



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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

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STATE OF OHIO
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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, 2002, 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 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, 2002, 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 November 8, 2002 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.

We performed our audit to form an opinion on the general purpose financial statements of the Center, 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.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is fluid and cursive, with a large loop at the end.

JIM PETRO
Auditor of State

November 8, 2002, except for Note 15, as to which the date is December 11, 2002

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

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2002

	Governmental Fund Types			Account Groups		Total (Memorandum Only)
	General	Special Revenue	Capital Projects	General Fixed Assets	General Long-Term Obligations	
ASSETS AND OTHER DEBITS						
ASSETS:						
Equity in pooled cash and cash equivalents	\$ 1,745,455	\$ 118,084	\$ 9,892	\$ -	\$ -	\$ 1,873,431
Receivables (net of allowances of uncollectibles):						
Accounts	51,340	1,334	-	-	-	52,674
Accrued interest	657	-	-	-	-	657
Interfund loan receivable	627	-	-	-	-	627
Due from other governments	-	70,179	-	-	-	70,179
Materials and supplies inventory	7,435	-	-	-	-	7,435
Prepayments	10,677	580	-	-	-	11,257
Property, plant and equipment (net of accumulated depreciation where applicable)	-	-	-	454,727	-	454,727
OTHER DEBITS:						
Amount to be provided for retirement of general long-term obligations	-	-	-	-	133,153	133,153
Total assets and other debits	<u>\$ 1,816,191</u>	<u>\$ 190,177</u>	<u>\$ 9,892</u>	<u>\$ 454,727</u>	<u>\$ 133,153</u>	<u>\$ 2,604,140</u>
LIABILITIES, EQUITY AND OTHER CREDITS						
LIABILITIES:						
Accounts payable	\$ 17,141	\$ 2,892	\$ -	\$ -	\$ -	\$ 20,033
Accrued wages and benefits	490,783	4,549	-	-	-	495,332
Compensated absences payable	69,002	6,572	-	-	133,153	208,727
Pension obligation payable	11,288	-	-	-	-	11,288
Interfund loan payable	-	627	-	-	-	627
Due to other governments	26,901	1,058	-	-	-	27,959
Total liabilities	<u>615,115</u>	<u>15,698</u>	<u>-</u>	<u>-</u>	<u>133,153</u>	<u>763,966</u>
EQUITY AND OTHER CREDITS:						
Investment in general fixed assets	-	-	-	454,727	-	454,727
Fund balances:						
Reserved for encumbrances	-	-	9,711	-	-	9,711
Reserved for materials and supplies inventory	7,435	-	-	-	-	7,435
Reserved for prepayments	10,677	580	-	-	-	11,257
Unreserved-undesignated	1,182,964	173,899	181	-	-	1,357,044
Total equity and other credits	<u>1,201,076</u>	<u>174,479</u>	<u>9,892</u>	<u>454,727</u>	<u>-</u>	<u>1,840,174</u>
Total liabilities, equity and other credits	<u>\$ 1,816,191</u>	<u>\$ 190,177</u>	<u>\$ 9,892</u>	<u>\$ 454,727</u>	<u>\$ 133,153</u>	<u>\$ 2,604,140</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 FISCAL YEAR ENDED JUNE 30, 2002

