DELAWARE-UNION EDUCATIONAL SERVICE CENTER
DELAWARE COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 1999

JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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REPORT OF INDEPENDENT ACCOUNTANTS

Board of Education
Delaware-Union Educational Service Center
4565 Columbus Pike
Delaware, Ohio 43015

To the Board of Education:

We have audited the accompanying general purpose financial statements of the Delaware-Union Educational Service Center, Delaware County, Ohio, (the Center) as of and for the year ended June 30, 1999, as listed in the table of contents. These general purpose financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Center, as of June 30, 1999, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2000, 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 grants.

JIM PETRO
Auditor of State

January 12, 2000

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COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1999

	Governmental Fund Types		Account Groups		
	General	Special Revenue	General Fixed Assets	General Long-Term Obligations	Total (Memorandum Only)
ASSETS AND OTHER DEBITS					
ASSETS:					
Equity in pooled cash, cash equivalents and investments	$1,303,053	$131,988			$1,435,041
Accounts	130,708	42			130,750
Accrued interest	9,088				9,088
Prepayments	4,634	278			4,912
Property, plant and equipment			303,782		303,782
OTHER DEBITS:					
Amount to be provided for retirement of General Long-Term Obligations				53,120	53,120
Total assets and other debits	$1,447,483	$132,308	$303,782	$53,120	$1,936,693

The notes to the financial statements are an integral part of this statement.

--Continued

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1999

	Governmental Fund Types		Account Groups		
	General	Special Revenue	General Fixed Assets	General Long-Term Obligations	Total (Memorandum Only)
LIABILITIES, EQUITY AND OTHER CREDITS					
LIABILITIES:					
Accounts payable	$392	$1,680			$2,072
Accrued wages and benefits	295,762	1,820			297,582
Compensated absences payable	47,171	2,400		40,312	89,883
Pension obligation payable	6,488				6,488
Deferred revenue	9,088	154			9,242
Obligation under capital lease				12,808	12,808
Total liabilities	358,901	6,054		53,120	418,075
EQUITY AND OTHER CREDITS:					
Investment in general fixed assets			303,782		303,782
Fund balances:					
Reserved for encumbrances	18,847	42,508			61,355
Reserved for prepayments	4,634	278			4,912
Unreserved-undesignated	1,065,101	83,468			1,148,569
Total equity and other credits	1,088,582	126,254	303,782		1,518,618
Total liabilities, equity and other credits	$1,447,483	$132,308	$303,782	$53,120	$1,936,693

The notes to the financial statements are an integral part of this statement.

COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1999

	Governmental Fund Type		
	General	**Special Revenue**	**Total (Memorandum Only)**
Revenues:			
From local sources:			
Tuition	$350,792		$350,792
Earnings on investments	69,800		69,800
Other local revenues	277,146	10,910	288,056
Other revenue	181,651		181,651
Intergovernmental - State	2,842,988	74,589	2,917,577
Intergovernmental - Federal		249,900	249,900
Total revenue	3,722,377	335,399	4,057,776
Expenditures:			
Current:			
Instruction:			
Regular	64,791		64,791
Special	1,316,813		1,316,813
Support services:			
Pupil	1,161,057		1,161,057
Instructional staff	25,725	63,971	89,696
Board of Education	26,874		26,874
Administration	748,015	225,705	973,720
Fiscal	112,570	7,300	119,870
Operations and maintenance	65,892		65,892
Central	137,507	3,500	141,007
Community services		541	541
Capital outlay	13,488		13,488
Debt service:			
Principal retirement	680		680
Interest and fiscal charges	504		504
Total expenditures	3,673,916	301,017	3,974,933
Excess of revenues over expenditures	48,461	34,382	82,843
Other financing sources:			
Proceeds of capital lease transaction	13,488		13,488
Proceeds from sale of assets	700		700
Total other financing sources	14,188		14,188
Excess of revenues and other financing sources over expenditures	62,649	34,382	97,031
Fund balance at Beginning of Year	1,025,933	91,872	1,117,805
Fund balance at End of Year	$1,088,582	$126,254	$1,214,836

The notes to the financial statements are an integral part of this statement.

