

**DELAWARE UNION EDUCATIONAL SERVICE CENTER
DELAWARE COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2008



Mary Taylor, CPA
Auditor of State

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

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Mary Taylor, CPA

Auditor of State

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 the Delaware-Union Educational Service Center, Delaware County, Ohio (the Center), as of and for the year ended June 30, 2008, 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, 2008, and the respective changes in financial position thereof 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 May 21, 2009, 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 require. 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.

We conducted our audit to opine on the financial statements that collectively comprise the Center's basic financial statements. The Schedule of Revenues, Expenditures, and Changes in Fund Balance—Budget and Actual (Non-GAAP Budgetary Basis) provides additional information and is not a required part of the basic financial statements. We subjected the Schedule of Revenues, Expenditures, and Changes in Fund Balance—Budget and Actual (Non-GAAP Budgetary Basis) to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Mary Taylor, CPA
Auditor of State

May 21, 2009

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
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, 2008. 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 fiscal year 2008 are as follows:

- In total, net assets of governmental activities decreased \$674,428, which represents a 38.04% decrease from 2007.
- General revenues accounted for \$1,557,513 in revenue or 12.39% of all revenues. Program specific revenues in the form of charges for services, grants and contributions accounted for \$11,018,273 or 87.61% of total revenues of \$12,575,786.
- The ESC had \$13,250,214 in expenses related to governmental activities; \$11,018,273 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily unrestricted grants and entitlements) of \$1,557,513 were not 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 \$12,138,930 in revenues and other financing sources and \$12,652,486 in expenditures. During fiscal year 2008, the general fund's fund balance decreased \$513,556 from \$1,898,704 to \$1,385,148.

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 2008?" 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, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED**

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

Most of 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* than 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 13-16 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 17-35 of this report.

Supplementary Information

The ESC has presented a budgetary comparison schedule for the general fund as supplementary information on pages 36 and 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, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED**

The table below provides a summary of the ESC's net assets at June 30, 2008 and June 30, 2007.

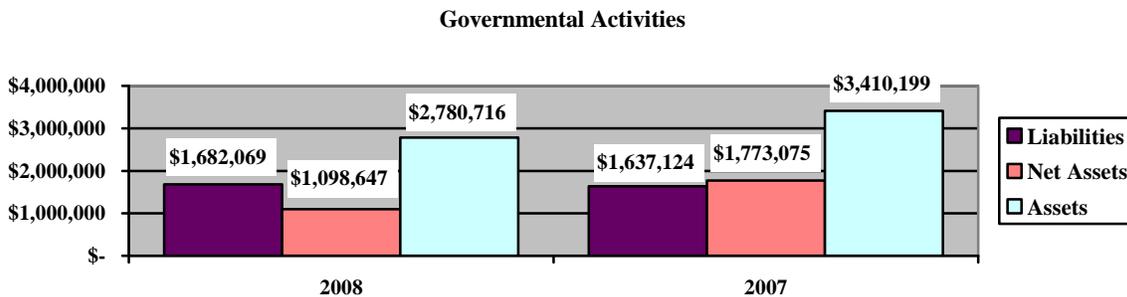
	Net Assets	
	Governmental Activities <u>June 30, 2008</u>	Governmental Activities <u>June 30, 2007</u>
<u>Assets</u>		
Current and other assets	\$ 2,616,800	\$ 3,217,421
Capital assets, net	<u>163,916</u>	<u>192,778</u>
Total assets	<u>2,780,716</u>	<u>3,410,199</u>
<u>Liabilities</u>		
Current liabilities	1,186,452	1,125,705
Long-term liabilities	<u>495,617</u>	<u>511,419</u>
Total liabilities	<u>1,682,069</u>	<u>1,637,124</u>
<u>Net Assets</u>		
Invested in capital assets	163,916	192,778
Restricted	26,802	33,346
Unrestricted	<u>907,929</u>	<u>1,546,951</u>
Total net assets	<u>\$ 1,098,647</u>	<u>\$ 1,773,075</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2008, the ESC's assets exceeded liabilities by \$1,098,647. At year-end, unrestricted net assets were \$907,929. The statement of net assets is located on page 11 of the basic financial statements.

At year-end, capital assets represented 5.89% of total assets. Capital assets include furniture and equipment. Capital assets, net of accumulated depreciation at June 30, 2008 were \$163,916. 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, \$26,802, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$907,929 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 at June 30, 2008 and June 30, 2007.



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED**

The table below shows the change in net assets for fiscal years 2008 and 2007. The statement of activities is located on page 12 of the basic financial statements.

