



**Auditor of State
Betty Montgomery**

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

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each 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, 2004, which collectively comprise the Center's basic financial statements as listed in the table of contents. These basic 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Delaware-Union Educational Service Center, Delaware County, Ohio, as of June 30, 2004, and the respective changes in financial position and the budgetary comparison for the General Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2004, the Center implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—For State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2004 on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the Center's basic financial statements. The schedule of federal awards receipts and expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected this information 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 "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

November 19, 2004

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

The discussion and analysis of the Delaware-Union Educational Service ESC (the "ESC") financial performance provides an overall review of the ESC's financial activities for the fiscal year ended June 30, 2004. 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 2004 are as follows:

- In total, net assets of governmental activities increased \$312,232 which represents a 22.51% increase from 2003.
- General revenues accounted for \$1,020,283 in revenue or 9.21% of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions accounted for \$10,062,135 or 90.79% of total revenues of \$11,082,418.
- The ESC had \$10,770,186 in expenses related to governmental activities; only \$10,062,135 of these expenses were offset by program specific charges for services, operating grants or contributions. General revenues supporting governmental activities (primarily unrestricted grants and entitlements) of \$1,020,283 were adequate to provide for these programs.
- The ESC's only major governmental fund is the general fund. The general fund had \$9,835,559 in revenues and \$9,494,344 in expenditures. During fiscal 2004, the general fund's fund balance increased \$341,215 from \$1,236,843 to \$1,578,058.

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 2004?" 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 takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

**DELAWARE-UNION EDUCATIONAL SERVICE CENTER
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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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 9. 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 13-17 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 18-38 of this report.

The ESC as a Whole

Recall that the Statement of Net Assets provides the perspective of the ESC as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

The table below provides a summary of the ESC's net assets for 2004.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

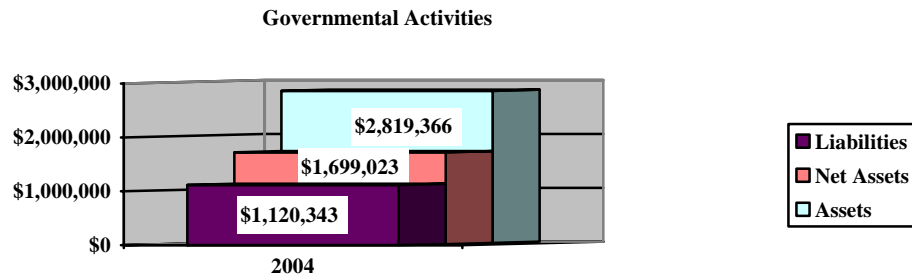
	Net Assets
	Governmental
	Activities
	2004
<u>Assets</u>	
Current and other assets	\$ 2,555,010
Capital assets, net	264,356
Total assets	2,819,366
<u>Liabilities</u>	
Current liabilities	811,554
Long-term liabilities	308,789
Total liabilities	1,120,343
<u>Net Assets</u>	
Invested in capital	
assets, net of related debt	264,356
Restricted	129,888
Unrestricted	1,304,779
Total net assets	\$ 1,699,023

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the ESC's assets exceeded liabilities by \$1,699,023. At year-end, unrestricted net assets were \$1,304,779. The statement of net assets is located on page 11 of the basic financial statements.

At year-end, capital assets represented 9.38% of total assets. Capital assets include furniture and equipment. Capital assets, net of related debt to acquire the assets at June 30, 2004, were \$264,356. These capital assets are used to provide services to other school districts and are not available for future spending. Although the ESC's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the ESC's net assets, \$129,888, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$1,304,779 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 fiscal year-end.



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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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The table below shows the change in net assets for fiscal year 2004. Since this is the first year the ESC has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2003 are not available. A comparative analysis will be provided in future years when prior year information is available. The statement of activities is located on page 12 of the basic financial statements.

Change in Net Assets	
	Governmental Activities <u>2004</u>
<u>Revenues</u>	
Program revenues:	
Charges for services	\$ 8,655,121
Operating grants and contributions	1,407,014
General revenues:	
Grants and entitlements not restricted to specific programs	975,331
Investment earnings	<u>44,952</u>
Total revenues	<u>11,082,418</u>
<u>Expenses</u>	
Program expenses:	
Instruction:	
Regular	\$ 1,484,940
Special	3,545,964
Other	2,255
Support services:	
Pupil	2,231,331
Instructional staff	536,062
Board of education	85,686
Administration	2,462,269
Fiscal	181,541
Business	392
Operations and maintenance	102,941
Central	<u>136,805</u>
Total expenses	<u>10,770,186</u>
Increase in net assets	<u><u>\$ 312,232</u></u>

Governmental Activities

Net assets of the ESC's governmental activities increased \$312,232. Total governmental expenses of \$10,770,186 were offset by program revenues of \$10,062,135 and general revenues of \$1,020,283. Program revenues supported 93.42% of the total governmental expenses.

