

**DELAWARE UNION EDUCATIONAL SERVICE CENTER  
DELAWARE COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2006**



**Auditor of State  
Betty Montgomery**





Mary Taylor, CPA  
Auditor of State

January 8, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

*Mary Taylor*

MARY TAYLOR, CPA  
Auditor of State

**This Page is Intentionally Left Blank.**

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

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report .....	1
General Purpose External Financial Statements:	
Management's Discussion and Analysis .....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets .....	11
Statement of Activities .....	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds .....	13
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities .....	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds .....	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	16
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) – General Fund.....	17
Notes to the Basic Financial Statements.....	19
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	39
Schedule of Prior Audit Findings .....	41

**THIS PAGE INTENTIONALLY LEFT BLANK**



**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Delaware-Union Educational Service Center, Delaware County, Ohio (the Center), as of and for the year ended June 30, 2006, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express opinions on these 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Delaware-Union Educational Service Center, Delaware County, Ohio, as of June 30, 2006, and the respective changes in financial position and the budgetary comparison for the General fund 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 December 8, 2006, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

December 8, 2006



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

FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED

The management's discussion and analysis of the Delaware-Union Educational Service Center (the "ESC") financial performance provides an overall review of the ESC's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the ESC's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the ESC's financial performance.

**Financial Highlights**

Key financial highlights for 2006 are as follows:

- In total, net assets of governmental activities increased \$50,037, which represents a 2.63% increase from 2005.
- General revenues accounted for \$1,082,709 in revenue or 8.90% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$11,082,826 or 91.10% of total revenues of \$12,165,535.
- The ESC had \$12,115,498 in expenses related to governmental activities; \$11,082,826 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily unrestricted grants and entitlements) of \$1,082,709 were adequate to provide for these programs. The ESC primarily relies on charges for services, grants and contributions.
- The ESC's only major governmental fund is the general fund. The general fund had \$11,377,408 in revenues and \$10,848,991 in expenditures. During fiscal 2006, the general fund's fund balance increased \$528,417 from \$1,487,653 to \$2,016,070.

**Using the Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the ESC as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole ESC, presenting both an aggregate view of the ESC's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the ESC's most significant funds with all other nonmajor funds presented in total in one column. In the case of the ESC, the general fund is by far the most significant fund, and the only governmental fund reported as a major fund.

**Reporting the ESC as a Whole**

***Statement of Net Assets and the Statement of Activities***

While this document contains the large number of funds used by the ESC to provide programs and activities, the view of the ESC as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)

These two statements report the ESC's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the ESC as a whole, the *financial position* of the ESC has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include equipment conditions, required educational programs and other factors.

In the statement of net assets and the statement of activities, the governmental activities include the ESC's programs and services, including instruction, support services, and operation and maintenance. These statements are located on pages 11 and 12 of the basic financial statements.

**Reporting the ESC's Most Significant Funds**

***Fund Financial Statements***

The analysis of the ESC's major governmental fund begins on page 8. Fund financial reports provide detailed information about the ESC's major funds. The ESC uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the ESC's most significant funds. The ESC's only major governmental fund is the general fund.

***Governmental Funds***

The ESC's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the ESC's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 13-17 of this report.

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 18-37 of this report.

**The ESC as a Whole**

Recall that the Statement of Net Assets provides the perspective of the ESC as a whole.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)

The table below provides a summary of the ESC's net assets for 2006 and 2005.

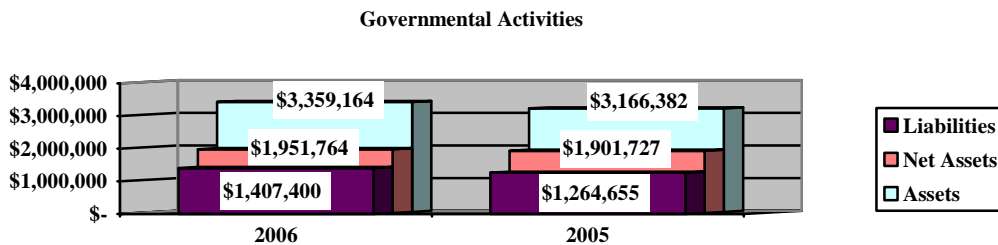
	Net Assets	
	Governmental Activities 2006	Governmental Activities 2005
<b><u>Assets</u></b>		
Current and other assets	\$ 3,118,146	\$ 2,924,159
Capital assets, net	241,018	242,223
Total assets	3,359,164	3,166,382
<b><u>Liabilities</u></b>		
Current liabilities	1,029,127	952,168
Long-term liabilities	378,273	312,487
Total liabilities	1,407,400	1,264,655
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	241,018	242,223
Restricted	39,457	178,069
Unrestricted	1,671,289	1,481,435
Total net assets	\$ 1,951,764	\$ 1,901,727

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the ESC's assets exceeded liabilities by \$1,951,764. At year-end, unrestricted net assets were \$1,671,289. The statement of net assets is located on page 11 of the basic financial statements.