	Change in Net Assets	
	Governmental Activities 2008	Governmental Activities 2007
<u>Revenues</u>		
Program revenues:		
Charges for services	\$ 10,403,333	\$ 10,142,453
Operating grants and contributions	614,940	650,658
General revenues:		
Grants and entitlements not restricted to specific programs	1,426,934	967,375
Investment earnings	130,579	165,220
Total revenues	12,575,786	11,925,706
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	1,152,688	1,301,433
Special	4,447,826	4,710,452
Other	310,720	158,965
Support services:		
Pupil	2,965,018	2,595,912
Instructional staff	1,163,230	694,290
Board of education	206,814	100,128
Administration	2,306,989	1,897,155
Fiscal	357,812	411,489
Business	2,249	370
Operations and maintenance Central	120,198	115,574
	216,670	118,627
Total expenses	13,250,214	12,104,395
Change in net assets	(674,428)	(178,689)
Net assets at beginning of year	1,773,075	1,951,764
Net assets at end of year	\$ 1,098,647	\$ 1,773,075

Governmental Activities

Net assets of the ESC's governmental activities decreased \$674,428. This decrease is due primarily to an increase in support service expenses. Total governmental expenses of \$13,250,214 were offset by program revenues of \$11,018,273 and general revenues of \$1,557,513. Program revenues supported 83.16% of the total governmental expenses.

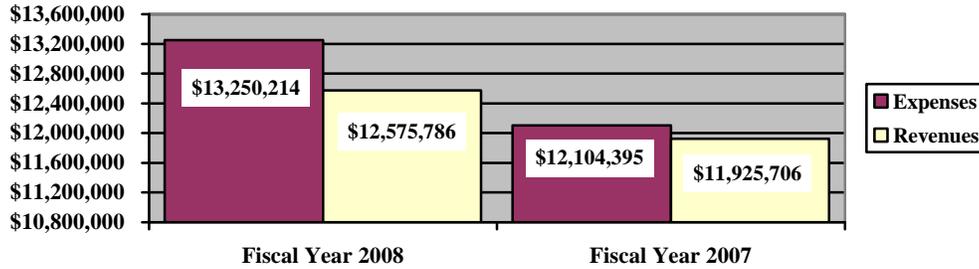
The primary source of revenue for governmental activities is derived from charges for services. This program revenue source totaled \$10,403,333 and represents 82.73% of total governmental revenue.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED**

The graph below presents the ESC's governmental activities revenue and expenses for fiscal years 2008 and 2007.

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 fiscal years 2008 and 2007. That is, it identifies the cost of these services supported by unrestricted State grants and entitlements.

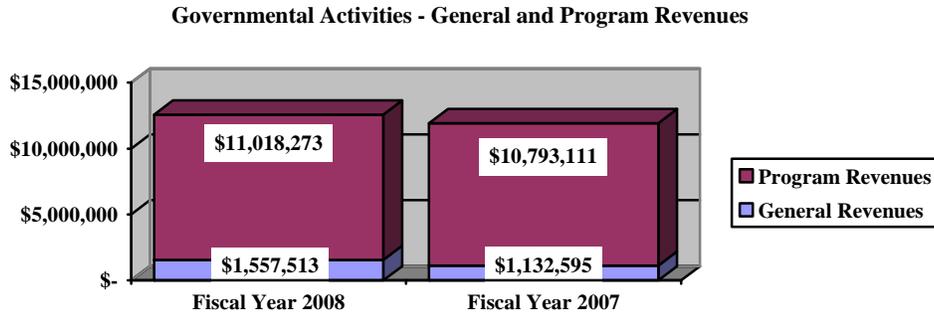
	Governmental Activities			
	Total Cost of Services 2008	Net Cost of Services 2008	Total Cost of Services 2007	Net Cost of Services 2007
Program expenses				
Instruction:				
Regular	\$ 1,152,688	\$ (469,029)	\$ 1,301,433	\$ (507,909)
Special	4,447,826	118,217	4,710,452	351,072
Other	310,720	249,764	158,965	(3,242)
Support services:				
Pupil	2,965,018	148,597	2,595,912	(250,656)
Instructional staff	1,163,230	263,517	694,290	81,733
Board of education	206,814	206,814	100,128	100,041
Administration	2,306,989	1,322,313	1,897,155	1,220,384
Fiscal	357,812	138,762	411,489	177,873
Business	2,249	(65)	370	192
Operations and maintenance	120,198	39,381	115,574	26,169
Central	216,670	213,670	118,627	115,627
Total expenses	\$ 13,250,214	\$ 2,231,941	\$ 12,104,395	\$ 1,311,284

For all governmental activities, program revenue support is 83.16% and 89.17% in 2008 and 2007, 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, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED**

The graph below presents the ESC's governmental activities revenue for fiscal years 2008 and 2007.