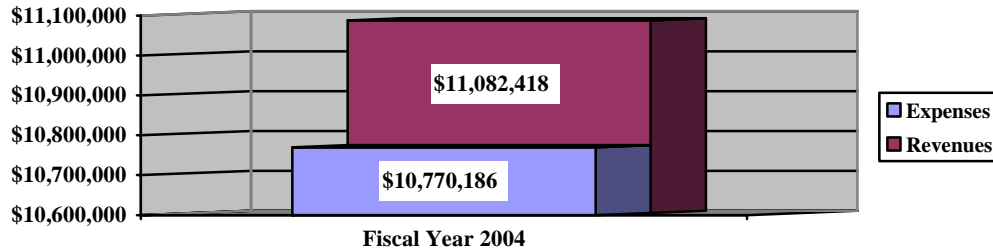
The primary source of revenue for governmental activities are derived from contracted services. This program revenue source represents 65% of total governmental revenue. The ESC had an increase in contract services revenue during fiscal year 2004, due to an increase in services provided to area school districts.

**DELAWARE-UNION EDUCATIONAL SERVICE CENTER
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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The graph below presents the ESC's governmental activities revenue and expenses for fiscal year 2004.

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. That is, it identifies the cost of these services supported by unrestricted State grants and entitlements. Comparisons to 2003 have not been presented since they are not available.

Governmental Activities

	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>
Program expenses		
Instruction:		
Regular	\$ 1,484,940	\$ (48,326)
Special	3,545,964	(219,867)
Other	2,255	(9,982)
Support services:		
Pupil	2,231,331	(336,392)
Instructional staff	536,062	103,496
Board of education	85,686	85,686
Administration	2,462,269	1,042,060
Fiscal	181,541	34,652
Business	392	392
Operations and maintenance	102,941	(24,469)
Central	<u>136,805</u>	<u>80,801</u>
Total expenses	<u>\$ 10,770,186</u>	<u>\$ 708,051</u>

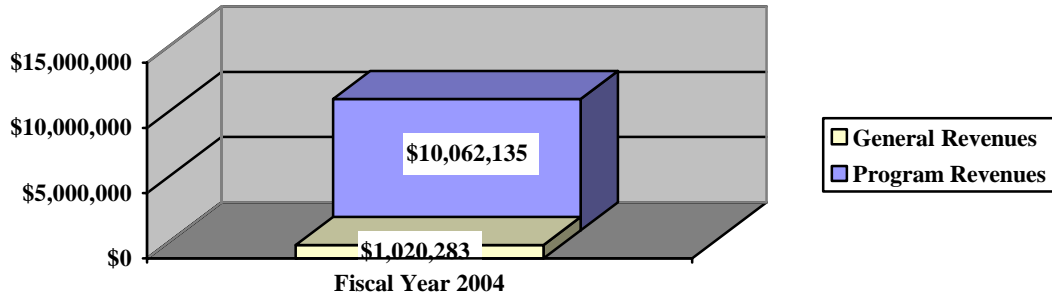
The dependence upon grants and other general revenues for governmental activities is apparent, 17.19% of support services are supported through grants and other general revenues. For all governmental activities, general revenue support is 6.57%. The ESC's contracted services, as a whole, are by far the primary support for ESC's delivery of services.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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The graph below presents the ESC's governmental activities revenue for fiscal year 2004.

