

**DELAWARE UNION EDUCATIONAL SERVICE CENTER  
DELAWARE COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2007**



**Mary Taylor, CPA**  
Auditor of State



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

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets .....	11
Statement of Activities.....	12
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	13
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	14
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds .....	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	16
Notes to the Basic Financial Statements .....	17
Supplementary Information: Schedule of Revenues, Expenditures and Changes in Fund Balance (Non-GAAP Budgetary Basis – General Fund) .....	35
Independent Accountants' Report On Internal Control Over Financial Reporting and On Compliance and Other Matters Required By <i>Government Auditing Standards</i> .....	37

**THIS PAGE INTENTIONALLY LEFT BLANK**



# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Delaware-Union Educational Service Center, Delaware County, Ohio (the Center), as of and for the year ended June 30, 2007, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Delaware-Union Educational Service Center, Delaware County, Ohio, as of June 30, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2007, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

November 14, 2007

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
UNAUDITED**

The management's discussion and analysis of the Delaware-Union Educational Service Center (the "ESC") financial performance provides an overall review of the ESC's financial activities for the fiscal year ended June 30, 2007. 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 2007 are as follows:

- In total, net assets of governmental activities decreased \$178,689, which represents a 9.16% decrease from 2006.
- General revenues accounted for \$1,132,595 in revenue or 9.50% of all revenues. Program specific revenues in the form of charges for services, grants and contributions accounted for \$10,793,111 or 90.50% of total revenues of \$11,925,706.
- The ESC had \$12,104,395 in expenses related to governmental activities; only \$10,793,111 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily unrestricted grants and entitlements) of \$1,132,595 were not adequate to provide for these programs. The ESC primarily relies on charges for services, grants and contributions.
- The ESC's only major governmental fund is the general fund. The general fund had \$11,266,784 in revenues and other financing sources and \$11,384,150 in expenditures. During fiscal 2007, the general fund's fund balance decreased \$117,366 from \$2,016,070 to \$1,898,704.

**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 2007?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
UNAUDITED  
(Continued)**

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

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

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

***Fund Financial Statements***

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

***Governmental Funds***

All 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* that can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the ESC's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 13-16 of this report.

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

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 17-34 of this report.

**The ESC as a Whole**

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



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
UNAUDITED  
(Continued)**

The table below provides a summary of the ESC's net assets for 2007 and 2006.

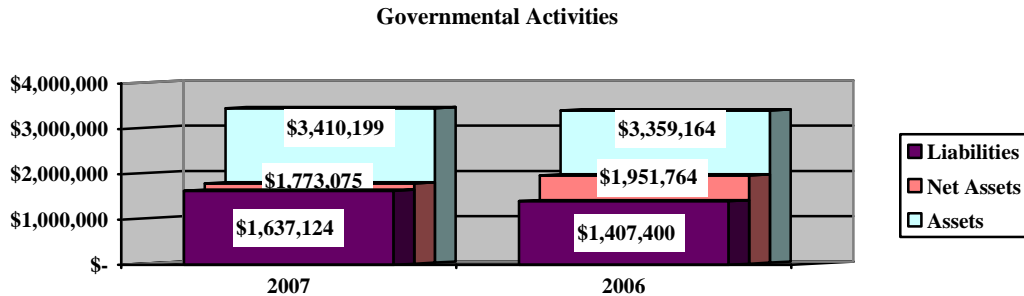
	<b>Net Assets</b>	
	Governmental Activities 2007	Governmental Activities 2006
<b><u>Assets</u></b>		
Current and other assets	\$ 3,217,421	\$ 3,118,146
Capital assets, net	192,778	241,018
Total assets	3,410,199	3,359,164
<b><u>Liabilities</u></b>		
Current liabilities	1,125,705	1,029,127
Long-term liabilities	511,419	378,273
Total liabilities	1,637,124	1,407,400
<b><u>Net Assets</u></b>		
Invested in capital assets	192,778	241,018
Restricted	33,346	39,457
Unrestricted	1,546,951	1,671,289
Total net assets	\$ 1,773,075	\$ 1,951,764

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the ESC's assets exceeded liabilities by \$1,773,075. At year-end, unrestricted net assets were \$1,546,951. The statement of net assets is located on page 11 of the basic financial statements.