The ESC's Funds

The ESC's governmental funds, as presented on the balance sheet on page 13, reported a combined fund balance of \$1,384,791, which is less than last year's total of \$1,915,308. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2008 and June 30, 2007.

	Fund Balance (Deficit) <u>June 30, 2008</u>	Fund Balance <u>June 30, 2007</u>	<u>Decrease</u>
General	\$ 1,385,148	\$ 1,898,704	\$ (513,556)
Other Governmental	(357)	16,604	(16,961)
Total	<u>\$ 1,384,791</u>	<u>\$ 1,915,308</u>	<u>\$ (530,517)</u>

General Fund

The ESC's general fund balance decreased by \$513,556. The table that follows assists in illustrating the financial activities and fund balance of the general fund. Tuition, contract services and intergovernmental revenues in the general fund have been reclassified for fiscal year 2007 to conform to current year presentation.

	<u>2008 Amount</u>	<u>Reclassified 2007 Amount</u>	<u>Increase/ (Decrease)</u>	<u>Percentage Change</u>
<u>Revenues</u>				
Tuition	\$ 4,386,143	\$ 4,274,302	\$ 111,841	2.62 %
Earnings on investments	147,065	155,679	(8,614)	(5.53) %
Contract services	5,299,575	4,716,135	583,440	12.37 %
Intergovernmental	1,467,798	1,701,931	(234,133)	(13.76) %
Other revenues	834,349	417,762	416,587	99.72 %
Total	<u>\$ 12,134,930</u>	<u>\$ 11,265,809</u>	<u>\$ 869,121</u>	7.71 %
<u>Expenditures</u>				
Instruction	\$ 5,781,950	\$ 5,759,879	\$ 22,071	0.38 %
Support services	6,870,536	5,624,271	1,246,265	22.16 %
Total	<u>\$ 12,652,486</u>	<u>\$ 11,384,150</u>	<u>\$ 1,268,336</u>	11.14 %

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED**

The ESC had an increase in tuition revenue due to an increase in the preschool population resulting in increased classrooms. Likewise, the Alternative Education program had increased tuition revenue driving the program sites to capacity. The reduction of the general fund cash balance during the fiscal year was a result of the mandated budget cuts made by Governor Strickland through the Ohio Department of Education. Additionally, the ESC added central office staff in the areas of technology, professional development and communications in order to meet the needs of our customer base.

Capital Assets

At the end of fiscal year 2008, the ESC had \$163,916 invested in furniture and equipment. This entire amount is reported in governmental activities on the statement of net assets.

The following table shows fiscal year 2008 balances compared to fiscal year 2007:

	Capital Assets at June 30 (Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2008</u>	<u>2007</u>
Furniture and equipment	<u>\$ 163,916</u>	<u>\$ 192,778</u>

The overall decrease in capital assets of \$28,862 was primarily due to depreciation expense of \$46,499 and disposals of \$14,504 (net of accumulated depreciation) exceeding capital outlays of \$32,141. 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.

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.

In February 2008, the Office of Budget and Mgmt. projected a substantial budget shortfall for the remainder of fiscal years 2008 and 2009. To avoid a statewide fiscal crisis, Governor Ted Strickland ordered state agencies to cut spending in a number of areas. ODE was responsible for identifying \$101.2 million in spending reductions over the remainder of the biennium. The impact to the ESC was \$85,360.81. An equivalent cut is anticipated for fiscal year 2009.

The ESC modestly expanded their fiscal, consulting and technical assistance to surrounding districts, agencies and community schools.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED**

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, Assistant Treasurer, Educational Service Center of Central Ohio, 2080 Citygate Dr., Columbus, Ohio 43219.