	Governmental Fund Types			Total (Memorandum Only)
	General	Special Revenue	Capital Projects	
Revenues:				
From local sources:				
Tuition	\$ 1,184,646	\$ -	\$ -	\$ 1,184,646
Earnings on investments	42,208	-	-	42,208
Other local revenues	195,151	-	-	195,151
Contract services	4,746,006	-	-	4,746,006
Other revenue	-	8,492	-	8,492
Intergovernmental - State	718,101	446,003	9,892	1,173,996
Intergovernmental - Federal	230,673	364,174	-	594,847
	<u>7,116,785</u>	<u>818,669</u>	<u>9,892</u>	<u>7,945,346</u>
Expenditures:				
Current:				
Instruction:				
Regular	759,590	145,403	-	904,993
Special	2,277,959	6,942	-	2,284,901
Support services:				
Pupil	1,659,568	662	-	1,660,230
Instructional staff	209,891	196,009	-	405,900
Board of Education	51,753	-	-	51,753
Administration	1,191,511	400,519	-	1,592,030
Fiscal	179,240	37,648	-	216,888
Business	481	-	-	481
Operations and maintenance	79,541	-	-	79,541
Central	169,186	6,012	-	175,198
	<u>6,578,720</u>	<u>793,195</u>	<u>-</u>	<u>7,371,915</u>
Excess of revenues over expenditures	<u>538,065</u>	<u>25,474</u>	<u>9,892</u>	<u>573,431</u>
Fund balances, July 1	664,170	149,005	-	813,175
Decrease in reserve for inventory	(1,159)	-	-	(1,159)
Fund balances, June 30	<u>\$ 1,201,076</u>	<u>\$ 174,479</u>	<u>\$ 9,892</u>	<u>\$ 1,385,447</u>

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

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**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 FISCAL YEAR ENDED JUNE 30, 2002

	General			Special Revenue		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:						
From local sources:						
Tuition	\$ 598,600	\$ 1,143,796	\$ 545,196	\$ -	\$ -	\$ -
Earnings on investments	75,000	40,614	(34,386)	-	-	-
Other local revenues	55,000	154,740	99,740	-	-	-
Contract services	4,044,023	4,746,006	701,983	-	-	-
Other revenue	-	-	-	-	8,492	8,492
Intergovernmental - State	661,256	718,101	56,845	305,828	446,003	140,175
Intergovernmental - Federal	200,000	230,673	30,673	278,910	377,146	98,236
Total revenues	<u>5,633,879</u>	<u>7,033,930</u>	<u>1,400,051</u>	<u>584,738</u>	<u>831,641</u>	<u>246,903</u>
Expenditures:						
Current:						
Instruction:						
Regular	826,438	736,641	89,797	145,403	145,403	-
Special	2,406,994	2,226,508	180,486	23,142	6,942	16,200
Other	250	-	250	-	-	-
Support services:						
Pupil	1,779,685	1,664,327	115,358	35,394	594	34,800
Instructional staff	215,742	211,400	4,342	253,318	195,053	58,265
Board of Education	68,831	52,618	16,213	-	-	-
Administration	1,374,505	1,226,860	147,645	472,529	410,368	62,161
Fiscal	189,221	176,923	12,298	38,538	35,538	3,000
Business	900	481	419	-	-	-
Operations and maintenance	87,600	85,025	2,575	-	-	-
Central	196,991	162,203	34,788	6,625	6,012	613
Total expenditures	<u>7,147,157</u>	<u>6,542,986</u>	<u>604,171</u>	<u>974,949</u>	<u>799,910</u>	<u>175,039</u>
Excess of revenues over (under) expenditures	<u>(1,513,278)</u>	<u>490,944</u>	<u>2,004,222</u>	<u>(390,211)</u>	<u>31,731</u>	<u>421,942</u>
Other financing sources (uses):						
Advances in	-	117,869	117,869	-	-	-
Advances out	(34,718)	(34,718)	-	(83,151)	(83,151)	-
Refund of prior year expenditure	-	40,411	40,411	-	4,591	4,591
Total other financing sources (uses)	<u>(34,718)</u>	<u>123,562</u>	<u>158,280</u>	<u>(83,151)</u>	<u>(78,560)</u>	<u>4,591</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>(1,547,996)</u>	<u>614,506</u>	<u>2,162,502</u>	<u>(473,362)</u>	<u>(46,829)</u>	<u>426,533</u>
Fund balances, July 1	1,111,569	1,111,569	-	159,623	159,623	-
Prior year encumbrances appropriated	<u>3,649</u>	<u>3,649</u>	<u>-</u>	<u>3,852</u>	<u>3,852</u>	<u>-</u>
Fund balances, June 30	<u>\$ (432,778)</u>	<u>\$ 1,729,724</u>	<u>\$ 2,162,502</u>	<u>\$ (309,887)</u>	<u>\$ 116,646</u>	<u>\$ 426,533</u>