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COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1999

	General Fund			Special Revenue		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:						
From local sources:						
Tuition	$297,000	$276,684	($20,316)			
Earnings on investments	45,000	85,251	40,251			
Other local revenues	1,515,452	307,020	(1,208,432)	7,000	6,555	($445)
Other revenue		159,811	159,811			
Intergovernmental - State	1,393,384	2,842,988	1,449,604	74,000	74,589	589
Intergovernmental - Federal				147,000	294,000	147,000
Total revenues	3,250,836	3,671,754	420,918	228,000	375,144	147,144
Expenditures:						
Current:						
Instruction:						
Regular	75,529	64,656	10,873			
Special	1,334,990	1,290,356	44,634			
Pupil	1,215,575	1,158,498	57,077			
Instructional staff	33,000	29,585	3,415	89,981	78,198	11,783
Board of Education	33,392	28,744	4,648			
Administration	749,884	730,480	19,404	308,801	240,508	68,293
Fiscal	111,178	106,969	4,209	22,500	22,500	
Operations and maintenance	69,204	68,568	636			
Central	153,638	139,782	13,856	3,500	3,500	
Total expenditures	3,776,390	3,617,638	158,752	424,782	344,706	80,076
Excess (deficiency) of revenues over (under) expenditures	(525,554)	54,116	579,670	(196,782)	30,438	227,220
Other financing sources:						
Refund of prior year's expenditures		21,840	21,840			
Proceeds of sale of fixed assets		700	700			
Total other financing sources		22,540	22,540			
Excess (deficiency) of revenues and other financing sources over (under) expenditures	(525,554)	76,656	602,210	(196,782)	30,438	227,220
Fund balance, July 1	1,194,547	1,194,547		40,278	40,278	
Prior year encumbrances appropriated	18,260	18,260		14,845	14,845	
Fund balance, June 30	$687,253	$1,289,463	$602,210	($141,659)	$85,561	$227,220

The notes to the financial statements are an integral part of this statement

Total (Memorandum only)		
Budget Revised	Actual	Variance: Favorable (Unfavorable)
$297,000	$276,684	($20,316)
45,000	85,251	40,251
1,522,452	313,575	(1,208,877)
	159,811	159,811
1,467,384	2,917,577	1,450,193
147,000	294,000	147,000
3,478,836	4,046,898	568,062
75,529	64,656	10,873
1,334,990	1,290,356	44,634
1,215,575	1,158,498	57,077
122,981	107,783	15,198
33,392	28,744	4,648
1,058,685	970,988	87,697
133,678	129,469	4,209
69,204	68,568	636
157,138	143,282	13,856
4,201,172	3,962,344	238,828
(722,336)	84,554	806,890
	21,840	21,840
	700	700
	22,540	22,540
(722,336)	107,094	829,430
1,234,825	1,234,825	
33,105	33,105	
$545,594	$1,375,024	$829,430

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1. DESCRIPTION OF THE ENTITY

The Delaware-Union Educational Service Center (the "Educational Service Center" or "ESC") is located in Delaware, Ohio. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Fairbanks, North Union, Olentangy, Buckeye Valley, and Big Walnut Local School Districts, as well as the Delaware Joint Vocational School District. The Delaware City School District is served on a limited basis in the area of handicapped students. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Delaware-Union Educational Service Center operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The Educational Service Center has 30 support staff employees, 59 certified teaching personnel, and five administrative personnel that provide services to the local, city, and joint vocational school districts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the ESC have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The ESC's significant accounting policies are described below.

A. The Reporting Entity

The reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the ESC. For the ESC, this includes general operations and student related activities.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. The Reporting Entity (Continued)

Jointly Governed Organizations

Tri-Rivers Educational Computer Association (TRECA)
TRECA is a jointly governed organization among 21 school districts. TRECA was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to the administrative and instructional functions of member districts. Each of the governments of these schools supports TRECA based upon a per pupil charge dependent upon the software package utilized. TRECA is governed by a board of directors consisting of superintendents of the member school districts. Financial information can be obtained from Mike Carder, who serves as director, at 2222 Marion/Mt. Gilead Road, Marion, Ohio 43302.

Delaware Joint Vocational School
The Delaware Joint Vocational School (the "JVS") is a district political subdivision of the State of Ohio operated under the direction of a Board consisting of two representatives from each of the participating School District's elected boards and one representative from the Delaware-Union Educational Service Center. The JVS possesses its own budgeting and taxing authority. Financial information can be obtained from the Delaware Joint Vocational School, at 4505 Columbus Pike, Delaware, Ohio 43015.