Governmental Activities - General and Program Revenues



The ESC's Funds

The ESC's governmental funds, as presented on the balance sheet on page 13, reported a combined fund balance of \$1,735,432, which is higher than last year's total of \$1,323,674. The June 30, 2003 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	Fund Balance June 30, 2004	Restated Fund Balance June 30, 2003	Increase
General	\$ 1,578,058	\$ 1,236,843	\$ 341,215
Other Governmental	<u>157,374</u>	<u>86,831</u>	<u>70,543</u>
Total	<u>\$ 1,735,432</u>	<u>\$ 1,323,674</u>	<u>\$ 411,758</u>

General Fund

The ESC's general fund balance increased by \$341,215 (after a restatement to the June 30, 2003, fund balance which is detailed in Note 3.A. to the basic financial statement). The increase in fund balance can be attributed to an increase in contract services revenue due to an increase in services provided by the ESC during fiscal year 2004. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 1,310,818	\$ 1,273,926	\$ 36,892	2.90 %
Earnings on investments	44,952	41,905	3,047	7.27 %
Contract services	7,198,352	5,705,608	1,492,744	26.16 %
Intergovernmental	1,135,486	1,113,016	22,470	2.02 %
Other revenues	<u>145,951</u>	<u>204,829</u>	<u>(58,878)</u>	(28.74) %
 Total	 <u>\$ 9,835,559</u>	 <u>\$ 8,339,284</u>	 <u>\$ 1,496,275</u>	 17.94 %
<u>Expenditures</u>				
Instruction	\$ 4,767,570	\$ 4,140,702	\$ 626,868	15.14 %
Support services	<u>4,726,774</u>	<u>4,159,526</u>	<u>567,248</u>	13.64 %
 Total	 <u>\$ 9,494,344</u>	 <u>\$ 8,300,228</u>	 <u>\$ 1,194,116</u>	 14.39 %

General Fund Budgeting Highlights

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

During the course of fiscal 2004, the ESC amended its general fund budget a few times. For the general fund, final budgeted revenues and other financing sources were \$9,686,225, which approximates the original budgeted revenues and other financing sources estimate of \$8,701,602. Actual revenues and other financing sources for fiscal 2004 was \$9,683,365. This represents a \$2,860 decrease below final budgeted revenues. This decrease is primarily due to intergovernmental estimates in the original and final budgeted amounts.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$10,492,465 were increased to \$10,536,623 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$9,424,310, which was \$1,112,313 less than the final budget appropriations due to conservative estimates.

Capital Assets

At the end of fiscal 2004, the ESC had \$264,356 invested in furniture and equipment. This entire amount is reported in governmental activities statement of net assets. The following table shows fiscal 2004 balances compared to 2003:

	Capital Assets at June 30 (Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Furniture and equipment	<u>\$ 264,356</u>	<u>\$ 280,748</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Total additions to capital assets for 2004 were \$34,850. The overall decrease in capital assets of \$16,392 was primarily due to the recording of \$51,242 in depreciation expense for fiscal 2004.

See Note 7 to the basic financial statements for additional information on the ESC's capital assets.

Current Financial Related Activities

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

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

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

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

Contacting the ESC's Financial Management

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

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

STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents . . .	\$ 2,157,536
Receivables:	
Accounts	293,580
Intergovernmental	79,581
Prepayments	19,989
Materials and supplies inventory	4,324
Capital assets, net.	264,356
	2,819,366
Total assets.	2,819,366
Liabilities:	
Accounts payable.	7,247
Accrued wages and benefits	746,762
Pension obligation payable.	41,279
Intergovernmental payable	16,266
Long-term liabilities:	
Due within one year.	178,885
Due within more than one year	129,904
	1,120,343
Total liabilities	1,120,343
Net Assets:	
Invested in capital assets, net of related debt.	264,356
Restricted for other purposes	129,888
Unrestricted.	1,304,779
	1,699,023
Total net assets	\$ 1,699,023

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 1,484,940	\$ 1,339,044	\$ 194,222	\$ 48,326
Special	3,545,964	3,751,367	14,464	219,867
Other	2,255	12,237	-	9,982
Support services:				
Pupil	2,231,331	2,562,613	5,110	336,392
Instructional staff	536,062	237,450	195,116	(103,496)
Board of education	85,686	-	-	(85,686)
Administration	2,462,269	522,379	897,830	(1,042,060)
Fiscal	181,541	102,621	44,268	(34,652)
Business	392	-	-	(392)
Operations and maintenance	102,941	127,410	-	24,469
Central	136,805	-	56,004	(80,801)
Total governmental activities	<u>\$ 10,770,186</u>	<u>\$ 8,655,121</u>	<u>\$ 1,407,014</u>	<u>(708,051)</u>

General Revenues:

Grants and entitlements not restricted to specific programs	975,331
Investment earnings	<u>44,952</u>
Total general revenues	<u>1,020,283</u>
Change in net assets	312,232
Net assets at beginning of year (restated) .	<u>1,386,791</u>
Net assets at end of year	<u><u>\$ 1,699,023</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 2,047,500	\$ 110,036	\$ 2,157,536
Receivables:			
Accounts	293,552	28	293,580
Intergovernmental	14,337	65,244	79,581
Interfund receivable	18,292	-	18,292
Prepayments	18,779	1,210	19,989
Materials and supplies inventory	4,324	-	4,324
Total assets	<u>\$ 2,396,784</u>	<u>\$ 176,518</u>	<u>\$ 2,573,302</u>
Liabilities:			
Accounts payable	\$ 6,994	\$ 253	\$ 7,247
Accrued wages and benefits	746,498	264	746,762
Compensated absences payable	8,024	-	8,024
Pension obligation payable.	41,279	-	41,279
Intergovernmental payable.	15,931	335	16,266
Interfund payable.	-	18,292	18,292
Total liabilities	<u>818,726</u>	<u>19,144</u>	<u>837,870</u>
Fund Balances:			
Reserved for encumbrances	13,508	71,464	84,972
Reserved for materials and supplies inventory.	4,324	-	4,324
Reserved for prepayments	18,779	1,210	19,989
Unreserved, undesignated, reported in:			
General fund	1,541,447	-	1,541,447
Special revenue funds.	-	84,700	84,700
Total fund balances	<u>1,578,058</u>	<u>157,374</u>	<u>1,735,432</u>
Total liabilities and fund balances	<u>\$ 2,396,784</u>	<u>\$ 176,518</u>	<u>\$ 2,573,302</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

Total governmental fund balances	\$ 1,735,432
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	264,356
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Compensated absences	<u>(300,765)</u>
Net assets of governmental activities	<u><u>\$ 1,699,023</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
From local sources:			
Tuition.	\$ 1,310,818	\$ -	\$ 1,310,818
Earnings on investments.	44,952	-	44,952
Contract services.	7,198,352	-	7,198,352
Other local revenues.	145,951	-	145,951
Other revenue.	-	4,906	4,906
Intergovernmental - state	939,831	730,314	1,670,145
Intergovernmental - federal	195,655	511,639	707,294
Total revenues.	9,835,559	1,246,859	11,082,418
Expenditures:			
Current:			
Instruction:			
Regular	1,253,198	196,417	1,449,615
Special.	3,512,122	14,460	3,526,582
Other.	2,250	5	2,255
Support services:			
Pupil.	2,185,649	5,192	2,190,841
Instructional staff	469,958	87,425	557,383
Board of education	85,686	-	85,686
Administration.	1,525,362	786,595	2,311,957
Fiscal	215,381	85,952	301,333
Business	392	-	392
Operations and maintenance.	100,289	-	100,289
Central.	144,057	270	144,327
Total expenditures	9,494,344	1,176,316	10,670,660
Net change in fund balances	341,215	70,543	411,758
Fund balances at beginning of year (restated)	1,236,843	86,831	1,323,674
Fund balances at end of year.	\$ 1,578,058	\$ 157,374	\$ 1,735,432