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

**STATEMENT OF NET ASSETS
JUNE 30, 2008**

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and investments	\$ 2,015,366
Receivables:	
Accounts	515,378
Intergovernmental	56,285
Accrued interest	5,743
Prepayments	22,940
Materials and supplies inventory	1,088
Capital assets, net.	<u>163,916</u>
 Total assets.	 <u>2,780,716</u>
 Liabilities:	
Accounts payable.	23,255
Accrued wages and benefits	887,727
Pension obligation payable.	185,582
Intergovernmental payable	89,888
Long-term liabilities:	
Due within one year.	189,193
Due in more than one year	<u>306,424</u>
 Total liabilities	 <u>1,682,069</u>
 Net Assets:	
Invested in capital assets	163,916
Restricted for:	
Locally funded programs.	1,334
State funded programs	24,864
Other purposes.	604
Unrestricted.	<u>907,929</u>
 Total net assets	 <u><u>\$ 1,098,647</u></u>

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, 2008**

	<u>Program Revenues</u>			Net (Expense) Revenue and Changes in Net Assets
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental activities:				
Instruction:				
Regular	\$ 1,152,688	\$ 1,528,443	\$ 93,274	\$ 469,029
Special	4,447,826	4,327,409	2,200	(118,217)
Other	310,720	-	60,956	(249,764)
Support services:				
Pupil	2,965,018	2,762,412	54,009	(148,597)
Instructional staff	1,163,230	820,130	79,583	(263,517)
Board of education	206,814	-	-	(206,814)
Administration	2,306,989	689,802	294,874	(1,322,313)
Fiscal	357,812	195,041	24,009	(138,762)
Business	2,249	-	2,314	65
Operations and maintenance	120,198	80,096	721	(39,381)
Central	216,670	-	3,000	(213,670)
Total governmental activities	<u>\$ 13,250,214</u>	<u>\$ 10,403,333</u>	<u>\$ 614,940</u>	<u>(2,231,941)</u>

General Revenues:

Grants and entitlements not restricted to specific programs	1,426,934
Investment earnings	<u>130,579</u>
Total general revenues	<u>1,557,513</u>
Change in net assets	(674,428)
Net assets at beginning of year	<u>1,773,075</u>
Net assets at end of year	<u>\$ 1,098,647</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008**

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and investments	\$ 2,012,293	\$ 3,073	\$ 2,015,366
Receivables:			
Accounts	515,378	-	515,378
Intergovernmental	-	56,285	56,285
Accrued interest	5,743	-	5,743
Interfund receivable	627	-	627
Prepayments	22,940	-	22,940
Materials and supplies inventory	1,088	-	1,088
Due from other funds	16,607	-	16,607
	<u>\$ 2,574,676</u>	<u>\$ 59,358</u>	<u>\$ 2,634,034</u>
Total assets			
	<u>\$ 2,574,676</u>	<u>\$ 59,358</u>	<u>\$ 2,634,034</u>
Liabilities:			
Accounts payable	\$ 19,303	\$ 3,952	\$ 23,255
Accrued wages and benefits	880,714	7,013	887,727
Compensated absences payable	279	-	279
Pension obligation payable.	184,154	1,428	185,582
Intergovernmental payable.	88,808	1,080	89,888
Interfund payable.	-	627	627
Due to other funds	-	16,607	16,607
Deferred revenue.	16,270	29,008	45,278
	<u>1,189,528</u>	<u>59,715</u>	<u>1,249,243</u>
Total liabilities			
	<u>1,189,528</u>	<u>59,715</u>	<u>1,249,243</u>
Fund Balances:			
Reserved for encumbrances	87,531	24,861	112,392
Reserved for materials and supplies inventory.	1,088	-	1,088
Reserved for prepayments	22,940	-	22,940
Unreserved, undesignated (deficit), reported in:			
General fund	1,273,589	-	1,273,589
Special revenue funds.	-	(25,218)	(25,218)
	<u>1,385,148</u>	<u>(357)</u>	<u>1,384,791</u>
Total fund balances (deficit)			
	<u>1,385,148</u>	<u>(357)</u>	<u>1,384,791</u>
Total liabilities and fund balances			
	<u>\$ 2,574,676</u>	<u>\$ 59,358</u>	<u>\$ 2,634,034</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, 2008**