At year-end, capital assets represented 7.17% of total assets. Capital assets include furniture and equipment. Capital assets, net of related debt to acquire the assets at June 30, 2006, were \$241,018. These capital assets are used to provide services to other school districts and are not available for future spending.

A portion of the ESC's net assets, \$39,457, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$1,671,289 may be used to meet the ESC's ongoing obligations to the students and creditors.

The chart below compares the ESC's assets, liabilities and net assets for fiscal years 2006 and 2005.



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

FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)

The table below shows the change in net assets for fiscal years 2006 and 2005. The statement of activities is located on page 13 of the basic financial statements.

	Change in Net Assets	
	Governmental Activities 2006	Governmental Activities 2005
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services	\$ 9,606,697	\$ 9,048,805
Operating grants and contributions	1,476,129	1,625,730
General revenues:		
Grants and entitlements not restricted to specific programs	972,382	1,063,754
Investment earnings	110,327	65,505
Total revenues	12,165,535	11,803,794
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	1,340,301	1,394,141
Special	4,345,379	3,981,369
Support services:		
Pupil	2,477,528	2,363,470
Instructional staff	624,484	547,085
Board of education	78,533	79,277
Administration	2,501,526	2,598,623
Fiscal	414,239	332,155
Business	797	426
Operations and maintenance	109,207	118,453
Central	223,504	184,129
Interest and fiscal charges	-	1,962
Total expenses	12,115,498	11,601,090
Change in net assets	50,037	202,704
Net assets at beginning of year	1,901,727	1,699,023
Net assets at end of year	\$ 1,951,764	\$ 1,901,727

**Governmental Activities**

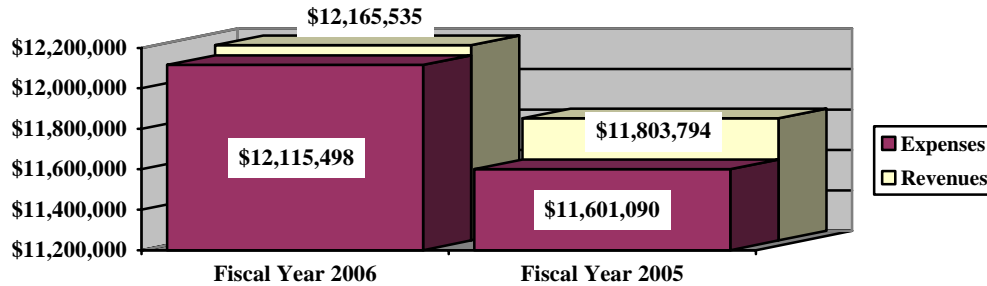
Net assets of the ESC's governmental activities increased \$50,037. Total governmental expenses of \$12,115,498 were offset by program revenues of \$11,082,826 and general revenues of \$1,082,709. Program revenues supported 91.48% of the total governmental expenses.

The primary source of revenue for governmental activities is derived from charges for services. This program revenue source totaled \$9,606,697 and represents 78.97% of total governmental revenue. The ESC had an increase in contract services revenue during fiscal year 2006, due to an increase in services provided to area school districts. The graph below presents the ESC's governmental activities revenue and expenses for fiscal year 2006 and 2005.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)

**Governmental Activities - Revenues and Expenses**



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2006 and 2005. That is, it identifies the cost of these services supported by unrestricted State grants and entitlements.

**Governmental Activities**

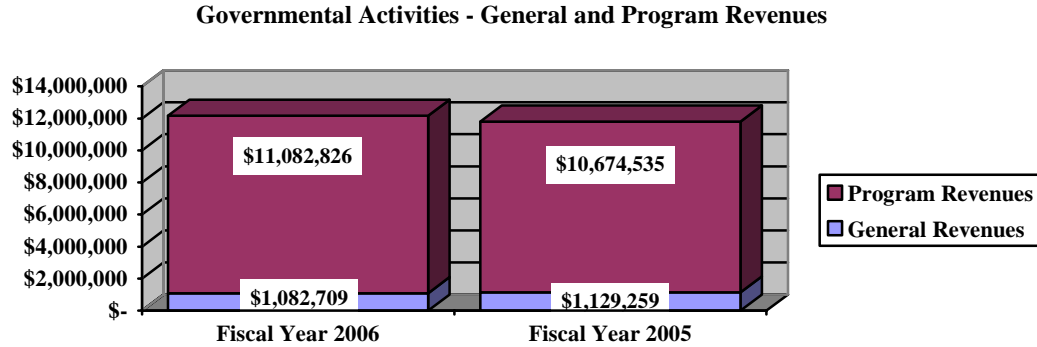
	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>
<b>Program expenses</b>				
Instruction:				
Regular	\$ 1,340,301	\$ (554,746)	\$ 1,394,141	\$ (461,232)
Special	4,345,379	289,897	3,981,369	283,246
Support services:				
Pupil	2,477,528	(221,601)	2,363,470	(195,323)
Instructional staff	624,484	(33,589)	547,085	(47,584)
Board of education	78,533	78,533	79,277	79,277
Administration	2,501,526	1,225,274	2,598,623	1,096,841
Fiscal	414,239	85,114	332,155	8,338
Business	797	797	426	426
Operations and maintenance	109,207	24,275	118,453	29,202
Central	223,504	138,718	184,129	131,402
Interest and fiscal charges	-	-	1,962	1,962
<b>Total expenses</b>	<u>\$ 12,115,498</u>	<u>\$ 1,032,672</u>	<u>\$ 11,601,090</u>	<u>\$ 926,555</u>

For all governmental activities, program revenue support is 91.48% and 92.01% in 2006 and 2005, respectively. The ESC's contracted services, as a whole, are by far the primary support for ESC's delivery of services.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)

The graph below presents the ESC's governmental activities revenue for fiscal year 2006 and 2005.



