



**DELAWARE-UNION EDUCATIONAL SERVICE CENTER
DELAWARE COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2001



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 Governors:

We have audited the accompanying general-purpose financial statements of the Delaware-Union Educational Service Center, Delaware County, Ohio, (the ESC) as of and for the year ended June 30, 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of the ESC'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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 Delaware-Union Educational Service Center, Delaware County, Ohio, as of June 30, 2001, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2002 on our consideration of the ESC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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.

We performed our audit to form an opinion on the general-purpose financial statements of the ESC, taken as a whole. The accompanying schedule of federal awards receipts and expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

JIM PETRO
Auditor of State

January 24, 2002

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DELAWARE-UNION EDUCATIONAL SERVICE CENTER
DELAWARE COUNTY, OHIO
 COMBINED BALANCE SHEET
 ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 2001

	<u>Governmental Fund Types</u>		<u>Account Groups</u>		<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>General Fixed Assets</u>	<u>General Long-Term Obligations</u>	
<u>ASSETS AND OTHER DEBITS</u>					
ASSETS:					
Equity in pooled cash and cash equivalents	\$914,905	\$163,475			\$1,078,380
Investments	\$199,376				\$199,376
Receivables (net of allowances of uncollectibles):					
Accounts	8,120				8,120
Accrued interest					0
Interfund loan receivable	83,778				83,778
Due from other governments		83,151			83,151
Prepayments	8,055	814			8,869
Materials and supplies inventory	8,594				8,594
Property, plant and equipment (net of accumulated depreciation where applicable)			\$388,508		388,508
OTHER DEBITS:					
Amount to be provided for retirement of General Long-Term Obligations				\$36,841	36,841
Total assets and other debits	<u>\$1,222,828</u>	<u>\$247,440</u>	<u>\$388,508</u>	<u>\$36,841</u>	<u>\$1,895,617</u>

--Continued

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

DELAWARE-UNION EDUCATIONAL SERVICE CENTER
DELAWARE COUNTY, OHIO
 COMBINED BALANCE SHEET
 ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 2001

	<u>Governmental Fund Types</u>		<u>Account Groups</u>		<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>General Fixed Assets</u>	<u>General Long-Term Obligations</u>	
LIABILITIES, EQUITY AND OTHER CREDITS					
LIABILITIES:					
Accounts payable	\$2,523				\$2,523
Accrued wages and benefits.	456,591	\$2,732			459,323
Compensated absences payable.	87,859	11,925		\$28,704	128,488
Pension obligation payable	11,685				11,685
Interfund loan payable		83,778			83,778
Deferred revenue					0
Obligation under capital lease.				8,137	8,137
Total liabilities	<u>558,658</u>	<u>98,435</u>		<u>36,841</u>	<u>693,934</u>
EQUITY AND OTHER CREDITS:					
Investment in general fixed assets			\$388,508		388,508
Fund balances:					
Reserved for encumbrances	1,126	3,852			4,978
Reserved for supplies inventory	8,594				8,594
Reserved for prepayments	8,055	814			8,869
Unreserved-undesignated.	646,395	144,339			790,734
Total equity and other credits	<u>664,170</u>	<u>149,005</u>	<u>388,508</u>		<u>1,201,683</u>
Total liabilities, equity and other credits	<u>\$1,222,828</u>	<u>\$247,440</u>	<u>\$388,508</u>	<u>\$36,841</u>	<u>\$1,895,617</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

DELAWARE-UNION EDUCATIONAL SERVICE CENTER
DELAWARE COUNTY, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2001

	<u>Governmental Fund Types</u>		Total (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Revenues:			
From local sources:			
Tuition	\$535,862		\$535,862
Earnings on investments	91,601		91,601
Other local revenues - Member School Districts	1,009,428		1,009,428
Other revenues		\$13,762	13,762
Intergovernmental - State	3,785,095	357,678	4,142,773
Intergovernmental - Federal	221,838	555,735	777,573
	<u>5,643,824</u>	<u>927,175</u>	<u>6,570,999</u>
Total revenue			
Expenditures:			
Current:			
Instruction:			
Regular	491,548	76,390	567,938
Special	1,959,686	12,344	1,972,030
Other		2,000	2,000
Support services:			
Pupil	1,525,051	329,220	1,854,271
Instructional staff	146,642	155,852	302,494
Board of Education	37,092		37,092
Administration	1,009,481	285,600	1,295,081
Fiscal	124,041	49,493	173,534
Business	838		838
Operations and maintenance	87,206		87,206
Central	174,991	10,760	185,751
Community services		4,500	4,500
Debt service:			
Principal retirement	2,468		2,468
Interest and fiscal charges	1,086		1,086
	<u>5,560,130</u>	<u>926,159</u>	<u>6,486,289</u>
Total expenditures			
Excess (deficiency) of revenues over (under) expenditures	83,694	1,016	84,710
Other financing sources (uses):			
Operating transfers in	1,798		1,798
Operating transfers (out)		(1,798)	(1,798)
	<u>1,798</u>	<u>(1,798)</u>	<u>0</u>
Total other financing sources (uses)			
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)	85,492	(782)	84,710
Fund balance, July 1	578,586	149,787	728,373
Increase in reserve for inventory	92		92
Fund balance, June 30	<u>\$664,170</u>	<u>\$149,005</u>	<u>\$813,175</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