Tri Rivers Joint Vocational School
The Tri Rivers Joint Vocational School (the "JVS") is a district political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the participating School District's elected boards and one representative from the Delaware-Union Educational Service Center. The JVS possesses its own budgeting and taxing authority. Financial information can be obtained from the Tri Rivers Joint Vocational School, at 2222 Marion/Mt. Gilead Road, Marion, Ohio 43302.

The ESC also participates in a group purchasing pool for insurance, described in Note 13.

B. Fund Accounting

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

***Governmental Funds*:**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting (Continued)

General Fund

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

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Account Groups:

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

General Fixed Assets Account Group

This group of accounts is established to account for all fixed assets of the ESC.

General Long-Term Obligations Account Group

This group of accounts is established to account for all long-term obligations of the ESC

C. Measurement Focus/Basis of Accounting

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

The modified accrual basis of accounting is followed for Governmental funds. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, which for the ESC is sixty days after the June 30 year-end. Revenues accrued at the end of the year include interest, tuition, grants and entitlements (to the extent they are intended to finance the current fiscal year), and accounts.

Expenditures (decreases in net financial resources) are recognized in the period in which the fund liability is incurred with the following exception: the costs of accumulated unpaid vacation and sick leave are reported as expenditures in the period in which they will be liquidated with available financial resources rather than in the period earned by employees. Allocations of cost, such as depreciation and amortization, are not recognized in Governmental funds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process

An Educational Service Center is required by Section 3317.11 of the Ohio Revised Code to submit an annual budget of operating expenses to the State Board of Education for approval.

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

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

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

Part (B) of the budget is provided by the school districts to which the ESC provides services and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by $6.50. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the school district's served by the ESC by $34. This amount is provided from State Resources

If additional funding is needed for the ESC, and if a majority of the Boards of Education of the school districts served by the ESC approve, the cost of Part (B) of the budget can be increased. The portion that is in excess of the original funding calculation is shared by all of the school districts served by the ESC through additional reductions in their resources provided through the State Foundation Program. The State Board of Education initiates and supervises the procedure under which the school districts approve or disapprove the additional apportionment.

Appropriations:

The annual appropriation resolution is legally enacted by the ESC's Governing Board at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the ESC may pass a temporary appropriation measure to meet the ordinary expenses of the ESC. The appropriation resolution, by fund, must be within the estimated resources, and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within the fund, or alter object appropriations within functions, must be approved by the ESC's Governing Board.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process (Continued)

Appropriations: (Continued)

The ESC's Governing Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions. All supplemental appropriations were legally enacted by the Governing Board during fiscal 1999 in the following amounts:

	Increase
General Fund	$298,427
Special Revenue Funds	61,638
Total, All Funds	$360,065

Unencumbered appropriations revert to the respective fund from which it was appropriated and becomes subject to future appropriations. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund, function and/or object level.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control in the appropriated Governmental and Fiduciary funds. Encumbrances outstanding at year-end are reported as reservations of fund balance for subsequent year expenditures on the modified accrual basis of accounting (Exhibit 1), compared to encumbrances outstanding at year-end reported as expenditures on the budget basis of accounting (Exhibit 3). Note 11 provides a reconciliation of the budgetary and GAAP basis of accounting.

E. Cash and Investments

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

During 1999, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), repurchase agreements and Federal Agency Securities.

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

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 1999.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Cash and Investments (Continued)

Calculation of the Net Decrease in the Fair Value of Investments - Aggregate Method

Fair value at June 30, 1999	$ 693,813
Add: Proceeds of investments sold and matured during fiscal 1999	200,000
Less: Cost of investments purchased during fiscal 1999	(699,962)
Less: Fair value at June 30, 1998	(200,500)
Change in fair value of investments	$ (6,649)

Under existing Ohio statutes all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the General fund during fiscal 1999 totaled $69,800, which included $4,822 assigned from other funds of the ESC.

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

F. Fixed Assets and Depreciation

General Fixed Assets Account Group

General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year in the General Fixed Assets Account Group. Donated fixed assets are recorded at their fair market values as of the date donated. The ESC follows the policy of not capitalizing assets with a cost of less than $500 and a useful life of less than three years. No depreciation is recognized for assets in the General Fixed Assets Account Group. The ESC has no infrastructure.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Improvements are capitalized over the remaining useful lives of the related fixed assets. Assets in the general fixed assets account group are depreciated (for informational purposes only; no expense is recognized). Depreciation of furniture, fixtures and equipment is computed using the straight-line method over an estimated useful life of five to twenty years.

