DELAWARE/UNION EDUCATIONAL SERVICE CENTER
DELAWARE COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2000

JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

DELAWARE/UNION EDUCATIONAL SERVICE CENTER
DELAWARE COUNTY

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REPORT OF INDEPENDENT ACCOUNTANTS

Delaware-Union Educational Service Center
Delaware County
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, 2000, 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, 2000, 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 December 8, 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

JIM PETRO
Auditor of State

December 8, 2000

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DELAWARE-UNION EDUCATIONAL SERVICE CENTER
DELAWARE COUNTY, OHIO

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2000

	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 And Cash Equivalents	$815,736	$146,057			$961,793
Receivables (Net Of Allowances Of Uncollectibles):					
Accounts	139,147				139,147
Accrued Interest	11,322				11,322
Interfund Loan Receivable	55,183				55,183
Due From Other Governments		76,205			76,205
Prepayments	4,635	1,072			5,707
Materials And Supplies Inventory	8,502				8,502
Property, Plant And Equipment (Net Of Accumulated Depreciation Where Applicable)			$349,133		349,133
OTHER DEBITS:					
Amount To Be Provided For Retirement Of General Long-Term Obligations				$52,732	52,732
Total Assets And Other Debits	$1,034,525	$223,334	$349,133	$52,732	$1,659,724

The Notes To The General Purpose Financial Statement Are An Integral Part Of This Statement

Continued

DELAWARE-UNION EDUCATIONAL SERVICE CENTER
DELAWARE COUNTY

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2000
(Continued)

	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	$5,329	$273			$5,602
Accrued Wages And Benefits	382,227	9,248			391,475
Compensated Absences Payable	49,762	7,988		$42,127	99,877
Pension Obligation Payable	8,617	855			9,472
Interfund Loan Payable		55,183			55,183
Deferred Revenue	10,004				10,004
Obligation Under Capital Lease				10,605	10,605
Total Liabilities	455,939	73,547		52,732	582,218
EQUITY AND OTHER CREDITS:					
Investment In General Fixed Assets			$349,133		349,133
Fund Balances:					
Reserved For Encumbrances	1,980				1,980
Reserved For Supplies Inventory	8,502				8,502
Reserved For Prepayments	4,635	1,072			5,707
Unreserved-Undesignated	563,469	148,715			712,184
Total Equity And Other Credits	578,586	149,787	349,133		1,077,506
Total Liabilities, Equity And Other Credits	$1,034,525	$223,334	$349,133	$52,732	$1,659,724

The Notes To The General Purpose Financial Statement Are An Integral Part Of This Statement

DELAWARE-UNION EDUCATIONAL SERVICE CENTER
DELAWARE COUNTY

COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
JUNE 30, 2000

	Governmental Fund Types		
	General	**Special Revenue**	**Total (Memorandum Only)**
Revenues:			
From Local Sources:			
Tuition	$318,136		$318,136
Earnings On Investments	84,761		84,761
Other Local Revenues	545,969	$5,049	551,018
Intergovernmental - State	2,755,007	197,088	2,952,095
Intergovernmental - Federal		347,840	347,840
Total Revenue	3,703,873	549,977	4,253,850
Expenditures:			
Current:			
Instruction:			
Regular	93,640		93,640
Special	1,644,018		1,644,018
Support Services:			
Pupil	1,231,295	59,707	1,291,002
Instructional Staff	66,512	127,136	193,648
Board of Education	37,377		37,377
Administration	816,087	300,934	1,117,021
Fiscal	97,851	34,891	132,742
Operations and Maintenance	67,870		67,870
Central	164,469	3,500	167,969
Community Services		276	276
Debt Service:			
Principal Retirement	2,203		2,203
Interest and Fiscal Charges	1,351		1,351
Total Expenditures	4,222,673	526,444	4,749,117
Excess (Deficiency) Of Revenues Over (Under) Expenditures	(518,800)	23,533	(495,267)
Other Financing Sources:			
Proceeds From Sale Of Assets	302		302
Total Other Financing Sources	302		302
Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures	(518,498)	23,533	(494,965)
Fund Balance, July 1, 1999	1,088,582	126,254	1,214,836
Increase In Reserve For Inventory	8,502		8,502
Fund Balance, June 30, 2000	$578,586	$149,787	$728,373

The Notes To The General Purpose Financial Statement Are An Integral Part Of This Statement