DELAWARE-UNION EDUCATIONAL SERVICE CENTER
DELAWARE COUNTY, OHIO
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, 2001

	General		Variance: Favorable (Unfavorable)
	Revised Budget	Actual	
Revenues:			
From local sources:			
Tuition	\$485,000	\$576,054	\$91,054
Earnings on investments	75,000	87,660	12,660
Other local revenues	441,000	1,061,550	620,550
Other revenues			
Intergovernmental - State	3,450,677	3,785,095	334,418
Intergovernmental - Federal		221,838	
Total revenues	<u>4,451,677</u>	<u>5,732,197</u>	<u>1,058,682</u>
Expenditures:			
Current:			
Instruction:			
Regular	509,386	433,844	75,542
Special	2,022,995	1,960,211	62,784
Other			
Support services:			
Pupil	1,521,083	1,483,965	37,118
Instructional staff	157,233	141,208	16,025
Board of Education	56,775	40,241	16,534
Administration	1,227,566	1,007,071	220,495
Fiscal	126,925	122,218	4,707
Business	1,002	838	164
Operations and maintenance	89,132	88,942	190
Central	197,508	175,937	21,571
Total expenditures	<u>5,909,605</u>	<u>5,454,475</u>	<u>455,130</u>
Deficiency of revenues under expenditures	<u>(1,457,928)</u>	<u>277,722</u>	<u>1,735,650</u>
Other financing sources (uses):			
Refund of prior year's expenditures		38,712	38,712
Operating transfers in		1,798	1,798
Operating transfers (out)			
Advances in	55,183	55,183	0
Advances (out)	<u>(83,778)</u>	<u>(83,778)</u>	<u>0</u>
Total other financing sources (uses)	<u>(28,595)</u>	<u>11,915</u>	<u>40,510</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)	<u>(1,486,523)</u>	<u>289,637</u>	<u>1,776,160</u>
Fund balances, July 1	819,908	819,908	0
Prior year encumbrances appropriated	<u>2,024</u>	<u>2,024</u>	<u>0</u>
Fund balances, June 30	<u>(\$664,591)</u>	<u>\$1,111,569</u>	<u>\$1,776,160</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

Special Revenue			Total (Memorandum only)		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)
			\$485,000	\$576,054	\$91,054
			75,000	87,660	12,660
			441,000	1,061,550	620,550
\$8,668	\$9,262	\$594	8,668	9,262	594
196,677	357,677	161,000	3,647,354	4,142,772	495,418
<u>812,251</u>	<u>548,791</u>	<u>(263,460)</u>	<u>812,251</u>	<u>770,629</u>	<u>(263,460)</u>
<u>1,017,596</u>	<u>915,730</u>	<u>(101,866)</u>	<u>5,469,273</u>	<u>6,647,927</u>	<u>956,816</u>
174,459	80,242	94,217	683,845	514,086	169,759
15,345	12,345	3,000	2,038,340	1,972,556	65,784
2,000	2,000	0	2,000	2,000	0
337,884	330,235	7,649	1,858,967	1,814,200	44,767
189,258	156,530	32,728	346,491	297,738	48,753
			56,775	40,241	16,534
328,470	287,359	41,111	1,556,036	1,294,430	261,606
61,487	49,490	11,997	188,412	171,708	16,704
			1,002	838	164
			89,132	88,942	190
<u>11,385</u>	<u>10,760</u>	<u>625</u>	<u>208,893</u>	<u>186,697</u>	<u>22,196</u>
<u>1,120,288</u>	<u>928,961</u>	<u>191,327</u>	<u>7,029,893</u>	<u>6,383,436</u>	<u>646,457</u>
<u>(102,692)</u>	<u>(13,231)</u>	<u>89,461</u>	<u>(1,560,620)</u>	<u>264,491</u>	<u>1,825,111</u>
				38,712	38,712
0	0	0		1,798	1,798
(1,798)	(1,798)	0	(1,798)	(1,798)	0
	83,778	83,778	55,183	138,961	83,778
<u>(55,183)</u>	<u>(55,183)</u>	<u>0</u>	<u>(138,961)</u>	<u>(138,961)</u>	<u>0</u>
<u>(56,981)</u>	<u>26,797</u>	<u>83,778</u>	<u>(85,576)</u>	<u>38,712</u>	<u>124,288</u>
(159,673)	13,566	173,239	(1,646,196)	303,203	1,949,399
146,057	146,057	0	965,965	965,965	0
			2,024	2,024	0
<u>(\$13,616)</u>	<u>\$159,623</u>	<u>\$173,239</u>	<u>(\$678,207)</u>	<u>\$1,271,192</u>	<u>\$1,949,399</u>