At year-end, capital assets represented 5.65% of total assets. Capital assets include furniture and equipment. Capital assets, net of accumulated depreciation at June 30, 2007 were \$192,778. These capital assets are used to provide services to other school districts and are not available for future spending.

A portion of the ESC's net assets, \$33,346, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$1,546,951 may be used to meet the ESC's ongoing obligations to the students and creditors.

The chart below compares the ESC's assets, liabilities and net assets for fiscal years 2007 and 2006.



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
UNAUDITED  
(Continued)**

The table below shows the change in net assets for fiscal years 2007 and 2006. The statement of activities is located on page 12 of the basic financial statements.

	<u>Change in Net Assets</u>	
	Governmental Activities 2007	Governmental Activities 2006
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services	\$ 10,142,453	\$ 9,606,697
Operating grants and contributions	650,658	1,476,129
General revenues:		
Grants and entitlements not restricted to specific programs	967,375	972,382
Investment earnings	165,220	110,327
Total revenues	<u>11,925,706</u>	<u>12,165,535</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	1,301,433	1,340,301
Special	4,710,452	4,345,379
Other	158,965	-
Support services:		
Pupil	2,595,912	2,477,528
Instructional staff	694,290	624,484
Board of education	100,128	78,533
Administration	1,897,155	2,501,526
Fiscal	411,489	414,239
Business	370	797
Operations and maintenance Central	115,574	109,207
	<u>118,627</u>	<u>223,504</u>
Total expenses	<u>12,104,395</u>	<u>12,115,498</u>
Change in net assets	(178,689)	50,037
Net assets at beginning of year	<u>1,951,764</u>	<u>1,901,727</u>
Net assets at end of year	<u>\$ 1,773,075</u>	<u>\$ 1,951,764</u>

**Governmental Activities**

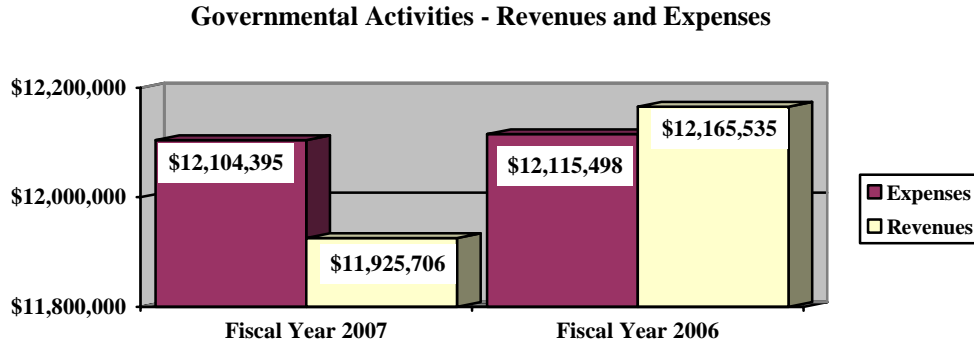
Net assets of the ESC's governmental activities decreased \$178,689. Total governmental expenses of \$12,104,395 were offset by program revenues of \$10,793,111 and general revenues of \$1,132,595. Program revenues supported 89.16% of the total governmental expenses.

The primary source of revenue for governmental activities is derived from charges for services. This program revenue source totaled \$10,142,453 and represents 85.05% of total governmental revenue.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
UNAUDITED  
(Continued)**

The graph below presents the ESC's governmental activities revenue and expenses for fiscal year 2007 and 2006.



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2007 and 2006. That is, it identifies the cost of these services supported by unrestricted State grants and entitlements.