Total governmental fund balances		\$ 1,384,791
<i>Amounts reported for governmental activities on 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.		163,916
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Contract services	\$ 15,113	
Intergovernmental	29,008	
Earnings on investments	<u>1,157</u>	
Total		45,278
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		<u>(495,338)</u>
Net assets of governmental activities		<u><u>\$ 1,098,647</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, 2008**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Tuition.	\$ 4,386,143	\$ -	\$ 4,386,143
Earnings on investments.	147,065	-	147,065
Contract services.	5,299,575	-	5,299,575
Other local revenues.	834,349	-	834,349
Intergovernmental - intermediate	-	500	500
Intergovernmental - state	1,426,934	481,412	1,908,346
Intergovernmental - federal	40,864	79,859	120,723
Total revenues.	<u>12,134,930</u>	<u>561,771</u>	<u>12,696,701</u>
Expenditures:			
Current:			
Instruction:			
Regular	1,067,560	52,632	1,120,192
Special.	4,485,652	2,224	4,487,876
Other.	228,738	77,748	306,486
Support services:			
Pupil.	2,903,572	52,488	2,956,060
Instructional staff	1,095,244	77,489	1,172,733
Board of education	206,814	-	206,814
Administration.	2,004,892	286,571	2,291,463
Fiscal	332,417	23,631	356,048
Business	-	2,249	2,249
Operations and maintenance.	118,040	700	118,740
Central.	209,557	3,000	212,557
Total expenditures	<u>12,652,486</u>	<u>578,732</u>	<u>13,231,218</u>
Excess of expenditures (under) revenues	<u>(517,556)</u>	<u>(16,961)</u>	<u>(534,517)</u>
Other financing sources:			
Sale of capital assets.	4,000	-	4,000
Total other financing sources.	<u>4,000</u>	<u>-</u>	<u>4,000</u>
Net change in fund balances	(513,556)	(16,961)	(530,517)
Fund balances at beginning of year	<u>1,898,704</u>	<u>16,604</u>	<u>1,915,308</u>
Fund balances (deficit) at end of year	<u>\$ 1,385,148</u>	<u>\$ (357)</u>	<u>\$ 1,384,791</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, 2008**

Net change in fund balances - total governmental funds \$ (530,517)

Amounts reported for governmental activities in the statement of activities are different because:

Government funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital asset additions	\$	32,141	
Current year depreciation		<u>(46,499)</u>	
Total			(14,358)

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. (14,504)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Contract services		(116,734)	
Intergovernmental		12,305	
Earnings of investments		<u>(16,486)</u>	
Total			(120,915)

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of financial resources and therefore are not reported as expenditures in governmental funds. 5,866

Change in net assets of governmental activities \$ (674,428)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER

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 organization's 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 provide financial support to, the organization; or (4) the ESC is obligated for the debt of 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

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

The following organizations are described due to their relationship to the ESC:

JOINTLY GOVERNED ORGANIZATIONS

Tri-Rivers Educational Computer Association (TRECA)

TRECA is a jointly governed organization among 21 school districts. TRECA was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to the administrative and instructional functions of member districts. Each of the governments of these schools supports TRECA based upon a per pupil charge, dependent upon the software package utilized. TRECA is governed by a board of directors consisting of superintendents of the member school districts. Financial information is available from Mike Carder, Director, at 100 Executive Drive, Marion, Ohio 43302. During fiscal year 2008, the ESC paid \$17,900 to TRECA.

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 districts' elected boards, and one representative from the ESC. The Career Center possesses its own budgeting and taxing authority. Financial information is available from Terril Martin, Treasurer, Tri-Rivers Career Center, at 2222 Marion/Mt. Gilead Road, Marion, Ohio 43302.

PUBLIC ENTITY RISK POOL

Ohio Association of School Business Officials 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 Association of School Business Officials Workers' Compensation Group Rating Plan (GRP) was established through the Ohio Association of School Business Officials (OASBO) as a group purchasing pool.

The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the OASBO. The Executive Director of the OASBO, or his designee, serves as coordinator of the GRP. Each year, the participating school districts pay an enrollment fee to the GRP 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, 2008
(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, 2008
(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.

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Revenues received in advance of the fiscal year for which they are intended to finance have been recorded as unearned revenue. 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 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. Allocations 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, 2008
(Continued)**

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

E. Budgetary Process

Although not legally required, the ESC adopts its budget for all funds. The budget includes the estimated resources and expenditures for each fund and consists of three parts; Part (A) includes entitlement funding from the State, Part (B) includes the cost of all other lawful expenditures of the ESC (which are apportioned by the State Department of Education to each local board of education under the supervision of the ESC), and Part (C) includes the adopted appropriation resolution.

In fiscal year 2004, the ESC requirement to file budgetary information with the Ohio Department of Education was eliminated. Even though the budgetary process for the ESC was discretionary, the ESC continued to have its Board approve appropriations and estimated resources. The ESC's Board adopts an annual appropriation resolution, which is the Board's, authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the fund, function and object level for all funds. Budgetary information for the general fund has been presented as supplementary information to the basic financial statements.

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 investments" on the basic financial statements.