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

Capital Projects			Total (Memorandum only)		
Budget Revised	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)
\$ -	\$ -	\$ -	\$ 598,600	\$ 1,143,796	\$ 545,196
-	-	-	75,000	40,614	(34,386)
-	-	-	55,000	154,740	99,740
-	-	-	4,044,023	4,746,006	701,983
-	-	-	-	8,492	8,492
-	9,892	9,892	967,084	1,173,996	206,912
-	-	-	478,910	607,819	128,909
-	9,892	9,892	6,218,617	7,875,463	1,656,846
-	-	-	971,841	882,044	89,797
-	-	-	2,430,136	2,233,450	196,686
-	-	-	250	-	250
-	-	-	1,815,079	1,664,921	150,158
9,892	9,711	181	478,952	416,164	62,788
-	-	-	68,831	52,618	16,213
-	-	-	1,847,034	1,637,228	209,806
-	-	-	227,759	212,461	15,298
-	-	-	900	481	419
-	-	-	87,600	85,025	2,575
-	-	-	203,616	168,215	35,401
9,892	9,711	181	8,131,998	7,352,607	779,391
(9,892)	181	10,073	(1,913,381)	522,856	2,436,237
-	-	-	-	117,869	117,869
-	-	-	(117,869)	(117,869)	-
-	-	-	-	45,002	45,002
-	-	-	(117,869)	45,002	162,871
(9,892)	181	10,073	(2,031,250)	567,858	2,599,108
-	-	-	1,271,192	1,271,192	-
-	-	-	7,501	7,501	-
\$ (9,892)	\$ 181	\$ 10,073	\$ (752,557)	\$ 1,846,551	\$ 2,599,108

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 1 - DESCRIPTION OF THE ENTITY

The Delaware-Union Educational Service Center (the "ESC") is located in Delaware, Ohio. The ESC 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 ESC furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The ESC operates under a locally-elected Board form of government consisting of 5 members elected at-large for staggered four-year terms. The ESC has 57 support staff employees, 89 certified teaching personnel, and 5 administrative personnel that provide services to the local, city, and joint vocational school districts.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general purpose financial statements (GPFS) of the ESC have been prepared in conformity with accounting principles generally accepted in the United States of America (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.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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

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.

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-UNION EDUCATIONAL SERVICE CENTER
DELAWARE COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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

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 ESC. The JVS possesses its own budgeting and taxing authority. Financial information is available from the Delaware Joint Vocational School, at 4565 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 ESC. 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.

PUBLIC ENTITY RISK POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

The Center participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the Plan) was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

The Plan'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 Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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

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.

GOVERNMENTAL FUNDS

Governmental funds are those through which governmental functions of the ESC are financed. The acquisition, use and balances of the ESC's expendable financial resources and the related liabilities 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 ESC for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds - The 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.

Capital Projects Fund - The capital projects fund is used to account for financial resources to be used for the acquisition of equipment.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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

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 timing, eligibility and contingency requirements have been met by year-end), and accounts.

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 timing, eligibility and contingency requirements have been met and the resources are available.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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

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 ESC 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.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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

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 \$37. This amount is provided from state resources.

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

APPROPRIATIONS

The annual appropriation resolution is legally enacted by the ESC's Governing Board at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the ESC may pass a temporary appropriation measure to meet the ordinary expenses of the ESC. 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.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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

The ESC's Governing Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions. All supplemental appropriations were legally enacted by the Governing Board during fiscal 2002.

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.

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, compared to encumbrances outstanding at year-end reported as expenditures on the budget basis of accounting. 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.

During 2002, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), a repurchase agreement and nonnegotiable certificates of deposit.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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, 2002.

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 2002 totaled \$42,208, which included \$3,903 assigned from other funds of the ESC.