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds	\$ 411,758
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$51,242) exceeds capital outlays (\$34,850) in the current period.	(16,392)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	<u>(83,134)</u>
Change in net assets of governmental activities	<u><u>\$ 312,232</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Tuition	\$ 1,372,565	\$ 1,315,050	\$ 1,315,050	\$ -
Earnings on investments	50,000	47,630	47,630	-
Contract services	5,425,732	6,909,020	6,909,020	-
Other local revenues	64,804	134,804	134,801	(3)
Intergovernmental - state	1,438,631	935,676	925,494	(10,182)
Intergovernmental - federal	200,000	208,017	208,017	-
Total revenues	<u>8,551,732</u>	<u>9,550,197</u>	<u>9,540,012</u>	<u>(10,185)</u>
Expenditures:				
Current:				
Instruction:				
Regular	1,384,405	1,390,232	1,243,470	146,762
Special	3,823,674	3,839,766	3,434,416	405,350
Other	2,505	2,516	2,250	266
Support services:				
Pupil	2,404,989	2,415,110	2,160,156	254,954
Instructional staff	523,191	525,393	469,929	55,464
Board of education	100,702	101,125	90,450	10,675
Administration	1,702,861	1,710,027	1,529,506	180,521
Fiscal	241,276	242,292	216,714	25,578
Business	436	438	392	46
Operations and maintenance	111,940	112,411	100,544	11,867
Central	163,416	164,104	146,780	17,324
Total expenditures	<u>10,459,395</u>	<u>10,503,414</u>	<u>9,394,607</u>	<u>1,108,807</u>
Excess of revenues over (under) expenditures	<u>(1,907,663)</u>	<u>(953,217)</u>	<u>145,405</u>	<u>1,098,622</u>
Other financing sources (uses):				
Refund of prior year expenditure	25,000	11,100	11,100	-
Transfers in	-	58	58	-
Advances in	124,870	124,870	132,195	7,325
Advances (out)	(33,070)	(33,209)	(29,703)	3,506
Total other financing sources (uses)	<u>116,800</u>	<u>102,819</u>	<u>113,650</u>	<u>10,831</u>
Net change in fund balance	(1,790,863)	(850,398)	259,055	1,109,453
Fund balance at beginning of year	1,740,854	1,740,854	1,740,854	-
Prior year encumbrances appropriated	29,780	29,780	29,780	-
Fund balance at end of year	<u>\$ (20,229)</u>	<u>\$ 920,236</u>	<u>\$ 2,029,689</u>	<u>\$ 1,109,453</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 1 - DESCRIPTION OF THE ESC

The Delaware-Union Educational Service Center (the "ESC") is located in Delaware, Ohio. The ESC supplies supervisory, special education, administrative, and other services to the Delaware City, Fairbanks, North Union, Olentangy, Buckeye Valley, and Big Walnut Local School Districts, as well as the Delaware Area Career Center. The ESC also provides gifted and at-risk programs for students at the Districts listed as well as Dublin City, Hilliard City, Upper Arlington City, Grandview Heights City, Groveport Madison Local, Marysville City, Westerville City, Worthington City, Columbus City and Southwestern City School Districts. The ESC furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The ESC operates under a locally-elected Board form of government consisting of 5 members elected at-large for staggered four-year terms. The ESC has 86 support staff employees, 110 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". 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, contract services, and student related programs of the ESC.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

JOINTLY GOVERNED ORGANIZATIONS

Tri-Rivers Educational Computer Association (TRECA)

TRECA is a jointly governed organization among 21 school districts. TRECA was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to the administrative and instructional functions of member districts. Each of the governments of these schools supports TRECA based upon a per pupil charge, dependent upon the software package utilized. TRECA is governed by a board of directors consisting of superintendents of the member school districts. Financial information is available from Mike Carder, Director, at 2222 Marion/Mt. Gilead Road, Marion, Ohio 43302.

Delaware Area Career Center

The Delaware 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 Career Center, at 4505 Columbus Pike, Delaware, Ohio 43015.

Tri-Rivers Career Center

The Tri-Rivers Joint Vocational School (the "Career Center") is a distinct political subdivision of the State of Ohio. The Career Center is operated under the direction of a Board consisting of one representative from each of the participating school district's elected board, and one representative from the ESC. The Career Center possesses its own budgeting and taxing authority. Financial information is available from Ms. Terril Martin, Treasurer, Tri-Rivers Career Center, at 2222 Marion/Mt. Gilead Road, Marion, Ohio 43302.

PUBLIC ENTITY RISK POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

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

B. Fund Accounting

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

D. Basis of Accounting

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

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

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

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

E. Budgets

The Budgetary process followed by the ESC is for control purposes and is not required by statute. The Educational Service Center submits an annual budget of operating expenses to the State Governing Board for approval.

The ESC legally adopts its budget on or before the start of the new fiscal year. Included in the budget are the estimated resources and expenditures for each fund. Upon review by the ESC's Governing Board, the annual appropriation resolution is adopted. After the start of the fiscal year, the estimated resources are revised and accepted by the Board to include any unencumbered cash balances from the preceding year. Both the estimated resources and appropriations may be amended or supplemented throughout the year as circumstances warrant.

In the first quarter of each fiscal year, the ESC summarizes and certifies its budget on forms furnished by the State Department of Education, together with such other information as the State Department of Education may require. The summarized budget document consists of three parts. Part (A) includes entitlement funding from the state for the cost of salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Department of Education. Part (B) includes the cost of all other lawful expenditures of the ESC. Part (C) includes the adopted appropriation resolution of the ESC. The State Board of Education reviews the budget and certifies to each local board of education under the supervision of the ESC the amount from part (B) that is to be apportioned to their district.