During fiscal year 2008, investments were limited to nonnegotiable certificates of deposit, negotiable 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 shares price, which is the price the investment could be sold for on June 30, 2008.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal year 2008 amounted to \$147,065, which includes \$339 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, 2008
(Continued)**

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

G. Inventory

On government-wide and fund financial statements, purchased inventories are presented at the lower of cost or market. Inventories are recorded 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 deductions 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 \$1,000 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:

<u>Description</u>	<u>Governmental Activities 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.

On fund financial statements, receivables and payables resulting from short-term interfund loans from the general fund to cover negative cash balances in other governmental funds are classified as "due to/from other funds." These amounts are eliminated in the governmental type activities columns on the statement of net assets.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

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

J. Compensated Absences

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

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. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. 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 this future severance eligibility, all employees at least 50 years old with 15 years of service and 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, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

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

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 amount restricted for other purposes include amounts restricted for the education foundation fund (a nonmajor governmental fund).

The ESC applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

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 Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2008.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2008, the ESC has implemented GASB Statement No. 45, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions", GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues" and GASB Statement No. 50, "Pension Disclosures".

GASB Statement No. 45 establishes uniform standards of financial reporting for other postemployment benefits and increases the usefulness and improves the faithfulness of representations in the financial reports. The implementation of GASB Statement No. 45 did not have an effect on the financial statements of the ESC; however, certain disclosures related to postemployment benefits (see Note 12) have been modified to conform to the new reporting requirements.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 48 establishes criteria to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings, as well as disclosure requirements for future revenues that are pledged and sold. The implementation of GASB Statement No. 48 did not have an effect on the financial statements of the ESC.

GASB Statement No. 50 establishes standards that more closely align the financial reporting requirements for pensions with those of other postemployment benefits. The implementation of GASB Statement No. 50 did not have an effect on the financial statements of the ESC.

B. Deficit Fund Balances

Fund balances at June 30, 2008 included the following individual fund deficit:

<u>Nonmajor governmental funds</u>	<u>Deficit</u>
Alternative schools	\$ 17
Miscellaneous State grants	2,762
Child progress indicator	24
Miscellaneous federal grants	627

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances in the alternative schools and child progress indicator funds resulted from adjustments for accrued liabilities.

The deficit fund balance in the miscellaneous federal grant fund resulted from the reporting of a short-term interfund loan as a fund liability rather than as an other financing source.

The deficit fund balance in the miscellaneous State grants fund resulted from an adjustment for a negative cash balance at fiscal year-end (see Note 5.A.).

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above 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;
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Protection of the 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.

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Deposits with Financial Institutions

At June 30, 2008, the carrying amount of all ESC deposits was \$1,017,511. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2008, \$890,595 of the ESC's bank balance of \$1,487,058 was exposed to custodial risk as discussed below, while \$596,463 was covered by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the ESC's deposits may not be returned. 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. The ESC has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the ESC to a successful claim by the FDIC.

B. Investments

As of June 30, 2008, the ESC had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>				
		<u>6 Months or Less</u>	<u>7 to 12 Months</u>	<u>13 to 18 Months</u>	<u>19 to 24 Months</u>	<u>Greater than 24 Months</u>
FFCB	\$ 198,108	\$ -	\$ -	\$ -	\$ -	\$ 198,108
Negotiable cd's	592,210	98,812	98,528	298,257	96,613	-
STAR Ohio	207,537	207,537	-	-	-	-
	<u>\$ 997,855</u>	<u>\$ 306,349</u>	<u>\$ 98,528</u>	<u>\$ 298,257</u>	<u>\$ 96,613</u>	<u>\$ 198,108</u>

The weighted average maturity of investments is 1.58 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.

Credit Risk: The ESC's investments, except for STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an 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 investments or collateral securities that are in the possession of an outside party. The federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the ESC's name. The ESC has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, 2008:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
FFCB	\$ 198,108	19.85
Negotiable cd's	592,210	59.35
STAR Ohio	<u>207,537</u>	<u>20.80</u>
	<u>\$ 997,855</u>	<u>100.00</u>

C. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2008:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 1,017,511
Investments	<u>997,855</u>
Total	<u>\$ 2,015,366</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	<u>\$ 2,015,366</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund balances at June 30, 2008, as reported on the fund statements, consist of the following amounts due to/from other funds:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Nonmajor special revenue fund	\$16,607

The primary purpose of the due to/from other funds is to cover negative cash balances in specific funds at fiscal year-end. These negative cash balances will be eliminated once the anticipated revenues are received.

Amounts due to/from other funds made between governmental funds are eliminated on the government-wide financial statements.