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

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 fiscal year-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.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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 fiscal year-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. 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. No depreciation is recognized for assets in the general fixed assets account group. The ESC has no infrastructure. Interest is not capitalized on fixed assets.

I. Compensated Absences

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

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

In accordance with the provisions of GASB Statement No. 16, Accounting for Compensated Absences, a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. 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 (with the exception of the Superintendent who receives one-half) of accrued, but unused sick leave, to a maximum of 30 days, for all employees except the Superintendent and Treasurer, who have no maximum.

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.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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

J. Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds, regardless of whether they will be liquidated with current resources; however, compensated absences 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.

K. Fund Equity

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

L. Interfund Transactions

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.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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

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 2002 is presented in Note 5.

M. Estimates

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

N. Memorandum Only - Total Columns

Total columns on the GPFS 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 GAAP. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Deficit Fund Balances

The following funds had deficit fund balances at June 30, 2002:

	<u>Deficit Fund Balances</u>
<u>Special Revenue Fund</u>	
Miscellaneous Federal Grants	\$ 627
Alternative School Grant	5,101

These funds complied with Ohio State law which does not allow for a cash deficit at year-end. These GAAP-basis 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. These deficits are a result of accruing liabilities in accordance with GAAP.

NOTE 4 -EQUITY IN POOLED CASH AND INVESTMENTS

State statutes classify monies held by the ESC into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the ESC treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits the Governing Board has identified as not required for use within the current 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.

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

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,

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

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

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

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

Deposits: At year-end, the carrying amount of the ESC's deposits was \$(121,132) and the bank balance was \$290,003. 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 ESC's bank accounts. The negative carrying amount of deposits is due to the sweeping of monies into overnight repurchase agreements which are reported as "investments". Of the bank balance:

1. \$100,000 was covered by federal deposit insurance; and
2. \$190,003 was uninsured and unclassified as defined by GASB because it was secured by collateral held by third party trustees pursuant to section 135.181, Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the ESC. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the ESC to a successful claim by the FDIC.

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

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 are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	Category of Risk 3	Fair Value
Repurchase agreements	\$685,000	\$ 685,000
Not subject to categorization:		
Investment in STAR Ohio	-	1,309,563
Total investments	<u>\$685,000</u>	<u>\$1,994,563</u>

The classification of cash and cash equivalents 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 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	\$ 1,873,431	\$ -
Investments of the cash		
Management pool:		
Repurchase agreements	(685,000)	685,000
Investment in STAR Ohio	(1,309,563)	1,309,563
GASB Statement No. 3	<u>\$ (121,132)</u>	<u>\$1,994,563</u>

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 5 - INTERFUND TRANSACTIONS

Interfund balances at June 30, 2002, consist of the following individual interfund loans receivable and payable:

	<u>Interfund Loans Receivable</u>	<u>Interfund Loans Payable</u>
General Fund	\$627	\$ -
<u>Special Revenue Funds</u>		
Miscellaneous federal grants	—	<u>627</u>
Total interfund loans	<u>\$627</u>	<u>\$627</u>

NOTE 6 - RECEIVABLES

Receivables at June 30, 2002 consisted of accounts (billings for user charged services and student fees), accrued interest, interfund loans, and intergovernmental grants (to the extent timing, eligibility and contingency requirements have been met by fiscal year-end). Intergovernmental grants receivable have been presented as “Due From Other Governments” on the combined balance sheet. Intergovernmental receivables are considered collectible in full due to the stable condition of state programs.

	<u>Amounts</u>
<u>General Fund</u>	
Interfund loans	\$ 627
Accrued interest	657
Accounts	51,340
<u>Special Revenue Funds</u>	
Due from other governments	70,179
Accounts	1,334

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 7 - FIXED ASSETS

A summary of the changes in the general fixed asset account group during the fiscal year follows:

	<u>Balance July 1, 2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2002</u>
Furniture/Equipment	<u>\$388,508</u>	<u>\$84,112</u>	<u>\$(17,893)</u>	<u>\$454,727</u>
Total	<u>\$388,508</u>	<u>\$84,112</u>	<u>\$(17,893)</u>	<u>\$454,727</u>

NOTE 9 - LONG-TERM OBLIGATIONS

During the year ended June 30, 2002, 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.