G. Intergovernmental Revenues

In Governmental Funds, entitlements and non-reimbursable grants (to the extent such grants and entitlements relate to the current fiscal year) are recorded as receivables and revenue when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. The ESC currently participates in various state and federal programs categorized as follows:

<u>Entitlements</u>

<u>General Fund</u>
State Foundation Program

<u>Non-Reimbursable Grants</u>

<u>Special Revenue</u>
Management Information Systems
Title I
Eisenhower Professional

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Intergovernmental Revenues (Continued)

Grants and entitlements amounted to over 78% of the ESC's operating revenue during the 1999 fiscal year.

H. Prepaids

Prepayments for Governmental funds represent cash disbursements which have occurred and are therefore not current expendable resources. These items are reported as fund assets on the balance sheet using the allocation method, which amortizes their cost over the periods benefitting from the advance payment. At period-end, because prepayments are not available to finance future Governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset.

I. Compensated Absences

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

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 <u>or</u> other means, such as cash payment at termination or retirement. A liability for vacation has been recorded for all eligible employees with more than one year of service. A liability for sick leave is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age fifty (50) or greater with at least fifteen (15) years of service were considered expected 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 the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute and/or the ESC’s termination policy, plus any applicable additional salary related payments. Support (non-teaching) staff earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to support staff upon termination of employment. Teachers do not earn vacation time. Teachers and support staff earn sick leave at the rate of one and one-fourth days per moth. Sick leave may be accumulated up to a maximum of 210 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 30 days for all employees except the Superintendent and Treasurer who may each be paid for a maximum of 52.5 days.

Accumulated vacation and sick leave of Governmental Fund Type employees meeting the above requirements have been recorded in the appropriate Governmental fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The balance of the liability is recorded in the General Long-Term Obligations Account Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Long-Term Obligations

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

K. Fund Equity

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

L. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed.

Nonrecurring or non routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

M. Estimates

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

N. Memorandum Only - Total Columns

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

3. CHANGE IN FINANCIAL STATEMENT PRESENTATION

Change in Accounting Principle

In fiscal 1999, the ESC implemented GASB Statement No. 32, *Accounting and Financial Reporting For Internal Revenue Code Section 457 Deferred Compensation Plans*. Recent changes in the Internal Revenue Code require that deferred compensation plan assets be placed in trust for the exclusive benefit of employees and their beneficiaries by no later than January 1, 1999. Statement No. 32 provides that, upon the transfer of deferred compensation assets to such a trust, the employer is no longer considered the owner of the amounts deferred by employees under the deferred compensation plan. During fiscal 1999, the Ohio Public Employees Deferred Compensation Plan placed assets in trust to comply with the above requirements, and accordingly, plan assets which totaled $426 as of June 30, 1999 have been excluded from the ESC's financial statements.

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

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

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

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

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

2. Bonds, Notes, Debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

4. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

4. Bonds and other obligations of the State of Ohio;

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

6. The State Treasurer's investment pool (STAR Ohio);

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and,

8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

Deposits: At year-end the carrying amount of the ESC's deposits was $(365,242) and the bank balance was $33,004 (both exclusive of payroll clearance accounts). The entire bank balance was covered by federal deposit insurance.

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

4. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

	Category of Risk 2	Category of Risk 3	Carrying Value	Fair Value
Federal Agency Securities	$693,813		$ 693,813	$ 693,813
Repurchase Agreement		340,000	340,000	340,000
Not subject to Categorization:				
Investment in State Treasurer's Investment Pool			766,470	766,470
Total Investments			$1,800,283	$1,800,283

The classification of cash and cash equivalents and investments on the combined balance sheet is based on criteria set forth in GASB Statement No. 9 entitled, *Reporting Cash Flows of Proprietary and NonExpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting.*

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

	Cash and Cash Equivalents	Investments
GASB Statement No. 9	$1,435,041	
Investments of the Cash Management Pool:		
State Treasurer's Investment Pool	(766,470)	$ 766,470
Repurchase Agreement	(340,000)	340,000
Federal Agency Securities	(693,813)	693,813
GASB Statement No. 3	$ (365,242)	$1,800,283

5. RECEIVABLES

Receivables at June 30, 1999 consisted of accounts (tuition) and investment earnings. All receivables are considered collectible in full. A summary of the principal items of receivables follows:

	Amounts
General Fund	
Accounts	$130,708
Accrued Interest	9,088

6. FIXED ASSETS

A summary of the changes in the General Fixed Asset Account Group during the fiscal year follows:

	Balance July 1, 1998	Additions	Deletions	Balance June 30, 1999
Furniture/ Equipment	$283,371	$40,030	$(19,619)	$303,782
Total	$283,371	$40,030	$(19,619)	$303,782

7. CAPITALIZED LEASES - LESSEE DISCLOSURE

In the current fiscal year, the ESC entered into a capital lease for a copier. This new lease is accounted for as a capital outlay expenditure and other financing source in the General fund.