The ESC is funded by the State Department of Education for the cost of Part (A) of their budget. This funding is provided from state resources.

Part (B) of the budget is provided by the school districts served by the ESC, and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the school district's served by the ESC by \$37.00. This amount is provided from State Resources.

If additional funding is needed for the ESC, and if a majority of the Boards of Education of the school districts served by the ESC approve, the cost of Part (B) of the budget can be increased. The portion that is in excess of the original funding calculation is shared by all of the school districts served by the ESC through additional reductions in their resources provided through the State Foundation Program. The State Board of Education initiates and supervises the procedure under which the school districts approve or disapprove the additional apportionment. The districts to which the ESC provides service have agreed to pay \$9.50 per pupil to provide additional funding for services provided by the ESC.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

APPROPRIATIONS

The annual appropriation resolution is legally enacted by the ESC's Governing Board at the fund, function and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the ESC may pass a temporary appropriation measure to meet the ordinary expenses of the ESC. The appropriation resolution, by fund, must be within the estimated resources, and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total function appropriations within the fund, or alter object appropriations within functions, must be approved by the ESC's Governing Board.

The ESC's Governing Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. The budget figures which appear in the budgetary statement represent the original and final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions. All supplemental appropriations were legally enacted by the Governing Board during fiscal 2004.

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

F. Cash and Investments

To improve cash management, cash received by the ESC is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the ESC's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

During fiscal year 2004, investments were limited to a repurchase agreement, certificates of deposit, State Treasury Asset Reserve of Ohio (Star Ohio) and federal securities. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as repurchase agreements and nonnegotiable certificates of deposit, are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2004.

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 2004 amounted to \$44,952, which includes \$2,133 assigned from other ESC funds.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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 Treasurer's investment account at fiscal year-end is provided in Note 4.

G. Inventory

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

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

Inventory consists of expendable supplies held for consumption.

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The ESC maintains a capitalization threshold of \$500 for its general capital assets. The ESC does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

J. Compensated Absences

The ESC reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the ESC will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the "vesting method". A liability for sick leave is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for this future severance eligibility, all employees with fifteen (15) years of service at any age were included.

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

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

K. Prepayments

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

L. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions 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, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

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 of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2004.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2004, the ESC has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements Nos. 37, 38 and 41.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparison for the general and each major special revenue fund.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

GASB No. 34 creates new basic financial statements for reporting on the ESC's financial activities. The basic financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements show the ESC's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

Governmental Activities - Restatement of Fund Balance - It was determined that GASB Interpretation No. 6 had the following effect on fund balance as previously reported at June 30, 2003.

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balance			
June 30, 2003	\$ 1,177,912	\$ 86,831	\$ 1,264,743
Implementation of GASB			
Interpretation No. 6	<u>58,931</u>	<u>-</u>	<u>58,931</u>
Adjusted fund balance,			
June 30, 2003	<u>\$ 1,236,843</u>	<u>\$ 86,831</u>	<u>\$ 1,323,674</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

	<u>Total</u>
Adjusted fund balance, June 30, 2003	\$ 1,323,674
GASB 34 adjustments:	
Capital assets	280,748
Long-term liabilities	(217,631)
Governmental activities net assets, June 30, 2003	\$ 1,386,791

B. Deficit Fund Balances

Fund balances at June 30, 2004 included the following individual fund deficits:

	<u>Deficit</u>
<u>Nonmajor Governmental Funds</u>	
Alternative Schools	\$ 38

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

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The ESC maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the basic financial statements as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of monies held by the ESC into three categories.

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

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

Interim monies 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 or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not the exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

**DELAWARE-UNION EDUCATIONAL SERVICE CENTER
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

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

Deposits: At fiscal year-end, the carrying amount of the ESC's deposits was \$1,306,812 and the bank balance was \$1,684,092. Both of these amounts include \$1,496,202 in nonnegotiable certificates of deposit. Of the bank balance:

1. \$400,000 was covered by federal depository insurance; and
2. \$1,284,092 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the ESC. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the ESC to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments: The ESC's investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at fiscal year-end. Category 1 includes investments that are insured or registered or securities held by the ESC. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the ESC's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the ESC's name. STAR Ohio are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	Category <u>2</u>	Category <u>3</u>	Reported <u>Amount</u>	Fair <u>Value</u>
Repurchase agreement	\$ -	\$ 380,128	\$ 380,128	\$ 380,128
Federal securities	397,583	-	397,583	397,583
Investment in Star Ohio	-	-	<u>73,013</u>	<u>73,013</u>
Total investments	<u>\$ 397,583</u>	<u>\$ 380,128</u>	<u>\$ 850,724</u>	<u>\$ 850,724</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 2,157,536	\$ -
Investments of the cash management pool:		
Repurchase agreement	(380,128)	380,128
Federal securities	(397,583)	397,583
Investment in Star Ohio	(73,013)	73,013
GASB Statement No. 3	\$ 1,306,812	\$ 850,724

NOTE 5 - INTERFUND TRANSACTIONS

Interfund balances at June 30, 2004 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	\$ 18,292

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2004 are reported on the statement of net assets.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2004 consisted of accounts (billings for user charged services and student fees), 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:

Governmental Activities	
Accounts	\$ 293,580
Intergovernmental	79,581
Total	\$ 373,161

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 7 - CAPITAL ASSETS

- A. The capital asset balances of the governmental activities have been restated due to errors and omissions in the amounts reported in the previous year and to record accumulated depreciation in accordance with GASB Statement No. 34:

	Balance 6/30/03	Adjustments	Restated Balance 07/01/03
Governmental Activities			
<i>Capital assets, being depreciated:</i>			
Furniture and equipment	\$ 503,252	\$ (28,421)	\$ 474,831
Total capital assets, being depreciated	503,252	(28,421)	474,831
<i>Less: accumulated depreciation</i>	-	(194,083)	(194,083)
Governmental activities capital assets, net	\$ 503,252	\$ (222,504)	\$ 280,748

- B. Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Restated Balance 07/01/03	Additions	Deductions	Balance 06/30/04
Governmental Activities				
<i>Capital assets, being depreciated:</i>				
Furniture and equipment	\$ 474,831	\$ 34,850	\$ (19,359)	\$ 490,322
Total capital assets, being depreciated	474,831	34,850	(19,359)	490,322
<i>Less: accumulated depreciation:</i>				
Furniture and equipment	(194,083)	(51,242)	19,359	(225,966)
Total accumulated depreciation	(194,083)	(51,242)	19,359	(225,966)
Governmental activities capital assets, net	\$ 280,748	\$ (16,392)	\$ -	\$ 264,356

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 46,224
Special	1,679

Support Services:

Administration	2,536
Fiscal	352
Central	451

Total depreciation expense	\$ 51,242
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**DELAWARE-UNION EDUCATIONAL SERVICE CENTER
DELAWARE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 8 - LONG-TERM OBLIGATIONS

The balance of the District's governmental activities long-term obligations at June 30, 2003 has been restated. The compensated absences liability increased \$58,931 from \$158,700 to \$217,631 due to the implementation of GASB Interpretation No. 6. During fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

	Restated Balance 07/01/03	Increase	Decrease	Balance 06/30/04	Amount Due in One Year
<u>Other Long-Term Obligations</u>					
Compensated absences	<u>\$ 217,631</u>	<u>\$ 283,101</u>	<u>\$ (191,943)</u>	<u>\$ 308,789</u>	<u>\$ 178,885</u>

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

NOTE 9 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components derives from negotiated agreements and state laws. Classified employees earn ten to thirty days of vacation per fiscal year, depending upon the length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 210 days for all personnel. Upon completion of ten 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.

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 2004, the Education Service Center contracted with Ohio School Plan for liability insurance and with Hartford Casualty Insurance Company for property. Coverages are as follows:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 10 - RISK MANAGEMENT - (Continued)

Building contents - replacement cost (\$1,000 deductible)	\$ 591,565
General liability per occurrence	1,000,000
Total per year	3,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant change in coverage from the previous fiscal year.

B. Workers' Compensation

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

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 firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

The ESC pays the State Bureau of Workers' Compensation a premium based on a rate of \$.001566 per \$100 of salaries. This rate is calculated based on claims history and administrative costs.

C. Group Health, Life and Dental Insurance

Health, life, dental and other group insurance is offered to employees as a fringe benefit. Employer and employee contributions to premium are approved by the Governing Board (currently, single coverage is 93% Board paid and 7% employee-paid, while family coverage is 72% Board-paid and 28% employee-paid).