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**DELAWARE-UNION EDUCATIONAL SERVICE CENTER
DELAWARE COUNTY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

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 5 members elected at-large for staggered four-year terms. The Educational Service Center has 51 support staff employees, 75 certified teaching personnel, and 5 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.

**DELAWARE-UNION EDUCATIONAL SERVICE CENTER
DELAWARE COUNTY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

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 as Governmental funds.

**DELAWARE-UNION EDUCATIONAL SERVICE CENTER
DELAWARE COUNTY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

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.

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 60 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.

**DELAWARE-UNION EDUCATIONAL SERVICE CENTER
DELAWARE COUNTY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Measurement Focus/Basis of Accounting (Continued)

Nonexchange transactions, in which the ESC receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been met and the resources are available.

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.

**DELAWARE-UNION EDUCATIONAL SERVICE CENTER
DELAWARE COUNTY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

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 2001.

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 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.

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.

**DELAWARE-UNION EDUCATIONAL SERVICE CENTER
DELAWARE COUNTY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. Cash and Investments (Continued)

During 2001, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), repurchase agreements, Federal Agency Securities, and money market mutual funds.

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, 2001.

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

Fair value at June 30, 2001	\$ 199,376
Add: Proceeds of investments sold and matured during fiscal 2001	800,000
Less: Cost of investments purchased during fiscal 2001	(200,313)
Less: Fair value at June 30, 2000	<u>(793,068)</u>
 Increase in fair value of investments	 <u>\$ 5,995</u>

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 2001 totaled \$91,601, which included \$12,620 assigned from other funds of the ESC.

An analysis of the ESC'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.

G. Prepays

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.

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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
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(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 5 to 20 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 Funds
Management Information Systems
Title I
SchoolNet Professional Development
Alternative Schools
Net Grant
Education for Economic Security
Instructional Media Center

Grants and entitlements amounted to approximately 75% of the ESC's operating revenue during the 2001 fiscal year.

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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
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(Continued)**

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 50 or greater with at least 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 10 to 20 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 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 60 days after year-end are considered not to have used current, available financial resources. Capital leases obligations are reported as a liability of the General Long-Term Obligations Account Group until due.

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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
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(Continued)**

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 2001 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.

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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
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(Continued)**

1. 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.

2. ACCOUNTABILITY AND COMPLIANCE

A. Deficit Fund Balances

Fund balances at June 30, 2001, included the following individual fund deficits:

<u>Special Revenue Fund</u>	<u>Deficit Fund Balances</u>
Miscellaneous Federal Grants	\$(14,414)

These deficits, caused by the application of generally accepted accounting principles, 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 Principle

GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, was implemented during fiscal 2001. This statement pertains to the financial reporting of certain types of revenue received by the ESC for which no value is given in return, including derived tax revenues, imposed nonexchange transactions, government-mandated nonexchange transactions, and voluntary nonexchange transactions. The adoption of this statement had no effect on fund balances as previously reported by the ESC at June 30, 2000.

3. 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.

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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
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4. EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

Interim deposits are deposits of interim monies. Interim monies are those monies, which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings 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 2% and be marked to market daily, and that the term of the agreement must not exceed 30 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 180 days from the date of purchase in an amount not to exceed 25% 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.

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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
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(Continued)**

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 \$(814,603) and the bank balance was \$(144,540) (both amounts include the payroll clearance account).