**The ESC's Funds**

The ESC's governmental funds, as presented on the balance sheet on page 13, reported a combined fund balance of \$2,069,210, which is more than last year's total of \$1,664,958. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	<u>Fund Balance</u> <u>June 30, 2006</u>	<u>Fund Balance</u> <u>June 30, 2005</u>	<u>Increase/</u> <u>(Decrease)</u>
General	\$ 2,016,070	\$ 1,487,653	\$ 528,417
Other Governmental	53,140	177,305	(124,165)
<b>Total</b>	<u>\$ 2,069,210</u>	<u>\$ 1,664,958</u>	<u>\$ 404,252</u>

**General Fund**

The ESC's general fund balance increased by \$528,417. The increase in fund balance can be attributed to an increase in contract services revenue that exceeded an increase in expenditures during fiscal year 2006. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>				
Tuition	\$ 865,900	\$ 930,360	\$ (64,460)	(6.93) %
Earnings on investments	107,199	60,531	46,668	77.10 %
Contract services	8,572,247	7,449,984	1,122,263	15.06 %
Intergovernmental	1,374,077	1,376,033	(1,956)	(0.14) %
Other revenues	457,985	367,319	90,666	24.68 %
<b>Total</b>	<u>\$ 11,377,408</u>	<u>\$ 10,184,227</u>	<u>\$ 1,193,181</u>	11.72 %
<b><u>Expenditures</u></b>				
Instruction	\$ 5,479,511	\$ 5,108,409	\$ 371,102	7.26 %
Support services	5,369,480	5,166,223	203,257	3.93 %
<b>Total</b>	<u>\$ 10,848,991</u>	<u>\$ 10,274,632</u>	<u>\$ 574,359</u>	5.59 %

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)

The significant increase in revenues occurred in contract services and earnings on investments. The ESC had an increase in contract services revenue due to an increase in services provided. The increase in earnings on investments can be attributed to increased interest rates. The increase in other revenues is primarily due to the receipt of fees for sponsorship of new community schools. The overall increase in expenditures is due to an increased number of employees in addition to wage and benefit increases.

***General Fund Budgeting Highlights***

The ESC's budget is prepared according to Ohio Department of Education requirements and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal 2006, the ESC amended its general fund budget a few times. For the general fund, final budgeted revenues and other financing sources were \$11,352,701, which was an increase from the original budgeted revenues and other financing sources estimate of \$11,000,000. Actual revenues and other financing sources for fiscal 2006 was \$11,352,701 which is the same as final budgeted revenues.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$12,110,672 were increased to \$12,152,091 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2006 totaled \$10,834,863, which was \$1,317,228 less than the final budget appropriations due to conservative estimates.

**Capital Assets**

At the end of fiscal 2006, the ESC had \$241,018 invested in furniture and equipment. This entire amount is reported in governmental activities statement of net assets. The following table shows fiscal 2006 balances compared to 2005:

	<b>Capital Assets at June 30 (Net of Depreciation)</b>	
	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Furniture and equipment	<u>\$ 241,018</u>	<u>\$ 242,223</u>

The overall decrease in capital assets of \$1,205 was primarily due to depreciation expense of \$53,635 and disposals of \$3,604 (net of accumulated depreciation) exceeding capital outlays of \$56,034. See Note 7 to the basic financial statements for additional information on the ESC's capital assets.

**Current Financial Related Activities**

As the preceding shows, the ESC relies heavily upon contracts with local, city and exempted village school districts in central Ohio, state foundation revenue and grants.

As of the time of this report, H.B. 567 is being introduced for the proposal of the Ohio Regional Delivery System. The Ohio Department of Education is also researching a model of similar proportion. ESC's are unable to determine what effect this legislation will have on future state funding and on its financial operations.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)

Continued Supreme Court rulings declare that the State is far too dependent upon property taxes for school funding purposes and deemed this system inequitable and inadequate. Directives have been issued to the Governor and legislature to address this subject. Changes to the current system would directly affect the ESC's funding structure as the affected districts are a fundamental piece of our revenue stream. Currently, the ESC is unable to determine the outcome of the Court's directive.

The ESC looks to expand fiscal, administrative and consulting services to districts and outside agencies. These new contracts and expanded services in addition to the current stable cash position will provide the necessary funds to meet operating expenses of the future.