While all benefit plans are traditionally-funded through common carriers, the Board's group health plan contains provisions for discounted amounts to be remitted to the carrier during the year (90% of the carrier-established premium for fiscal 2004), 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The ESC contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. 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 State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (614) 222-5853.

Plan members are required to contribute 9% of their annual covered salary and the ESC is required to contribute at an actuarially determined rate. The current ESC rate is 14% 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 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The ESC's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$294,052, \$135,498, and \$70,393, respectively; 100% has been contributed for each fiscal year.

B. State Teachers Retirement System

The ESC contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

Plan members are required to contribute 9.3% of their annual covered salary and the ESC is required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. Contributions to the DC and Combined Plans for fiscal year 2004 were \$29,650 made by the ESC and \$43,819 made by the plan members. The ESC's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$700,491, \$574,407, and \$347,264, respectively; 100% has been contributed for each fiscal year.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2004, certain members of the Governing Board have elected Social Security. The ESC's liability is 6.2% of wages paid.

NOTE 12 - POSTEMPLOYMENT BENEFITS

The ESC provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the ESC, this amount equaled \$50,035 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$2.8 billion at June 30, 2003 (latest information available). For the fiscal year ended June 30, 2003 (latest information available), net health care costs paid by STRS were \$352.301 million and STRS had 108,294 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

For this fiscal year, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$14,500. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2003 (latest information available) were \$204.931 million and the target level was \$307.4 million. At June 30, 2003 (latest information available), SERS had net assets available for payment of health care benefits of \$303.6 million and SERS had approximately 50,000 participants receiving health care benefits. For the ESC, the amount to fund health care benefits, including surcharge, equaled \$118,205 during the 2004 fiscal year.

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING

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

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

	<u>General Fund</u>
Budget basis	\$ 259,055
Net adjustment for revenue accruals	295,547
Net adjustment for expenditure accruals	(119,965)
Net adjustment for other sources/uses	(113,650)
Adjustment for encumbrances	<u>20,228</u>
GAAP basis	<u>\$ 341,215</u>

NOTE 14 - CONTINGENCIES

A. Grants

The ESC receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the ESC. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the ESC.

B. Litigation

The ESC is a party to legal proceedings, however they are not expected to have a material effect on the financial condition of the ESC.

C. State School Funding Decision

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The ESC is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

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

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004**

Federal Grantor <i>Pass-Through Grantor</i> Program Title	Federal CFDA Number	Pass Through Entity Number	Receipts	Disbursements
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed through Ohio Department of Education</i>				
Title I Grants to Local Educational Agencies	84.010	046730-C1A1-2003-P	(\$270)	\$59,786
Special Education Cluster				
Special Education_Preschool Grants	84.173	046730-PGD7-2003-P	11,060	11,060
Safe and Drug-Free Schools and Communities_ National Programs	84.184	046730-T4S1-2004	7,000	6,566
Twenty-First Century Community Learning Centers	84.287	046730-T1S1-2004	471,659	354,498
Comprehensive School Reform Demonstration	84.332	046730-RFBA-2003	76,831	91,501
Total U.S. Department of Education			566,280	523,411
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
<i>Passed through Ohio Department of Mental Retardation and Developmental Disabilities</i>				
Medical Assistance Program	93.778	N/A	208,017	208,017
TOTAL FEDERAL AWARDS EXPENDITURES			\$774,297	\$731,428

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

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

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

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



**Auditor of State
Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each 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, 2004, which collectively comprise the Center's basic financial statements and have issued our report thereon dated November 19, 2004, wherein we noted the Center adopted Governmental Accounting Standards Board Statement No. 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, 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 such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Center in a separate letter dated November 19, 2004.

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

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

Betty Montgomery
Auditor of State

November 19, 2004



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

To the Board of Education:

Compliance

We have audited the compliance of the Delaware-Union Educational Service Center, Delaware County, Ohio, (the Center) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Center's management. Our responsibility is to express an opinion on the Center's compliance based on our audit.

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

In our opinion, the Center complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. We noted a certain instance of noncompliance that does not require inclusion in this report that we have reported to management of the Center in a separate letter dated November 19, 2004.

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Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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



Betty Montgomery
Auditor of State

November 19, 2004

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

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

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	CFDA #84.287-Twenty-First Century Community Learning Centers CFDA #84.332-Comprehensive School Reform Demonstration
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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DELAWARE-UNION EDUCATIONAL SERVICE CENTER

DELAWARE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 20, 2005**