**Governmental Activities**

	Total Cost of Services 2007	Net Cost of Services 2007	Total Cost of Services 2006	Net Cost of Services 2006
<b>Program expenses</b>				
Instruction:				
Regular	\$ 1,301,433	\$ (507,909)	\$ 1,340,301	\$ (554,746)
Special	4,710,452	351,072	4,345,379	289,897
Other	158,965	(3,242)	-	-
Support services:				
Pupil	2,595,912	(250,656)	2,477,528	(221,601)
Instructional staff	694,290	81,733	624,484	(33,589)
Board of education	100,128	100,041	78,533	78,533
Administration	1,897,155	1,220,384	2,501,526	1,225,274
Fiscal	411,489	177,873	414,239	85,114
Business	370	192	797	797
Operations and maintenance	115,574	26,169	109,207	24,275
Central	118,627	115,627	223,504	138,718
<b>Total expenses</b>	<b>\$ 12,104,395</b>	<b>\$ 1,311,284</b>	<b>\$ 12,115,498</b>	<b>\$ 1,032,672</b>

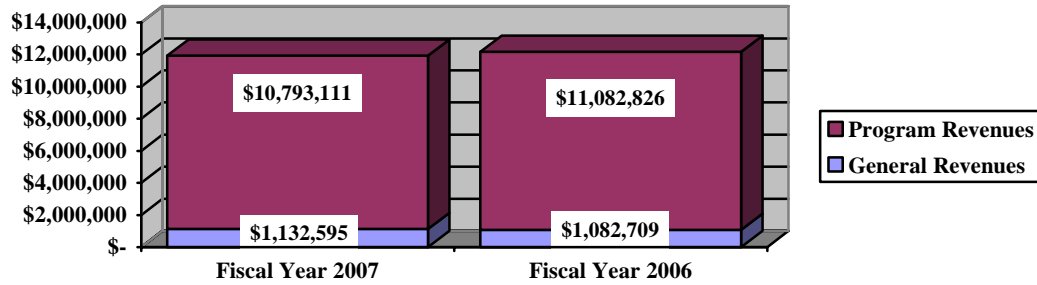
For all governmental activities, program revenue support is 89.17% and 91.48% in 2007 and 2006, respectively. The ESC's contracted services, as a whole, are by far the primary support for ESC's delivery of services.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
UNAUDITED  
(Continued)**

The graph below presents the ESC's governmental activities revenue for fiscal year 2007 and 2006.

**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 \$1,915,308, which is less than last year's total of \$2,069,210. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2007 and 2006.

	Fund Balance June 30, 2007	Fund Balance June 30, 2006	Decrease
General	\$ 1,898,704	\$ 2,016,070	\$ (117,366)
Other Governmental	16,604	53,140	(36,536)
<b>Total</b>	<b>\$ 1,915,308</b>	<b>\$ 2,069,210</b>	<b>\$ (153,902)</b>

**General Fund**

The ESC's general fund balance decreased by \$117,366. The decrease in fund balance can be attributed to increasing expenditures while revenues decreased slightly during fiscal year 2007. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	2007 Amount	2006 Amount	Increase (Decrease)	Percentage Change
<b><u>Revenues</u></b>				
Tuition	\$ 1,217,432	\$ 865,900	\$ 351,532	40.60 %
Earnings on investments	155,679	107,199	48,480	45.22 %
Contract services	8,387,119	8,572,247	(185,128)	(2.16) %
Intergovernmental	1,087,817	1,374,077	(286,260)	(20.83) %
Other revenues	417,762	457,985	(40,223)	(8.78) %
<b>Total</b>	<b>\$ 11,265,809</b>	<b>\$ 11,377,408</b>	<b>\$ (111,599)</b>	<b>(0.98) %</b>
<b><u>Expenditures</u></b>				
Instruction	\$ 5,759,879	\$ 5,479,511	\$ 280,368	5.12 %
Support services	5,624,271	5,369,480	254,791	4.75 %
<b>Total</b>	<b>\$ 11,384,150</b>	<b>\$ 10,848,991</b>	<b>\$ 535,159</b>	<b>4.93 %</b>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
UNAUDITED  
(Continued)**

The ESC had an increase in tuition revenue due to an increase in the preschool population resulting in increased classrooms. The Alternative Education program increased the cost of tuition to cover expenses for staff salary and benefits as well as other inflationary increases such as leases, rentals and purchases. The decrease in intergovernmental revenues is due the loss of the Community Alternative Funding System (CAFS) and the Medicare (MAC) programs. The overall increase in expenditures can be attributed to the direct loss of grant dollars covering salary and benefits of certain staff members and the General Fund absorbing those costs as well as inflationary increases.