DELAWARE-UNION EDUCATIONAL SERVICE CENTER
DELAWARE COUNTY

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, 2000

	General			Special Revenue			Total (Memorandum only)		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:									
From Local Sources:									
Tuition	$308,000	$372,896	$64,896				$308,000	$372,896	$64,896
Earnings On Investments	75,000	83,990	8,990				75,000	83,990	8,990
Other Local Revenues	1,463,865	478,748	(985,117)	$4,937	$4,937	$0	1,468,802	483,685	(985,117)
Intergovernmental - State	1,515,935	2,755,006	1,239,071	37,089	197,089	160,000	1,553,024	2,952,095	1,399,071
Intergovernmental - Federal				314,044	271,636	(42,408)	314,044	271,636	(42,408)
Total Revenues	3,362,800	3,690,640	327,840	356,070	473,662	117,592	3,718,870	4,164,302	445,432
Expenditures:									
Current:									
Instruction:									
Regular	89,486	87,272	2,214				89,486	87,272	(2,214)
Special	1,765,662	1,574,693	190,969	706		706	1,766,368	1,574,693	(191,675)
Support Services:									
Pupil	1,232,151	1,226,139	6,012	252,787	57,301	195,486	1,484,938	1,283,440	(201,498)
Instructional Staff	62,874	62,650	224	145,421	128,602	16,819	208,295	191,252	(17,043)
Board of Education	39,669	37,615	2,054				39,669	37,615	(2,054)
Administration	836,714	802,713	34,001	341,476	290,267	51,209	1,178,190	1,092,980	(85,210)
Fiscal	137,472	103,258	34,214	46,215	34,830	11,385	183,687	138,088	(45,599)
Operations and Maintenance	71,507	70,758	749				71,507	70,758	(749)
Central	181,597	163,476	18,121	10,966	3,500	7,466	192,563	166,976	(25,587)
Community Services				276	276	0	276	276	0
Total Expenditures	4,417,132	4,128,574	288,558	797,847	514,776	283,071	5,214,979	4,643,350	(571,629)
Deficiency of Revenues Under Expenditures	(1,054,332)	(437,934)	616,398	(441,777)	(41,114)	400,663	(1,496,109)	(479,048)	1,017,061
Other Financing Sources (Uses):									
Refund of Prior Year's Expenditures		4,021	4,021				0	4,021	4,021
Operating Transfers In		109,679	109,679	0	0	0	0	109,679	109,679
Operating Transfers (Out)	(109,679)	(109,679)	0				(109,679)	(109,679)	0
Advances In					55,183	55,183	0	55,183	55,183
Advances (Out)	(55,183)	(55,183)	0				(55,183)	(55,183)	0
Proceeds of Sale Of Fixed Assets		302	302				0	302	302
Total Other Financing Sources (Uses)	(164,862)	(50,860)	114,002		55,183	55,183	(164,862)	4,323	169,185
Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures And Other Financing (Uses)	(1,219,194)	(488,794)	730,400	(441,777)	14,069	455,846	(1,660,971)	(474,725)	1,186,246
Fund Balances, July 1, 1999	1,289,463	1,289,463	0	87,800	87,800	0	1,377,263	1,377,263	0
Prior Year Encumbrances Appropriated	19,239	19,239	0	44,188	44,188	0	63,427	63,427	0
Fund Balances, June 30, 2000	$89,508	$819,908	$730,400	($309,789)	$146,057	$455,846	($220,281)	$965,965	$1,186,246

The Notes To The General Purpose Financial Statements Are An Integral Part Of This Statement

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 39 support staff employees, 68 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 is available from Mike Carder, 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. The JVS is operated under the direction of a Board consisting of two representatives from each of the participating school district’s elected board, and one representative from the Delaware-Union Educational Service Center. The JVS possesses its own budgeting and taxing authority. Financial information is available 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. The JVS is operated under the direction of a Board consisting of one representative from each of the participating school district’s elected board, and one representative from the Delaware-Union Educational Service Center. The JVS possesses its own budgeting and taxing authority. Financial information is available from the Tri Rivers Joint Vocational School, at 2222 Marion/Mt. Gilead Road, Marion, Ohio 43302.

The ESC also participates in a public entity risk sharing pool, described in Note 10.

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. All funds are classified Governmental funds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting (Continued)

Governmental Funds

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

General Fund

The General Fund is the general operating fund of the ESC and is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus/Basis of Accounting (Continued)

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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process (Continued)

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

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.

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 2000 in the following amounts:

Increase/(Decrease)	
General Fund	$(230,805)
Special Revenue Funds	(206,121)
Total, All Funds	$(436,926)

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 re-appropriated. 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 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 13 provides a reconciliation of the budgetary and GAAP basis of accounting.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Cash and Investments

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

During 2000, 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 June 30, 2000.

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

Fair value at June 30, 2000	$ 793,068
Add: Proceeds of investments sold and matured during fiscal 2000	0
Less: Cost of investments purchased during fiscal 2000	(99,802)
Less: Fair value at June 30, 1999	(693,813)
Change in fair value of investments	$ (547)

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 2000 totaled $84,761, which included $9,784 assigned from other funds of the ESC.