A liability was not recorded for the negative carrying amount of deposits because there was no actual overdraft, due to the "zero-balance" nature of the District's bank accounts. Of the bank balance, \$44,552 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 and money market mutual funds are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	Category of Risk 2	Category of Risk 3	Fair Value
Repurchase Agreements		\$615,000	\$ 615,000
Federal Agency Securities	\$199,376		199,376
Not subject to Categorization:			
Investment in State Treasurer's Investment Pool			1,276,385
Money market mutual funds			1,598
 Total Investments	<u>\$199,376</u>	<u>\$615,000</u>	<u>\$2,092,359</u>

The federal agency security matures in June, 2003.

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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

4. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

The classification of cash, 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, 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:

	<u>Equity in Pooled Cash and Cash Equivalents</u>	<u>Investments</u>
GASB Statement No. 9	\$ 1,078,380	\$ 199,376
Investments of the Cash Management Pool:		
Money market mutual funds	(1,598)	1,598
Repurchase Agreements	(615,000)	615,000
State Treasurer's Investment Pool	<u>(1,276,385)</u>	<u>1,276,385</u>
GASB Statement No. 3	<u>\$ (814,603)</u>	<u>\$2,092,359</u>

5. INTERFUND TRANSACTIONS

A. Interfund balances at June 30, 2001, consist of the following individual interfund loans receivable and payable:

	<u>Interfund Loans Receivable</u>	<u>Interfund Loans (Payable)</u>
General Fund	\$83,778	
<u>Special Revenue Funds</u>		
Miscellaneous Federal Grants	_____	\$(83,778)
Total Interfund Loans	<u>\$83,778</u>	<u>\$(83,778)</u>

B. The following is a reconciliation of the ESC's operating transfers for fiscal year 2001:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$1,798	
<u>Special Revenue Funds</u>		
Telecommunications	_____	\$(1,798)
Totals	<u>\$1,798</u>	<u>\$(1,798)</u>

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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
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6. RECEIVABLES

Receivables at June 30, 2001, 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 due to the stable condition of state programs and the current fiscal year guarantee of federal funds. A summary of the principal items of receivables follows:

	<u>Amounts</u>
<u>General Fund</u>	
Interfund Loans	\$83,778
 <u>Special Revenue Funds</u>	
Due from Other Governments	70,126

7. FIXED ASSETS

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

	<u>Balance July 1, 2000</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2001</u>
Furniture/Equipment	\$349,133	\$39,375	\$ 0	\$388,508
Total	<u>\$349,133</u>	<u>\$39,375</u>	<u>\$ 0</u>	<u>\$388,508</u>

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 2001 fiscal year totaled \$2,468. This amount is reflected as debt service principal retirement in the General fund.

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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
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(Continued)**

8. CAPITALIZED LEASES - LESSEE DISCLOSURE (Continued)

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, 2001.

Year Ending June 30	General Long-Term Obligations
	<u>Copiers</u>
2002	\$ 3,554
2003	3,554
2004	<u>2,370</u>
Total Future Minimum Lease Payments	9,478
Less: Amount Representing Interest	<u>(1,341)</u>
Present Value of Future Minimum Lease Payments	<u><u>\$ 8,137</u></u>

9. LONG-TERM OBLIGATIONS

During the year ended June 30, 2001, 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, 2000	Increase	Decrease	Balance June 30, 2001
Compensated Absences	\$42,127		\$(13,423)	\$28,704
Capital Lease	<u>10,605</u>	_____	<u>(2,468)</u>	<u>8,137</u>
Total	<u><u>\$52,732</u></u>	<u><u>\$ 0</u></u>	<u><u>\$(15,891)</u></u>	<u><u>\$36,841</u></u>

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 2001, 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 \$.00574 per \$100 of salaries. This rate is calculated based on claims history and administrative costs.

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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
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(Continued)**

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.

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 12. As such, no funding provisions are required by the ESC.

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, 300 East Broad Street, Columbus, Ohio 43215.

Plan members are required to contribute 9% of their annual covered salary and the ESC is required to contribute at an actuarially determined rate, which was 14% for 2001; 4.2% 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, 2001, 2000, and 1999 were \$206,633, \$101,087, and \$71,730, respectively; 100% 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.

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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
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(Continued)**

11. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

Plan members are required to contribute 9.3% of their annual covered salary and the ESC is required to contribute 14%; 9.5% 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% for members and 14% for employers. The ESC's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$566,925, \$461,354, and \$392,014, respectively; 100% 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, 2001, members of the Governing Board have elected Social Security. The Board's liability is 6.2% 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% of covered payroll. For this fiscal year, the Board allocated employer contributions equal to 4.5% of covered payroll to the Health Care Reserve Fund. For the ESC, this amount equaled \$182,226 during the 2001 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$3.419 billion at June 30, 2000 (the latest information available). For the year ended June 30, 2000 net health care costs paid by STRS were \$283.137 million and there were 99,011 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more fiscal years of qualifying service credit, disability, and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 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% of the premium.