**Contacting the ESC's Financial Management**

This financial report is designed to provide our local school districts, creditors and other interested parties with a general overview of the ESC's finances and to show the ESC's accountability for the money it receives. If you have questions about this report or need additional financial information contact: Ms. Patty Auck, Treasurer, Delaware-Union Educational Service Center, 4565 Columbus Pike, Delaware, Ohio 43015-8969.



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

STATEMENT OF NET ASSETS  
JUNE 30, 2006

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents . . .	\$ 2,796,194
Receivables:	
Intergovernmental . . . . .	266,517
Accrued interest . . . . .	27,733
Prepayments . . . . .	22,798
Materials and supplies inventory . . . . .	4,904
Capital assets, net. . . . .	241,018
 Total assets. . . . .	 3,359,164
<b>Liabilities:</b>	
Accounts payable. . . . .	15,327
Accrued wages and benefits . . . . .	828,736
Pension obligation payable. . . . .	166,420
Intergovernmental payable . . . . .	18,644
Long-term liabilities:	
Due within one year. . . . .	186,898
Due in more than one year . . . . .	191,375
 Total liabilities . . . . .	 1,407,400
<b>Net Assets:</b>	
Invested in capital assets. . . . .	241,018
Restricted for:	
Locally funded progams. . . . .	500
State funded progams . . . . .	38,315
Federally funded progams. . . . .	38
Other purposes. . . . .	604
Unrestricted. . . . .	1,671,289
 Total net assets . . . . .	 \$ 1,951,764

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
<b>Governmental activities:</b>				
Instruction:				
Regular . . . . .	\$ 1,340,301	\$ 1,509,039	\$ 386,008	\$ 554,746
Special . . . . .	4,345,379	4,055,435	47	(289,897)
Support services:				
Pupil. . . . .	2,477,528	2,674,383	24,746	221,601
Instructional staff . . . . .	624,484	481,886	176,187	33,589
Board of education . . . . .	78,533	-	-	(78,533)
Administration. . . . .	2,501,526	528,630	747,622	(1,225,274)
Fiscal. . . . .	414,239	272,392	56,733	(85,114)
Business. . . . .	797	-	-	(797)
Operations and maintenance . . . . .	109,207	84,932	-	(24,275)
Central . . . . .	223,504	-	84,786	(138,718)
Total governmental activities . . . . .	<u>\$ 12,115,498</u>	<u>\$ 9,606,697</u>	<u>\$ 1,476,129</u>	<u>(1,032,672)</u>

**General Revenues:**

Grants and entitlements not restricted to specific programs. . . . .	972,382
Investment earnings . . . . .	110,327
Total general revenues. . . . .	<u>1,082,709</u>
Change in net assets . . . . .	50,037
<b>Net assets at beginning of year . . . . .</b>	<u>1,901,727</u>
<b>Net assets at end of year . . . . .</b>	<u>\$ 1,951,764</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents . . . . .	\$ 2,738,835	\$ 57,359	\$ 2,796,194
Receivables:			
Intergovernmental . . . . .	246,191	20,326	266,517
Accrued interest . . . . .	27,733	-	27,733
Interfund receivable . . . . .	20,953	-	20,953
Prepayments . . . . .	21,549	1,249	22,798
Materials and supplies inventory . . . . .	4,904	-	4,904
Total assets . . . . .	<u>\$ 3,060,165</u>	<u>\$ 78,934</u>	<u>\$ 3,139,099</u>
<b>Liabilities:</b>			
Accounts payable . . . . .	\$ 15,252	\$ 75	\$ 15,327
Accrued wages and benefits . . . . .	825,079	3,657	828,736
Pension obligation payable. . . . .	165,703	717	166,420
Intergovernmental payable. . . . .	18,252	392	18,644
Interfund payable. . . . .	-	20,953	20,953
Deferred revenue. . . . .	19,809	-	19,809
Total liabilities . . . . .	<u>1,044,095</u>	<u>25,794</u>	<u>1,069,889</u>
<b>Fund Balances:</b>			
Reserved for encumbrances . . . . .	4,104	16,887	20,991
Reserved for materials and supplies inventory. . . . .	4,904	-	4,904
Reserved for prepayments . . . . .	21,549	1,249	22,798
Unreserved, undesignated, reported in:			
General fund . . . . .	1,985,513	-	1,985,513
Special revenue funds. . . . .	-	35,004	35,004
Total fund balances . . . . .	<u>2,016,070</u>	<u>53,140</u>	<u>2,069,210</u>
Total liabilities and fund balances . . . . .	<u>\$ 3,060,165</u>	<u>\$ 78,934</u>	<u>\$ 3,139,099</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2006