	<u>Balance July 1, 2001</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2002</u>
Compensated absences	\$28,704	\$118,198	\$(13,749)	\$133,153

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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NOTE 10 - RISK MANAGEMENT

A. Comprehensive

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 2002, the Education Service Center contracted with Nationwide Insurance for property and liability insurance. Coverages are as follows:

Building contents - replacement cost (\$250 deductible)	\$ 574,335
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.

B. Worker's Compensation

The Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (See Note 2.A.). 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 Ohio School Boards Association. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

The intent of the GRP is to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. The worker's compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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NOTE 10 - RISK MANAGEMENT - (Continued)

The ESC pays the State Bureau of Worker's Compensation a premium based on a rate of \$.007149 per \$100 of salaries. This rate is calculated based on claims history and administrative costs.

C. Group Health, Life and Dental Insurance

Health, life, dental and other group insurance is offered to employees as a fringe benefit. Employer and employee contributions to premium are approved by the Governing Board (currently, single coverage is 100% Board paid and family coverage is 72% Board-paid and 28% employee-paid).

While all benefit plans are traditionally-funded through common carriers, the Board's group health plan contains provisions for discounted amounts to be remitted to the carrier during the year (90% of the carrier-established premium for fiscal 2002), contingent upon the group's claims experience for the year. While the District has not retained risk for any claims, should the group's claim costs for the year exceed the threshold of the discounted amount remitted to the carrier during the year, the District must remit additional premium, to a maximum of the difference between the discounted premium and the full premium.

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 District.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 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 administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215, or by calling (614) 222-5853.

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; 5.46% 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, 2002, 2001, and 2000 were \$70,393, \$206,633, and \$101,087, 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 THE GENERAL PURPOSE FINANCIAL STATEMENTS
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NOTE 11 - DEFINED BENEFIT PENSION PLANS - (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, 2002, 2001, and 2000 were \$347,264, \$566,925, and \$461,354, 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, 2002, certain members of the Governing Board have elected Social Security. The Board's liability is 6.2% of wages paid.

NOTE 12 - POSTEMPLOYMENT BENEFITS

The ESC provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS 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 pay a portion of the 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 State Teachers Retirement Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve fund. For the ESC, this amount equaled \$164,493 during fiscal 2002.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.256 billion at June 30, 2001 (the latest information available). For the fiscal year ended June 30, 2001 (the latest information available), net health care costs paid by STRS were \$300.772 million and STRS had 102,132 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and 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 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 8.54 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, 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.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2001 (the latest information available), were \$161.440 million and the target level was \$242.2 million. At June 30, 2001 (the latest information available), SERS had net assets available for payment of health care benefits of \$315.7 million and SERS had approximately 50,000 participants receiving health care benefits. For the ESC, the amount to fund health care benefits, including surcharge, equaled \$121,786 during the 2002 fiscal year.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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NOTE 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 Comparison (Non-GAAP Budgetary Basis) - 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).

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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NOTE 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 of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Financing Uses		
	<u>Governmental Fund Types</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
Budget basis	\$ 614,506	\$(46,829)	\$ 181
Net adjustment for revenue accruals	82,855	(12,972)	-
Net adjustment for expenditure accruals	(51,465)	5,277	-
Net adjustment for other financing sources/(uses)	(123,562)	78,560	-
Encumbrances (budget basis)	<u>15,731</u>	<u>1,438</u>	<u>9,711</u>
GAAP Basis	<u>\$ 538,065</u>	<u>\$25,474</u>	<u>\$9,892</u>

NOTE 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, 2002.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 14 - CONTINGENCIES - (Continued)

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 timeline 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.

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. In November, 2001, the Court granted the request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 21, 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement. The case is now under reconsideration by the Court.

The ESC is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 15 - SUBSEQUENT EVENT

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...".