- B.** Interfund balances at June 30, 2008 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	\$ 627

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

The primary purpose of the interfund loans 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.

Interfund loans receivable and payable between governmental funds are eliminated on the government-wide financial statements.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2008 consisted of accounts (billings for user charged services), 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>
Accounts receivable	\$ 515,378
Accrued interest	5,743
Intergovernmental	<u>56,285</u>
Total	<u>\$ 577,406</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, 2008, was as follows:

	<u>Balance</u> <u>06/30/07</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/08</u>
Governmental Activities				
<i>Capital assets, being depreciated:</i>				
Furniture and equipment	\$ 530,839	\$ 32,141	\$ (115,038)	\$ 447,942
Total capital assets, being depreciated	<u>530,839</u>	<u>32,141</u>	<u>(115,038)</u>	<u>447,942</u>
<i>Less: accumulated depreciation:</i>				
Furniture and equipment	<u>(338,061)</u>	<u>(46,499)</u>	<u>100,534</u>	<u>(284,026)</u>
Total accumulated depreciation	<u>(338,061)</u>	<u>(46,499)</u>	<u>100,534</u>	<u>(284,026)</u>
Governmental activities capital assets, net	<u>\$ 192,778</u>	<u>\$ (14,358)</u>	<u>\$ (14,504)</u>	<u>\$ 163,916</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 7 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 29,689
Special	2,076
 <u>Support Services:</u>	
Instructional	6,516
Administration	1,439
Fiscal	115
Central	<u>6,664</u>
 Total depreciation expense	 <u>\$ 46,499</u>

NOTE 8 - LONG-TERM OBLIGATIONS

During fiscal year 2008, the following changes occurred in governmental activities long-term obligations:

	<u>Balance</u> <u>06/30/07</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>06/30/08</u>	<u>Amount</u> <u>Due in</u> <u>One Year</u>
<u>Other Long-Term Obligations</u>					
Compensated absences	<u>\$ 511,419</u>	<u>\$ 189,414</u>	<u>\$ (205,216)</u>	<u>\$ 495,617</u>	<u>\$ 189,193</u>

Compensated absences will be paid from the fund from which the employee is paid, which, for the ESC, is primarily the general fund.

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, 2008
(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 2008, the ESC 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)	\$ 805,400
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 Association of School Business Officials Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (see Note 2.A.). The GRP's business and affairs are conducted by a three member board of directors consisting of the President, the President-Elect and the Immediate Past President of the OASBO. The Executive Director of the OASBO, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the GRP.

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

The ESC pays the State Bureau of Workers' Compensation a premium based on a rate of \$.012800 per \$100 of salaries. This rate is calculated based on claims history and administrative costs. Due to a claim experienced in a prior fiscal year, the ESC has had difficulty in obtaining pooled rates. The ESC has been notified that it will no longer be eligible for the pooled group in fiscal year 2009.

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 Board (currently, single coverage is 90% Board paid and 10% employee-paid, while family coverage is 72% Board-paid and 28% employee-paid).

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 10 - RISK MANAGEMENT - (Continued)

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 year 2008), 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 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

Plan Description - 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. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Forms and Publications*.

Funding Policy - 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 2008, 9.16 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The ESC's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$308,152, \$300,413 and \$286,749, respectively; 100 percent has been contributed for fiscal years 2008, 2007 and 2006.

B. State Teachers Retirement System of Ohio

Plan Description - The ESC participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. 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 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 11 - PENSION PLANS - (Continued)

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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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 contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2008, 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 recommendations 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 STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006 were \$754,957, \$723,015 and \$705,512, respectively; 100 percent has been contributed for fiscal years 2008, 2007 and 2006. Contributions to the DC and Combined Plans for fiscal year 2008 were \$41,260 made by the ESC and \$71,136 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS/STRS Ohio have an option to choose Social Security or SERS/STRS Ohio. As of June 30, 2008, certain members of the Board of Education have elected Social Security. The ESC's liability is 6.2 percent of wages paid.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The ESC participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The ESC's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$197,266, \$147,068 and \$138,910, respectively; 100 percent has been contributed for fiscal years 2008, 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2008, this actuarially required allocation was 0.66 percent of covered payroll. The ESC's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were \$22,203, \$19,127 and \$21,140, respectively; 100 percent has been contributed for fiscal years 2008, 2007 and 2006.

B. State Teachers Retirement System of Ohio

Plan Description - The ESC contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The ESC's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$58,074, \$55,617 and \$54,270, respectively; 100 percent has been contributed for fiscal years 2008, 2007 and 2006.