<b>Total governmental fund balances</b>		\$ 2,069,210
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		241,018
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Contract services revenue	\$ 3,270	
Tuition	8,437	
Accrued interest	<u>8,102</u>	
Total		19,809
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		<u>(378,273)</u>
<b>Net assets of governmental activities</b>		<u><u>\$ 1,951,764</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
From local sources:			
Tuition. . . . .	\$ 865,900	\$ -	\$ 865,900
Earnings on investments. . . . .	107,199	-	107,199
Contract services. . . . .	8,572,247	-	8,572,247
Other local revenues. . . . .	457,985	-	457,985
Intergovernmental - intermediate . . . . .	92,824	3,100	95,924
Intergovernmental - state . . . . .	1,007,221	757,502	1,764,723
Intergovernmental - federal . . . . .	274,032	313,832	587,864
Total revenues. . . . .	<u>11,377,408</u>	<u>1,074,434</u>	<u>12,451,842</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular . . . . .	1,134,505	155,074	1,289,579
Special. . . . .	4,345,006	48	4,345,054
Support services:			
Pupil. . . . .	2,422,991	29,423	2,452,414
Instructional staff . . . . .	547,166	100,543	647,709
Board of education . . . . .	78,533	-	78,533
Administration. . . . .	1,647,375	837,386	2,484,761
Fiscal . . . . .	339,644	73,125	412,769
Business . . . . .	797	-	797
Operations and maintenance. . . . .	109,362	-	109,362
Central. . . . .	223,612	3,000	226,612
Total expenditures . . . . .	<u>10,848,991</u>	<u>1,198,599</u>	<u>12,047,590</u>
Net change in fund balances . . . . .	528,417	(124,165)	404,252
<b>Fund balances at beginning of year . . . .</b>	<u>1,487,653</u>	<u>177,305</u>	<u>1,664,958</u>
<b>Fund balances at end of year . . . . .</b>	<u>\$ 2,016,070</u>	<u>\$ 53,140</u>	<u>\$ 2,069,210</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006

<b>Net change in fund balances - total governmental funds</b>		\$ 404,252
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
<p>Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p>		
Capital asset additions	\$ 56,034	
Current year depreciation	<u>(53,635)</u>	
Total		2,399
<p>Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.</p>		
		(3,604)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Contract services	\$ (297,872)	
Tuition	8,437	
Accrued interest	<u>3,128</u>	
Total		(286,307)
<p>Some expenses reported in the statement of activities do not require the use of financial resources and therefore are not reported as expenditures in governmental funds.</p>		
		<u>(66,703)</u>
<b>Change in net assets of governmental activities</b>		<u><u>\$ 50,037</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
From local sources:				
Tuition . . . . .	\$ 954,350	\$ 893,443	\$ 893,443	\$ -
Earnings on investments . . . . .	75,000	94,634	94,634	-
Contract services . . . . .	7,410,861	8,297,752	8,297,752	-
Other local revenues . . . . .	325,150	455,129	455,129	-
Intergovernmental - intermediate . . . . .	180,000	96,328	96,328	-
Intergovernmental - state . . . . .	1,536,836	1,020,349	1,020,349	-
Intergovernmental - federal . . . . .	275,000	286,823	286,823	-
Total revenues . . . . .	<u>10,757,197</u>	<u>11,144,458</u>	<u>11,144,458</u>	<u>-</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	1,182,124	1,178,914	1,131,839	47,075
Special . . . . .	4,552,655	4,540,293	4,270,027	270,266
Support services:				
Pupil . . . . .	2,587,526	2,580,500	2,417,354	163,146
Instructional staff . . . . .	587,608	586,012	536,524	49,488
Board of education . . . . .	104,309	104,026	81,866	22,160
Administration . . . . .	2,248,423	2,242,318	1,650,880	591,438
Fiscal . . . . .	438,979	437,787	341,701	96,086
Business . . . . .	1,003	1,000	797	203
Operations and maintenance . . . . .	111,790	111,486	109,407	2,079
Central . . . . .	296,255	295,451	220,164	75,287
Total expenditures . . . . .	<u>12,110,672</u>	<u>12,077,787</u>	<u>10,760,559</u>	<u>1,317,228</u>
Excess of revenues over (under) expenditures . . . . .	<u>(1,353,475)</u>	<u>(933,329)</u>	<u>383,899</u>	<u>1,317,228</u>
<b>Other financing sources (uses):</b>				
Refund of prior year expenditure . . . . .	70,000	96,632	96,632	-
Advances in . . . . .	172,803	111,611	111,611	-
Advances out . . . . .	-	(74,304)	(74,304)	-
Total other financing sources (uses) . . . . .	<u>242,803</u>	<u>133,939</u>	<u>133,939</u>	<u>-</u>
Net change in fund balance . . . . .	(1,110,672)	(799,390)	517,838	1,317,228
<b>Fund balance at beginning of year . . . . .</b>	<b>2,212,372</b>	<b>2,212,372</b>	<b>2,212,372</b>	<b>-</b>
<b>Prior year encumbrances appropriated . . . . .</b>	<b>10,548</b>	<b>10,548</b>	<b>10,548</b>	<b>-</b>
<b>Fund balance at end of year . . . . .</b>	<b><u>\$ 1,112,248</u></b>	<b><u>\$ 1,423,530</u></b>	<b><u>\$ 2,740,758</u></b>	<b><u>\$ 1,317,228</u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**THIS PAGE INTENTIONALLY LEFT BLANK**



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 1 - DESCRIPTION OF THE ESC**

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 Delaware City, Fairbanks, North Union, Olentangy, Buckeye Valley, and Big Walnut Local School Districts, as well as the Delaware Area Career Center. The ESC also provides gifted and at-risk programs for students at the Districts listed as well as Dublin City, Hilliard City, Upper Arlington City, Grandview Heights City, Groveport Madison Local, Marysville City, Westerville City, Worthington City, Columbus City and Southwestern City School Districts. 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 116 support staff employees, 107 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 basic financial statements of the ESC have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The ESC also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The ESC's significant accounting policies are described below.