For this fiscal year, employer contributions to fund health care benefits were 9.8% of covered payroll, an increase from 8.45% for fiscal year 2000. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2001, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
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(Continued)**

12. POSTEMPLOYMENT BENEFITS (Continued)

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2000 (the latest information available), were \$140.7 million and the target level was \$211.0 million. At June 30, 2000 SERS had net assets available for payment of health care benefits of \$252.3 million and there were approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$236,685 during the 2001 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).

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	
	<u>General</u>	<u>Special Revenue</u>
Budget Basis	\$ 289,637	\$ 13,566
Net Adjustment for Revenue Accruals	(88,374)	6,945
Net Adjustment for Expenditure Accruals	(109,302)	3,450
Net Adjustment for Other Financing Sources (Uses)	(10,118)	(28,595)
Encumbrances (Budget Basis)	<u>3,649</u>	<u>3,852</u>
GAAP Basis	<u>\$ 85,492</u>	<u>\$ (782)</u>

**DELAWARE-UNION EDUCATIONAL SERVICE CENTER
DELAWARE COUNTY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

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, 2001.

B. Litigation

The ESC is currently not party to any legal proceedings.

C. School Funding Decision

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of January 24, 2002, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

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

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**DELAWARE-UNION EDUCATIONAL SERVICE CENTER
DELAWARE COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2001**

Federal Grantor/ Pass Through Grantor Program Title	CFDA #	Pass Through Entity Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>						
<i>Passed through Delaware County Department of Human Services:</i>						
Temporary Assistance for Needy Families	93.558	N/A	260,897	—	287,289	—
<i>Passed through Union County Department of Jobs and Family Services:</i>						
Temporary Assistance for Needy Families	93.558	N/A	79,452	—	92,483	—
<i>Passed through Ohio Department of Mental Retardation and Developmental Disabilities</i>						
Medical Assistance Program (Medicaid - Title XIX)	93.778	N/A	221,838	—	93,231	—
			<u>562,187</u>	<u>—</u>	<u>473,003</u>	<u>—</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed through the Ohio Department of Education:</i>						
Grants to Local Educational Agencies	84.010	C1-ST 1999 C1-ST 2000	185,870	—	169,157	—
Special Education - Preschool Grants	84.173	PG-SC 2000	8,044	—	6,747	—
Goals 2000 - State and Local Education Systematic Improvements	84.276	N/A	12,730	—	10,658	—
Total U.S. Department of Education			<u>206,644</u>	<u>—</u>	<u>186,562</u>	<u>—</u>
Total Federal Awards			<u><u>\$768,831</u></u>	<u><u>\$0</u></u>	<u><u>\$659,565</u></u>	<u><u>\$0</u></u>

The accompanying notes to this schedule are an integral part of this schedule.

**DELAWARE-UNION EDUCATIONAL SERVICE CENTER
DELAWARE COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2001**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) summarizes activity of the ESC's federal award programs. The Schedule has been prepared on the cash basis of accounting.



STATE OF OHIO
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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 Governors:

We have audited the general-purpose financial statements of Delaware-Union Educational Service Center, Delaware County, Ohio, (the ESC) as of and for the year ended June 30, 2001, and have issued our report thereon dated January 24, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the ESC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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 ESC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose 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 general-purpose 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.

This report is intended for the information and use of the Board of Governors, management, and federal awarding agencies and pass-through entities, and is not limited to be and should not be used by anyone other than these specified parties.

JIM PETRO
Auditor of State

January 24, 2002



STATE OF OHIO
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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

To the Board of Governors:

Compliance

We have audited the compliance of the Delaware-Union Educational Service Center, Delaware County, Ohio, (the ESC) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2001. The ESC's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the ESC's management. Our responsibility is to express an opinion on the ESC's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the ESC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the ESC's compliance with those requirements.

In our opinion, the ESC complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2001.

Internal Control Over Compliance

The management of the ESC is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the ESC's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the Board of Governors, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

JIM PETRO
Auditor of State

January 24, 2002

**DELAWARE-UNION EDUCATIONAL SERVICE CENTER
DELAWARE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2001**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	93.558 Temporary Assistance for Needy Families
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



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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 7, 2002**