
Extracurricular.	99	100	700	600
Contributions and donations	9,908	10,000	15,721	5,721
Contract services.	24,771	25,000	25,198	198
Other local revenues	15,110	15,250	25,640	10,390
Intergovernmental - state	872,241	880,298	967,443	87,145
Total revenues.	<u>15,897,200</u>	<u>16,044,042</u>	<u>15,630,705</u>	<u>(413,337)</u>
Expenditures:				
Current:				
Instruction:				
Regular	345,512	413,554	394,524	19,030
Special.	7,088,091	7,126,453	6,529,491	596,962
Support services:				
Pupil.	4,268,838	4,318,121	4,002,711	315,410
Instructional staff	1,388,419	1,411,452	1,320,364	91,088
Board of education	104,858	106,037	69,501	36,536
Administration.	1,770,571	1,867,034	1,643,042	223,992
Fiscal	403,859	403,741	340,614	63,127
Business	38,420	37,041	28,527	8,514
Operations and maintenance	269,508	243,183	190,901	52,282
Pupil transportation	20,161	20,456	15,697	4,759
Central.	482,214	491,452	448,104	43,348
Facilities acquisition and construction	11,267	11,400	10,000	1,400
Total expenditures	<u>16,191,717</u>	<u>16,449,924</u>	<u>14,993,476</u>	<u>1,456,448</u>
Excess (deficiency) of revenues over (under) expenditures.	<u>(294,517)</u>	<u>(405,882)</u>	<u>637,229</u>	<u>1,043,111</u>
Other financing sources (uses):				
Refund of prior year's expenditures	-	-	48,069	48,069
Refund of prior year's receipts.	(494,148)	(500,000)	(365,186)	134,814
Total other financing sources (uses)	<u>(494,148)</u>	<u>(500,000)</u>	<u>(317,117)</u>	<u>182,883</u>
Net change in fund balance	(788,665)	(905,882)	320,112	1,225,994
Fund balance at beginning of year	6,279,908	6,279,908	6,279,908	-
Prior year encumbrances appropriated	1,315	1,315	1,315	-
Fund balance at end of year	<u>\$ 5,492,558</u>	<u>\$ 5,375,341</u>	<u>\$ 6,601,335</u>	<u>\$ 1,225,994</u>

SEE ACCOMPANYING NOTE TO THE SUPPLEMENTARY INFORMATION

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

**NOTE TO THE SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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 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	\$ 320,112
Net adjustment for revenue accruals	(437,702)
Net adjustment for expenditure accruals	36,174
Net adjustment for other financing sources and uses	317,117
Adjustment for encumbrances	<u>50,817</u>
GAAP basis	<u>\$ 286,518</u>

Certain funds that are budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. These include the rotary fund. No adjustment is required to reconcile the activity of the rotary fund for the fiscal year ended June 30, 2014.



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S 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 Rd.
Niles, Ohio 44446

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Trumbull County Educational Service Center, Trumbull County, (the Center) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements and have issued our report thereon dated May 4, 2015.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Center's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Center's internal control. Accordingly, we have not opined on it.

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 a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Center's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the Center'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, opining 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*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Center's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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
Columbus, Ohio

May 4, 2015



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
MAY 26, 2015