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the ESC 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, preschool and student related activities of the ESC.

Component units are legally separate organizations for which the ESC is financially accountable. The ESC is financially accountable for an organization if the ESC appoints a voting majority of the organizations' governing board and (1) the ESC is able to significantly influence the programs or services performed or provided by the organization; or (2) the ESC is legally entitled to or can otherwise access the organization's resources; or (3) the ESC is legally obligated or has otherwise assumed the responsibility to finance the deficits of; or (4) provide financial support to, the organization. Component units may also include organizations that are fiscally dependent on the ESC in that the ESC approves the budget. Based upon the application of these criteria, the ESC has no component units. The following organizations are described due to their relationship to the ESC:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (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 Area Career Center

The Delaware Area Career Center (the "Career Center") is a distinct political subdivision of the State of Ohio. The Career Center 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 Career Center possesses its own budgeting and taxing authority. Financial information is available from Christopher Bell, Treasurer, Delaware Area Career Center, at 4505 Columbus Pike, Delaware, Ohio 43015.

Tri-Rivers Career Center

The Tri-Rivers Career Center (the "Career Center") is a distinct political subdivision of the State of Ohio. The Career Center 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 Career Center possesses its own budgeting and taxing authority. Financial information is available from Ms. Terril Martin, Treasurer, Tri-Rivers Career Center, at 2222 Marion/Mt. Gilead Road, Marion, Ohio 43302.

*PUBLIC ENTITY RISK POOL*

Ohio School Boards Association Workers' Compensation Group Rating Plan

The ESC 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.

**B. Fund Accounting**

The ESC uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. The ESC has no proprietary or fiduciary funds; therefore, only governmental funds are described in these financial statements.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)

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

*GOVERNMENTAL FUNDS*

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the ESC's major governmental fund:

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

Other governmental funds of the ESC are used to account for grants and other resources whose use is restricted to a particular purpose.

**C. Basis of Presentation and Measurement Focus**

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the ESC as a whole. These statements include the financial activities of the primary government.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the ESC. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the ESC.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the ESC are included on the statement of net assets.

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

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)

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

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting.

*Revenues - Exchange and Non-exchange Transactions* - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the ESC, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the ESC receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the ESC must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the ESC on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

*Deferred Revenue* - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

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

*Expenses/Expenditures* - On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)

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

**E. Budgets**

The budgetary process followed by the ESC is for control purposes and is not required by statute. The ESC submits an annual budget of operating expenses to the State Department of Education Governing Board 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 \$37.00. 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. The districts to which the ESC provides service have agreed to pay \$9.50 per pupil to provide additional funding for services provided by the ESC.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)

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

*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. Any revisions that alter the 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 budgetary statement represent the original and 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 2006.

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

**F. Cash and Investments**

To improve cash management, cash received by the ESC is pooled in a central bank account. 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 basic financial statements.

During fiscal year 2006, investments were limited to a repurchase agreement, certificates of deposit, State Treasury Asset Reserve of Ohio (Star Ohio) and federal securities. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as repurchase agreements and nonnegotiable certificates of deposit, are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2006.

Under existing Ohio statutes all investment earning 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 year 2006 amounted to \$107,199, which includes \$2,753 assigned from other ESC funds.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)

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

**G. Inventory**

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method which means that the costs of inventory items are recorded as an expenditure in the governmental funds when consumed.

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption.

**H. Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The ESC maintains a capitalization threshold of \$500 for its general capital assets. The ESC does not possess any land, buildings, vehicles, or infrastructure. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities <u>Estimated Lives</u>
Furniture and equipment	5 - 20 years

**I. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities column on the statement of net assets.

**J. Compensated Absences**

The ESC reports compensated absences in accordance with the provisions of GASB No. 16, “Accounting for Compensated Absences”. Vacation benefits are accrued as a liability as the benefits are earned if the employee’s rights to receive compensation are attributable to services already rendered and it is probable that the ESC will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the “vesting method”. A liability for sick leave is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)

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

this future severance eligibility, all employees age fifty (50) with fifteen (15) years of service and five (5) years of service with the ESC were included.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

**K. Prepayments**

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. At fiscal year-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset on the fund financial statements.

**L. Accrued Liabilities and Long-Term Obligations**

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

**M. Fund Balance Reserves**

The ESC reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, and prepayments.

**N. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The ESC applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. As of June 30, 2006, the ESC had no amount restricted by enabling legislation.



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)

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

**O. Estimates**

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

**P. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Governing Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2006.