**Capital Assets**

At the end of fiscal 2007, the ESC had \$192,778 invested in furniture and equipment. This entire amount is reported in governmental activities on the statement of net assets. The following table shows fiscal 2007 balances compared to 2006:

	<b>Capital Assets at June 30 (Net of Depreciation)</b>	
	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
Furniture and equipment	<u>\$ 192,778</u>	<u>\$ 241,018</u>

The overall decrease in capital assets of \$48,240 was primarily due to depreciation expense of \$50,675 and disposals of \$26,706 (net of accumulated depreciation) exceeding capital outlays of \$29,141. See Note 7 to the basic financial statements for additional information on the ESC's capital assets.

**Current Financial Related Activities**

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

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

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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
UNAUDITED  
(Continued)**

**Contacting the ESC's Financial Management**

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

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

**STATEMENT OF NET ASSETS  
JUNE 30, 2007**

	<u><b>Governmental Activities</b></u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents . . . . .	\$ 2,871,741
Receivables:	
Accounts . . . . .	261,707
Intergovernmental . . . . .	34,618
Accrued interest . . . . .	25,879
Prepayments . . . . .	20,004
Materials and supplies inventory . . . . .	3,472
Capital assets, net. . . . .	<u>192,778</u>
 Total assets. . . . .	 <u>3,410,199</u>
 <b>Liabilities:</b>	
Accounts payable. . . . .	24,288
Accrued wages and benefits . . . . .	872,889
Pension obligation payable. . . . .	172,892
Intergovernmental payable . . . . .	46,266
Unearned revenue . . . . .	9,370
Long-term liabilities:	
Due within one year. . . . .	204,404
Due in more than one year . . . . .	<u>307,015</u>
 Total liabilities . . . . .	 <u>1,637,124</u>
 <b>Net Assets:</b>	
Invested in capital assets . . . . .	192,778
Restricted for:	
Locally funded programs. . . . .	1,567
State funded programs . . . . .	15,010
Federally funded programs. . . . .	16,165
Other purposes. . . . .	604
Unrestricted. . . . .	<u>1,546,951</u>
 Total net assets . . . . .	 <u><u>\$ 1,773,075</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Revenue and Changes in Net Assets</u>
				<u>Governmental Activities</u>
<b>Governmental activities:</b>				
Instruction:				
Regular . . . . .	\$ 1,301,433	\$ 1,538,985	\$ 270,357	\$ 507,909
Special . . . . .	4,710,452	4,359,380	-	(351,072)
Other . . . . .	158,965	-	162,207	3,242
Support services:				
Pupil . . . . .	2,595,912	2,829,865	16,703	250,656
Instructional staff . . . . .	694,290	553,062	59,495	(81,733)
Board of education . . . . .	100,128	-	87	(100,041)
Administration . . . . .	1,897,155	568,790	107,981	(1,220,384)
Fiscal . . . . .	411,489	202,966	30,650	(177,873)
Business . . . . .	370	-	178	(192)
Operations and maintenance . . . . .	115,574	89,405	-	(26,169)
Central . . . . .	118,627	-	3,000	(115,627)
Total governmental activities . . . . .	<u>\$ 12,104,395</u>	<u>\$ 10,142,453</u>	<u>\$ 650,658</u>	<u>(1,311,284)</u>

**General Revenues:**

Grants and entitlements not restricted to specific programs . . . . .	967,375
Investment earnings . . . . .	<u>165,220</u>
Total general revenues . . . . .	<u>1,132,595</u>
Change in net assets . . . . .	(178,689)
<b>Net assets at beginning of year . . . . .</b>	<u>1,951,764</u>
<b>Net assets at end of year . . . . .</b>	<u>\$ 1,773,075</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