The terms of the agreement provide on option to purchase the equipment. The lease meets the criteria of a capital lease as defined by Statement No. 13 of the Financial Accounting Standards Board, *Accounting for Leases,* which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service in the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances for Governmental Fund Types and Expendable Trust Funds.

These expenditures are reflected as program/function expenditures on a budgetary basis. General fixed assets acquired by lease have been capitalized in the General Fixed Assets Account Group in an amount equal to the present value of the future minimum lease payments as of the date of their inception. A corresponding liability was recorded in the General Long-Term Obligations Account Group. Principal payments in the 1999 fiscal year totaled $680. This amount is reflected as debt service principal retirement in the General fund.

The following is an analysis of equipment acquired by capital lease as of June 30, 1999:

	GFAAG
Equipment (copiers)	$13,488
Carrying Value	$13,488

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 1999.

	General Long-Term Obligations
June 30 Year Ending	Copiers
2000	$ 3,554
2001	3,554
2002	3,554
2003	3,554
2004	2,370
Total Future Minimum Lease Payments	16,586
Less: Amount Representing Interest	(3,778)
Present Value of Future Minimum Lease Payments	$12,808

8. LONG-TERM OBLIGATIONS

During the year ended June 30, 1999, the following changes occurred in liabilities reported in the General Long-Term Obligations Account Group. Compensated absences will ultimately be paid from the fund from which the employee is paid.

	Balance July 1, 1998	Increase	Decrease	Balance June 30, 1999
Compensated Absences	$46,975	$48,447	$(55,110)	$40,312
Capital Lease		13,488	(680)	12,808
Total	$46,975	$61,935	$(55,790)	$53,120

9. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The ESC contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the ESC is required to contribute 14 percent for 1999; 9.02 percent was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by the School Employees Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The ESC's required contributions for pension obligations to SERS for the fiscal years ended June 30, 1999, 1998, and 1997 were $71,730, $65,394, and $54,711, respectively; 100 percent has been contributed for each year.

B. State Teachers Retirement System

The ESC contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

9. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

Plan members are required to contribute 9.3 percent of their annual covered salary and the ESC is required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The ESC's required contributions for pension obligations to STRS for the fiscal years ended June 30, 1999, 1998, and 1997 were $392,014, $275,279, and $245,548, respectively; 100 percent has been contributed for each year.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 1999, members of the Governing Board have elected Social Security. The Board's liability is 6.2 percent of wages paid.

10. POSTEMPLOYMENT BENEFITS

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

For STRS, all benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. Through June 30, 1998, the board allocated employer contributions equal to 3.5 percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. Beginning July 1, 1998 this allocation was increased to 8 percent. For the ESC, this amount equaled $224,008 during the 1999 fiscal year. As of July 1, 1998 eligible benefit recipients totaled 91,999. For the fiscal year ended June 30, 1998 net health care costs paid by STRS were $219,224,000.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability, and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 4.98 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 1999, the minimum pay has been established at $12,400. For the ESC, the amount to fund health care benefits, including surcharge, equaled $32,594 during the 1999 fiscal year. The number of participants currently receiving health care benefits is 50,000. For the fiscal year ended June 30, 1998, net health care costs paid by SERS were $111,900,575.

11. BUDGETARY BASIS OF ACCOUNTING

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

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

(a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);

(b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

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

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

Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses

Governmental Fund Types

	General	Special Revenue
Budget Basis	$76,656	$ 30,438
Net Adjustment for Revenue Accruals	50,623	(39,745)
Net Adjustment for Expenditure Accruals	(75,517)	(499)
Net Adjustment for Other Financing Sources (Uses)	(8,352)	
Encumbrances (Budget Basis)	19,239	44,188
GAAP Basis	$62,649	$ 34,382

12. CONTINGENCIES

A. Grants

The ESC receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General fund or other applicable funds. However in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the ESC at June 30, 1999.

B. Litigation

The ESC is currently not party to any legal proceedings.