**NOTE 3 – ACCOUNTABILITY AND COMPLIANCE**

**A. Changes in Accounting Principles**

For fiscal year 2006, the District has implemented GASB Statement No. 42, “Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries”, GASB Statement No. 46, “Net Assets Restricted by Enabling Legislation” and GASB Statement No. 47, “Accounting for Termination Benefits”.

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 42, GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

**B. Deficit Fund Balances**

Fund balances at June 30, 2006 included the following individual fund deficit:

<u>Nonmajor Governmental Funds</u>	<u>Deficit</u>
Alternative Schools	\$ 17

This fund complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficit in this fund and provides transfers when cash is required, not when accruals occur. This deficit fund balance is the result of adjustments for accrued liabilities.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section 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 banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

8. Under limited circumstances, corporate debt interests rated in either of the two highest 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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**A. Deposits with Financial Institutions**

At June 30, 2006, the carrying amount of all ESC deposits was \$1,438,397, exclusive of the \$432,607 repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$1,318,339 of the ESC's bank balance of \$1,818,339 was exposed to custodial risk as discussed below, while \$500,000 was covered by Federal Deposit Insurance Corporation or Securities Investor Protection Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the ESC's deposits may not be returned. The ESC does not have a policy for custodial credit risk outside of the Ohio Revised Code. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the ESC.

**B. Investments**

As of June 30, 2006, the ESC had the following investments and maturities:

Investment type	Fair Value	Investment Maturities		
		6 months or less	13 to 18 months	19 to 24 months
FHLB	\$ 594,000	\$ 398,624	\$ -	\$ 195,376
FNMA	244,053	-	244,053	-
Repurchase Agreement	432,607	432,607	-	-
STAR Ohio	87,137	87,137	-	-
	<u>\$ 1,357,797</u>	<u>\$ 918,368</u>	<u>\$ 244,053</u>	<u>\$ 195,376</u>

The weighted average maturity of investments is .5 years.

*Interest Rate Risk:* As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the ESC's investment policy limits investment portfolio maturities to five years or less.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

*Credit Risk:* The ESC's investments, except for the repurchase agreement as discussed above and STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio and AAAM money market rating.

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the ESC will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Of the ESC's investment in repurchase agreements, the entire balance is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the ESC. The ESC has no deposit policy in regards to custodial credit risk beyond the requirements of the Ohio Revised Code.

*Concentration of Credit Risk:* The ESC places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the ESC at June 30, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
FHLB	\$ 594,000	43.75
FNMA	244,053	17.97
Repurchase Agreement	432,607	31.86
STAR Ohio	87,137	6.42
	<u>\$ 1,357,797</u>	<u>100.00</u>

**C. Reconciliation of Cash and Investment to the Statement of Net Assets**

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2006:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 1,438,397
Investments	<u>1,357,797</u>
Total	<u>\$ 2,796,194</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	<u>\$ 2,796,194</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

Interfund balances at June 30, 2006 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor special revenue fund	\$ 20,953

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)

**NOTE 5 - INTERFUND TRANSACTIONS- (Continued)**

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2006 are reported on the statement of net assets.

**NOTE 6 - RECEIVABLES**

Receivables at June 30, 2006 consisted of accrued interest and intergovernmental grants and entitlements. Intergovernmental receivables are considered collectible in full due to the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

<u>Governmental Activities</u>	<u>Amount</u>
Accrued interest	\$ 27,733
Intergovernmental	<u>266,517</u>
Total	<u>\$ 294,250</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year.

**NOTE 7 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u>
	<u>06/30/05</u>			<u>06/30/06</u>
<b>Governmental Activities</b>				
<i>Capital assets, being depreciated:</i>				
Furniture and equipment	\$ <u>520,737</u>	\$ <u>56,034</u>	\$ <u>(22,434)</u>	\$ <u>554,337</u>
Total capital assets, being depreciated	<u>520,737</u>	<u>56,034</u>	<u>(22,434)</u>	<u>554,337</u>
<i>Less: accumulated depreciation:</i>				
Furniture and equipment	<u>(278,514)</u>	<u>(53,635)</u>	<u>18,830</u>	<u>(313,319)</u>
Total accumulated depreciation	<u>(278,514)</u>	<u>(53,635)</u>	<u>18,830</u>	<u>(313,319)</u>
Governmental activities capital assets, net	<u>\$ 242,223</u>	<u>\$ 2,399</u>	<u>\$ (3,604)</u>	<u>\$ 241,018</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)

**NOTE 7 - CAPITAL ASSETS- (Continued)**

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 39,681
Special	2,064
<u>Support Services:</u>	
Instructional	2,142
Administration	6,341
Fiscal	428
Central	<u>2,979</u>
Total depreciation expense	<u>\$ 53,635</u>

**NOTE 8 - LONG-TERM OBLIGATIONS**

During fiscal year 2006, the following changes occurred in governmental activities long-term obligations:

	<u>Balance</u> <u>06/30/05</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>06/30/06</u>	<u>Amount</u> <u>Due in</u> <u>One Year</u>
<u>Other Long-Term Obligations</u>					
Compensated absences	<u>\$ 312,487</u>	<u>\$ 247,690</u>	<u>\$ (181,904)</u>	<u>\$ 378,273</u>	<u>\$ 186,898</u>

Compensated absences will be paid from the fund from which the employee is paid.