NOTE 13 - 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 a party to legal proceedings; however, they are not expected to have a material effect on the financial condition of the ESC.

NOTE 14 - STATE FUNDING

The ESC is funded by the State Board of Education from State funds for the cost of Part (A) of the budget.

Part (B) of the budget is funded in the following way: \$6.50 times the Average Daily Membership (ADM-the total number of pupils under the ESC's supervision) is apportioned by the State Board of Education from the participating local school districts to which the ESC provides services from payments made under the State's foundation program. Simultaneously, \$37.00 times the sum of the ADM is paid by the State Board of Education from State funds to the ESC. In fiscal year 2008, the State Board of Education reduced ESC funding by approximately 9.8%.

If additional funding is required and if a majority of the boards of education of the participating school districts approve, the cost of Part (B) of the budget that is in excess of \$43.50 times ADM approved by the State Board of Education is apportioned to the participating school districts through reductions in their State foundation. The State Board of Education initiates and supervises the procedure by which the participating boards approve or disapprove the apportionment. The local school districts to which the ESC provides services have agreed to pay \$9.50 per pupil to provide additional funding for services provided by the ESC.

NOTE 15 - SUBSEQUENT EVENT

On July 10, 2008, the Board of the ESC approved a resolution to merge operations with the Franklin County ESC to form the Educational Service Center of Central Ohio (the "ESCCO"). The ESCCO will begin operations on January 1, 2009.

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

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Tuition	\$ 4,311,394	\$ 4,354,903	\$ 4,357,348	\$ 2,445
Earnings on investments	125,000	147,739	147,739	-
Contract services	4,932,770	5,220,621	5,220,621	-
Other local revenues	409,889	490,117	505,756	15,639
Intergovernmental - state	1,515,821	1,426,934	1,426,934	-
Intergovernmental - federal	1,200	40,864	40,864	-
Total revenues	<u>11,296,074</u>	<u>11,681,178</u>	<u>11,699,262</u>	<u>18,084</u>
Expenditures:				
Current:				
Instruction:				
Regular	983,934	1,146,940	1,075,705	71,235
Special	4,593,657	4,873,897	4,473,618	400,279
Other	283,482	283,482	227,814	55,668
Support services:				
Pupil	2,948,405	3,020,987	2,877,560	143,427
Instructional staff	966,298	1,252,073	1,120,635	131,438
Board of education	148,434	240,233	218,454	21,779
Administration	2,693,621	3,061,241	2,029,863	1,031,378
Fiscal	319,958	359,828	339,788	20,040
Operations and maintenance	116,848	119,280	118,294	986
Central	152,012	225,299	214,480	10,819
Total expenditures	<u>13,206,649</u>	<u>14,583,260</u>	<u>12,696,211</u>	<u>1,887,049</u>
Deficiency of revenues under expenditures	<u>(1,910,575)</u>	<u>(2,902,082)</u>	<u>(996,949)</u>	<u>1,905,133</u>
Other financing sources:				
Refund of prior year expenditure	3,000	60,567	60,567	-
Total other financing sources	<u>3,000</u>	<u>60,567</u>	<u>60,567</u>	<u>-</u>
Net change in fund balance	(1,907,575)	(2,841,515)	(936,382)	1,905,133
Fund balance at beginning of year	2,821,234	2,821,234	2,821,234	-
Prior year encumbrances appropriated	31,341	31,341	31,341	-
Fund balance at end of year	<u>\$ 945,000</u>	<u>\$ 11,060</u>	<u>\$ 1,916,193</u>	<u>\$ 1,905,133</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTE TO THE SUPPLEMENTARY INFORMATION

While reporting financial position and changes in financial position/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 plus encumbrances.

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

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ (936,382)
Net adjustment for revenue accruals	435,668
Net adjustment for expenditure accruals	(71,664)
Net adjustment for other sources/uses	(56,567)
Adjustment for encumbrances	<u>115,389</u>
GAAP basis	<u>\$ (513,556)</u>



Mary Taylor, CPA

Auditor of State

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, 2008, which collectively comprise the Center's basic financial statements and have issued our report thereon dated May 21, 2009. 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 as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the Center's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Center's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Center's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Center's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Center's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

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*.

We intend this report solely for the information and use of management and the Board of Education. We intend it for no one other than these specified parties.

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

Mary Taylor, CPA
Auditor of State

May 21, 2009



Mary Taylor, CPA
Auditor of State

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
JULY 7, 2009**