C. School Funding Decision

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in that system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to this ESC. During the fiscal year ended June 30, 1999, the ESC received $2,914,681 of school foundation support in total (all funds) support.

Since the Supreme Court ruling, numerous pieces of legislations have been passed by the State legislature in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State has appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. As of June 30, 1999, the Ohio Supreme Court has not rendered an opinion on this issue. The decision of the Court of Common Pleas in Perry County has been stayed by the Ohio Supreme Court, and, as such, school districts still operating under the laws that the Common Pleas Court declared unconstitutional.

As of the date of these financial statements, the ESC is unable to determine what effect, if any, this ongoing litigation will have on its future State funding under this program and on its financial operations.

13. RISK MANAGEMENT

The ESC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The ESC carries commercial insurance for all risks of loss, including general liability and employee health and accident insurance. During fiscal year 1999, the Education Service Center contracted with Nationwide Insurance for property and liability insurance. Coverages are as follows:

Building Contents-replacement cost ($250 deductible)	$ 233,900
General Liability Per occurrence	1,000,000
Total per year	3,000,000

13. RISK MANAGEMENT (Continued)

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant change in coverage from the previous fiscal year.

The ESC pays the State Bureau of Worker's Compensation a premium based on a rate of $.005625 per $100 of salaries. This rate is calculated based on claims history and administrative costs.

OSBA Worker's Compensation Group Rating

In fiscal 1997, the ESC joined the OSBA Worker's Compensation Group Rating Program (GRP), an insurance purchasing pool which was established in April, 1991. The program was created by the Ohio School Boards Association as a result of the Workers' Compensation group rating plan as defined in Section 4123.29, Ohio Revised Code. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participants pay an enrollment fee to the GRP to cover the costs of administering the program. The GRP allows participating school districts to potentially achieve a lower premium rate than they may otherwise be assessed as individual employers.

14. YEAR 2000 ISSUE

The Year 2000 issue is the result of shortcomings in many electronic data processing systems and other equipment that may adversely affect the ESC's operations as early as fiscal year 1999.

The ESC has completed an inventory of computer systems and other equipment necessary to conducting ESC operations and has identified such systems as being financial reporting, payroll and employee benefits, and educational statistics reporting (through the State's Education Management and Information System [EMIS]).

The ESC uses the State of Ohio Uniform School Accounting System software for its financial reporting, the State of Ohio Uniform School Payroll System software for its payroll and employee benefits and the State of Ohio Equipment Inventory System for its fixed assets accounting. The State is responsible for remediating these systems.

A letter dated February 19, 1998, from the Ohio Department of Education, Division of Information Management Services, State Software Development Team, addressed to All Users of the OECN State Software and Interested Parties, provided the following concerning the status of the OECN State Software in regards to the compliance requirements for the Year 2000.

- The payroll processing software supported with the OECN State Software is compliant with the Year 2000 beginning with the September 1997 release of USPS V4.0.

- The accounting software supported with the OECN State Software will be compliant with the Year 2000, beginning with the June 1998 release of USAS V6.1.

- The education management information system software supported with the OECN State Software will be compliant with the Year 2000 beginning with the September 1998 release of EMIS V1.7.

14. YEAR 2000 ISSUE (Continued)

The State of Ohio distributes a substantial sum of money to the ESC in the form of basic state aid "school foundation" and federal and state grant payments. Further, the State processes a significant amount of financial and non-financial information about the ESC through EMIS. The State is responsible for remediating these systems.

To the best of management's knowledge and belief, as of January 12, 2000, the government experienced no significant interruption of mission-critical operations or services related to the Year 2000 Issue. However, because of the unprecedented nature of the Year 2000 Issue, matters may yet arise, and parties with whom the ESC does business may also experience Year 2000 readiness issues that are as yet, unknown.

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY
GOVERNMENT AUDITING STANDARDS

Board of Education
Delaware-Union Educational Service Center
Delaware County
4565 Columbus Pike
Delaware, Ohio 43015

To the Board of Education:

We have audited the general purpose financial statements of Delaware-Union Educational Service Center, Delaware County, Ohio, (the Center) as of and for the year ended June 30, 1999, and have issued our report thereon dated January 12, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the District in a separate letter dated January 12, 2000.

This report is intended for the information and use of management and the Board of Education, and is not intended to be and should not be used by anyone other than these specified parties.

JIM PETRO
Auditor of State

January 12, 2000

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DELAWARE UNION EDUCATIONAL SERVICE CENTER

DELAWARE COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 22, 2000