The ESC is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

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

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2002**

<u>Federal Grantor</u> <i>Pass-Through Grantor</i> Program Title	Federal CFDA Number	Pass Through Entity Number	Receipts	Disbursements
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed through Ohio Department of Education</i>				
Title I Grants to Local Educational Agencies	84.010	046730-C1-ST-2002-P	\$239,995	\$211,148
Special Education Grants to States	84.027	046730-6B-SA-2002-P	15,000	0
Goals 2000 - State and Local Education Systemic Improvement Grant	84.276	046730-G2S9-2001	39,000	33,534
Total U.S. Department of Education			293,995	244,682
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
<i>Passed through Ohio Department of Mental Retardation and Developmental Disabilities</i>				
Medical Assistance Program	93.778	N/A	230,673	230,673
TOTAL FEDERAL AWARDS EXPENDITURES			\$524,668	\$475,355

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

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

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2002**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

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



STATE OF OHIO
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**REPORT OF INDEPENDENT ACCOUNTANTS 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 the Delaware-Union Educational Service Center, Delaware County, Ohio, (the Center) as of and for the year ended June 30, 2002, and have issued our report thereon dated November 8, 2002, except for Note 15 which is dated December 11, 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 Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 certain other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Center in a separate letter dated November 8, 2002.

Delaware-Union Educational Service Center
Delaware County
Report of Independent Accountants on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

This report is intended for the information and use of the Board of Education, 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.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is fluid and cursive, with a large loop at the end.

JIM PETRO
Auditor of State

November 8, 2002



STATE OF OHIO
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**REPORT OF INDEPENDENT ACCOUNTANTS 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 Education:

Compliance

We have audited the compliance of the Delaware-Union Educational Service Center, Delaware County, Ohio, (the Center) 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 each of its major federal programs for the year ended June 30, 2002. The Center's major federal programs are 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 Center's management. Our responsibility is to express an opinion on the Center'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 Center'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 Center's compliance with those requirements.

In our opinion, the Center complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

Internal Control Over Compliance

The management of the Center 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 Center'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.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Center's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the accompanying schedule of findings as item 2002-10621-001.

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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended for the information and use of management, the Board of Education, 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

November 8, 2002.

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505**

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?	Yes
(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?	Yes
(d)(1)(vii)	Major Programs (list):	CFDA #84.010 – Title I Grants to Local Educational Agencies CFDA #93.778 – Medical Assistance Program
(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

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Medicaid Claims Processing

Finding Number	2002-10621-001
CFDA Title and Number	CFDA #93.778 – Medical Assistance Program
Federal Agency	U.S. Department of Health and Human Services
Pass-Through Agency	Ohio Department of Mental Retardation and Developmental Disabilities

Material Weakness

The Center has delegated Medicaid claims processing, which is a significant accounting function, to a third-party administrator. The Center has not established procedures to determine whether the service organization has sufficient controls in place and operating effectively to reduce the risk that Medicaid claims have not been completely and accurately processed in accordance with the Medicaid claims processing contract.

We recommend the Center implement procedures to assure the completeness and accuracy of Medicaid claims processed by its third-party administrator. Statement on Auditing Standards (SAS) No. 70, as amended, prescribes standards for reporting on the processing (e.g. control design and operating) of transactions by service organizations. An unqualified Tier II “Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness” in accordance with SAS No. 70 should provide the Center with an appropriate level of assurance that Medicaid claims are being processed in conformance with the contract.

We recommend the Center specify in their contract with the third-party administrator that an annual Tier II SAS 70 audit report be performed. The center should be provided a copy of the SAS 70 report timely and should review the report’s content. A SAS 70 audit report should be conducted in accordance with American Institute of Certified Public Accountants’ (AICPA) standards by a firm registered and considered in “good standing” with the Accountancy Board of the respective State. If the third-party administrator refuses to provide the Center with a Tier II SAS 70 report, we recommend the Center contract only with a third-party administrator that will provide such a report.



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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
DECEMBER 31, 2002**