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

F. Inventory

Inventories of all Governmental funds are valued at cost (first-in/first-out method). The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased; however, material amounts of inventories at period end are reported as assets of the respective fund, which are equally offset by a fund balance reserve which indicates they are unavailable for appropriation even though they are a component of reported assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. 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.

H. 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.

I. 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:

Entitlements
General Fund
State Foundation Program

Non-Reimbursable Grants
Special Revenue
Management Information Systems
Title I

Non-Reimbursable Grants
Special Revenue - (cont'd)
SchoolNet Professional Development
Alternative Schools
Net Grant
Education for Economic Security
Instructional Media Center

Grants and entitlements amounted to over 77% of the ESC's operating revenue during the 2000 fiscal year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. 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 or 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 severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age fifty (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-quarter days per month. 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, 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.

K. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. 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, materials and supplies inventory, 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.

M. Interfund Transactions

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

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers.

2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund.

3. Short-term interfund loans made pursuant to Governing Board Resolution are reflected as “interfund loans receivable or payable.” Such interfund loans are repaid in the following fiscal year.

4. Quasi-external transactions are similar to the purchase of goods or services from a vendor; i.e., the fund which provides a service records revenue, and the fund which receives that service records an expenditure/expense.

5. Residual equity transfers are non-recurring or non-routine permanent transfers of equity, generally made when a fund is closed.

6. Long-term interfund loans that will not be repaid within the next year are termed “advances” and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources.

An analysis of the ESC’s interfund transactions for fiscal year 2000 is presented in Note 5.

N. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. 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. ACCOUNTABILITY AND COMPLIANCE

A. Deficit Fund Balances

Fund balances at June 30, 2000 included the following individual fund deficits:

Deficit Fund Balances

Special Revenue Funds	
Eisenhower Professional	$ (123)
Net Grant	(25,405)

These GAAP deficits will be funded by anticipated future intergovernmental revenues or other subsidies not recognized and recorded at June 30. The General fund provides transfers for deficit balances; however, transfers are made when cash is needed rather than when accruals occur.

B. Change in Accounting Method

Consumable Inventory

The ESC has reported an asset for consumable inventory values in the General fund at June 30, 2000. The ESC believes that the amount reported for consumable inventory is significant, although it does not represent spendable, available resources, and a reservation of fund equity has consequently been recorded. It was not practical to determine the amount of General fund consumable inventory, if any, at June 30, 2000.

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.

4. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

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;

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.

4. EQUITY IN POOLED CASH 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 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 $(332,326) and the bank balance was $140,404 (both amounts are exclusive of payroll clearance accounts). Of the bank balance:

1. $100,000 was covered by federal deposit insurance.

2. $40,404 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the ESC held to a successful claim by the FDIC.

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.

	Category of Risk 2	Fair Value
Federal Agency Securities	$793,068	$ 793,068
Not subject to Categorization:		
Investment in State Treasurer's Investment Pool		501,051
Total Investments	$793,068	$1,294,119

4. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

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:

	Equity in Pooled Cash and Cash Equivalents	Investments
GASB Statement No. 9	$ 961,793	
Investments of the Cash Management Pool:		
State Treasurer's Investment Pool	(501,051)	$ 501,051
Federal Agency Securities	(793,068)	793,068
GASB Statement No. 3	$(332,326)	$1,294,119

5. INTERFUND TRANSACTIONS

Interfund balances at June 30, 2000, consist of the following individual interfund loans receivable and payable:

	Interfund Loans Receivable	Interfund Loans (Payable)
General Fund	$55,183	
Special Revenue		
Title I		$(10,830)
Net Grant		(44,354)
Total Interfund Loans	$55,183	$(55,183)

6. RECEIVABLES

Receivables at June 30, 2000 consisted of accounts (tuition), interfund loans, intergovernmental grants and entitlements (to the extent such grants and/or entitlements relate to the current fiscal year), and investment earnings. All receivables are considered collectible in full. A summary of the principal items of receivables follows:

6. RECEIVABLES (Continued)

	Amounts
General Fund	
Accounts	$139,147
Accrued Interest	11,322
Interfund Loans	55,183
Special Revenue Funds	
Due from Other Governments	76,205

7. FIXED ASSETS

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

	Balance July 1, 1999	Additions	Deletions	Balance June 30, 2000
Furniture/Equipment	$303,782	$60,946	$(15,595)	$349,133
Total	$303,782	$60,946	$(15,595)	$349,133

8. CAPITALIZED LEASES - LESSEE DISCLOSURE

In a prior fiscal year, the ESC entered into a capital lease for a copier. This new lease was 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 the amount of $13,488, which is 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 2000 fiscal year totaled $2,203. This amount is reflected as debt service principal retirement in the General fund.