**NOTE 9 - OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave components derives from negotiated agreements and state laws. Classified employees earn ten to thirty days of vacation per fiscal year, depending upon the length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 210 days for all personnel. Upon completion of five or more years of service to the ESC, state, or other political subdivision, and retirement from the profession, payment is made for one-fourth of accrued, but unused sick leave credit up to a maximum of 30 days for all employees, with the exception of the Superintendent who has no maximum.

**B. Insurance Benefits**

The ESC provides life insurance and accidental death and dismemberment insurance to most employees through Coresources Inc.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)

**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 2006, the Education Service Center contracted with Ohio School Plan for liability insurance and with Hartford Casualty Insurance Company for property. Coverages are as follows:

Building contents - replacement cost (\$1,000 deductible)	\$ 859,000
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. Workers' Compensation**

The ESC participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool (see Note 2.A.). 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 Ohio School Boards Association (OSBA). 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 Plan to cover the costs of administering the Plan.

The intent of the Plan is to achieve the benefit of a reduced premium for the ESC by virtue of its grouping and representation with other participants in the Plan. 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 Plan. 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 Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the Plan.

The ESC pays the State Bureau of Workers' Compensation a premium based on a rate of \$.0015820 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 91% Board paid and 9% employee-paid, while family coverage is 71% Board-paid and 29% 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 2006), contingent upon the group's claims experience for the year. While the ESC 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 ESC must

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)

**NOTE 10 - RISK MANAGEMENT – (Continued)**

remit additional premiums, 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 ESC.

**NOTE 11 - PENSION PLANS**

**A. School Employees Retirement System**

The ESC contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. 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. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, [www.ohsers.org](http://www.ohsers.org), under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the ESC is required to contribute at an actuarially determined rate. The current ESC rate is 14 percent of annual covered payroll. A portion of the ESC's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The ESC's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$286,749, \$247,546, and \$190,924, respectively; 100% has been contributed for all fiscal years.

**B. State Teachers Retirement System**

The ESC participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)

**NOTE 11 - PENSION PLANS - (Continued)**

contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The ESC was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The ESC's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$705,512, \$686,667, and \$650,456, respectively; 100% has been contributed for all fiscal years. Contributions to the DC and Combined Plans for fiscal 2006 were \$38,827 made by the ESC and \$23,545 made by plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/ STRS. As of June 30, 2006, certain members of the Governing Board have elected Social Security. The ESC'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 the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the (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.

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the ESC, this amount equaled \$54,270 for fiscal year 2006.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)

**NOTE 12 - POSTEMPLOYMENT BENEFITS – (Continued)**

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.3 billion. For the fiscal year ended June 30, 2005 (the latest information available), net health care costs paid by STRS were \$254.780 million and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2005. 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 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, ESC paid \$138,910 to fund health care benefits, including the surcharge.

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 for the fiscal year ended June 30, 2005 (the latest information available) were \$178.221 million. At June 30, 2005 (the latest information available), SERS had net assets available for payment of health care benefits of \$267.5 million, which is about 168 percent of next years projected net health care costs of \$158.776 million. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 58,123 participants currently receiving health care benefits.

**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 Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund 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 and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses 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 Department of Education requirements, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)

**NOTE 13 - BUDGETARY BASIS OF ACCOUNTING – (Continued)**

the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

<b>Net Change in Fund Balance</b>	
	<u>General Fund</u>
Budget basis	\$ 517,838
Net adjustment for revenue accruals	232,950
Net adjustment for expenditure accruals	(100,274)
Net adjustment for other sources/uses	(133,939)
Adjustment for encumbrances	<u>11,842</u>
GAAP basis	<u>\$ 528,417</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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the ESC. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the ESC.

**B. Litigation**

The ESC is involved in no material litigation as either plaintiff or defendant.

**THIS PAGE INTENTIONALLY LEFT BLANK**



**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
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 financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Delaware-Union Educational Service Center, Delaware County, Ohio, (the Center) as of and for the year ended June 30, 2006, which collectively comprise the Center's basic financial statements and have issued our report thereon dated December 8, 2006. 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 the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Center's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Center's management dated December 8, 2006, we reported an other matter involving internal control over financial reporting we did not deem a reportable condition.

**Compliance and Other Matters**

As part of reasonably assuring whether the Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

35 N. Fourth St. / Second Floor / Columbus, OH 43215  
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

We intend this report solely for the information and use of management and the Board of Education. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

December 8, 2006

DELAWARE-UNION EDUCATIONAL SERVICE CENTER  
DELAWARE COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2006

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2005-001	26 U.S.C Section 3402 – withholding of income tax at source for employee bonuses.	Yes	N/A







**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**DELAWARE-UNION EDUCATIONAL SERVICE CENTER**

**DELAWARE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JANUARY 11, 2007**