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, 2000.

8. CAPITALIZED LEASES - LESSEE DISCLOSURE (Continued)

General Long-Term Obligations

Year Ending June 30	Copiers
2001	$ 3,554
2002	3,554
2003	3,554
2004	2,370
Total Future Minimum Lease Payments	13,032
Less: Amount Representing Interest	(2,427)
Present Value of Future Minimum Lease Payments	$10,605

9. LONG-TERM OBLIGATIONS

During the year ended June 30, 2000, 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, 1999	Increase	Decrease	Balance June 30, 2000
Compensated Absences	$40,312	$54,363	$(52,548)	$42,127
Capital Lease	12,808		(2,203)	10,605
Total	$53,120	$54,363	$(54,751)	$52,732

10. 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 2000, 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

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 $.005399 per $100 of salaries. This rate is calculated based on claims history and administrative costs.

10. RISK MANAGEMENT (Continued)

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.

11. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The ESC contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides basic retirement and disability benefits, cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 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 at an actuarially determined rate, which was14 percent for 2000; 5.55 percent was the portion to fund pension obligations. The contribution rates of plan members and employers are established and may be amended by the School Employees Retirement Board, up to maximum amounts allowed by State statute. The adequacy of the contribution rates is determined annually. The ESC's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2000, 1999, and 1998 were $101,087, $71,730, and $65,394, 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.

11. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

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, 2000, 1999, and 1998 were $461,354, $392,014, and $275,279, 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, 2000, members of the Governing Board have elected Social Security. The Board's liability is 6.2 percent of wages paid.

12. POSTEMPLOYMENT BENEFITS

The ESC provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the 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.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients 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. For this fiscal year, the Board allocated employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund. For the ESC, this amount equaled $263,631 during the 2000 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was $2.783 billion at June 30, 1999. As of July 1, 1999, eligible benefit recipients totaled 95,796. For the fiscal year ended June 30, 1999, net health care costs paid by STRS were $249,929,000.

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 8.45 percent of covered payroll, an increase from 6.30 percent for fiscal year 1999. 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 2000, the minimum pay has been established at $12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

12. POSTEMPLOYMENT BENEFITS (Continued)

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 1999, were $126,380,984 and the target level was $189.6 million. At June 30, 1999 SERS had net assets available for payment of health care benefits of $188 million. SERS has approximately 51,000 participants currently receiving health care benefits. For the ESC, the amount to fund health care benefits, including the surcharge, equaled $51,977 during the 2000 fiscal year.

13. BUDGETARY BASIS OF ACCOUNTING

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

The 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).

13. BUDGETARY BASIS OF ACCOUNTING (Continued)

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

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

Governmental Fund Types

	General	Special Revenue
Budget Basis	$(488,794)	$ 14,069
Net Adjustment for Revenue Accruals	13,233	76,315
Net Adjustment for Expenditure Accruals	(96,123)	(11,668)
Net Adjustment for Other Financing Sources (Uses)	51,162	(55,183)
Encumbrances (Budget Basis)	2,024	
GAAP Basis	$(518,498)	$ 23,533

14. CONTINGENCIES

A. Grants

The ESC receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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, 2000.

B. Litigation

The ESC is currently not party to any legal proceedings.

14. CONTINGENCIES (Continued)

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, 2000, the ESC received $2,631,918 of school foundation support for its General fund.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State General Assembly in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County 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 appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. On May 11, 2000, the Ohio Supreme Court rendered an opinion on this issue. The court concluded, "...the mandate of the (Ohio) Constitution has not been fulfilled." The Court's majority recognized efforts by the Ohio General Assembly taken in response to the Court's March 24, 1997, decision, however, it found seven "...major areas warrant further attention, study, and development by the General Assembly...," including the State's reliance on local property tax funding, the state's basic aid formula, the school foundation program, as discussed above, the mechanism for, and adequacy of, funding for school facilities, and the existence of the State's School Solvency Assistance Fund, which the Court found took the place of the unconstitutional emergency school loan assistance program.

The Court decided to maintain jurisdiction over these issues and continued the case at least until June 15, 2001.

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.

STATE OF OHIO
OFFICE OF THE AUDITOR

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

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, 2000, and have issued our report thereon dated December 8, 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. However, we noted a matter involving noncompliance that does not require inclusion in this report, that we have reported to the management of the Center in a separate letter dated December 8, 2000.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center'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 a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to the management of the Center in a separate letter dated December 8, 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

December 8, 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
JANUARY 09, 2001