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

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2007**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents . . . . .	\$ 2,846,917	\$ 24,824	\$ 2,871,741
Receivables:			
Accounts . . . . .	261,707	-	261,707
Intergovernmental . . . . .	-	34,618	34,618
Accrued interest . . . . .	25,879	-	25,879
Interfund receivable . . . . .	627	-	627
Prepayments . . . . .	20,004	-	20,004
Materials and supplies inventory . . . . .	3,472	-	3,472
<b>Total assets . . . . .</b>	<b><u>\$ 3,158,606</u></b>	<b><u>\$ 59,442</u></b>	<b><u>\$ 3,218,048</u></b>
<b>Liabilities:</b>			
Accounts payable . . . . .	\$ 3,272	\$ 21,016	\$ 24,288
Accrued wages and benefits . . . . .	869,232	3,657	872,889
Compensated absences payable . . . . .	10,215	-	10,215
Pension obligation payable. . . . .	172,381	511	172,892
Intergovernmental payable. . . . .	45,942	324	46,266
Interfund payable. . . . .	-	627	627
Deferred revenue. . . . .	149,490	16,703	166,193
Unearned revenue. . . . .	9,370	-	9,370
<b>Total liabilities . . . . .</b>	<b><u>1,259,902</u></b>	<b><u>42,838</u></b>	<b><u>1,302,740</u></b>
<b>Fund Balances:</b>			
Reserved for encumbrances . . . . .	28,632	8,623	37,255
Reserved for materials and supplies inventory. . . . .	3,472	-	3,472
Reserved for prepayments . . . . .	20,004	-	20,004
Unreserved, undesignated, reported in:			
General fund . . . . .	1,846,596	-	1,846,596
Special revenue funds. . . . .	-	7,981	7,981
<b>Total fund balances . . . . .</b>	<b><u>1,898,704</u></b>	<b><u>16,604</u></b>	<b><u>1,915,308</u></b>
<b>Total liabilities and fund balances . . . . .</b>	<b><u>\$ 3,158,606</u></b>	<b><u>\$ 59,442</u></b>	<b><u>\$ 3,218,048</u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2007**

<b>Total governmental fund balances</b>		\$ 1,915,308
<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.		192,778
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Contract services revenue	\$ 131,847	
Intergovernmental	16,703	
Accrued interest	<u>17,643</u>	
Total		166,193
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		<u>(501,204)</u>
<b>Net assets of governmental activities</b>		<u><u>\$ 1,773,075</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<b>General</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues:</b>			
From local sources:			
Tuition. . . . .	\$ 1,217,432	\$ -	\$ 1,217,432
Earnings on investments. . . . .	155,679	-	155,679
Contract services. . . . .	8,387,119	-	8,387,119
Other local revenues. . . . .	417,762	2,799	420,561
Intergovernmental - intermediate . . . . .	32,171	3,067	35,238
Intergovernmental - state . . . . .	835,780	163,803	999,583
Intergovernmental - federal . . . . .	219,866	343,844	563,710
Total revenues. . . . .	11,265,809	513,513	11,779,322
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular . . . . .	1,095,098	138,825	1,233,923
Special. . . . .	4,663,578	-	4,663,578
Other. . . . .	1,203	157,762	158,965
Support services:			
Pupil. . . . .	2,553,333	29,151	2,582,484
Instructional staff . . . . .	622,971	63,761	686,732
Board of education . . . . .	99,976	152	100,128
Administration. . . . .	1,730,042	119,741	1,849,783
Fiscal . . . . .	378,141	28,596	406,737
Business . . . . .	59	311	370
Operations and maintenance. . . . .	114,725	-	114,725
Central. . . . .	125,024	11,750	136,774
Total expenditures . . . . .	11,384,150	550,049	11,934,199
Excess of revenues under expenditures. . . . .	(118,341)	(36,536)	(154,877)
<b>Other financing sources:</b>			
Sale of capital assets. . . . .	975	-	975
Total other financing sources. . . . .	975	-	975
Net change in fund balances . . . . .	(117,366)	(36,536)	(153,902)
<b>Fund balances at beginning of year . . . . .</b>	<b>2,016,070</b>	<b>53,140</b>	<b>2,069,210</b>
<b>Fund balances at end of year . . . . .</b>	<b>\$ 1,898,704</b>	<b>\$ 16,604</b>	<b>\$ 1,915,308</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

DELAWARE-UNION EDUCATIONAL SERVICE CENTER  
DELAWARE COUNTY

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2007**

**Net change in fund balances - total governmental funds** \$ (153,902)

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

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

Capital asset additions	\$	29,141	
Current year depreciation		<u>(50,675)</u>	
Total			(21,534)

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (26,706)

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

Contract services		128,577	
Tuition		(8,437)	
Intergovernmental		16,703	
Accrued interest		<u>9,541</u>	
Total			146,384

Some expenses reported in the statement of activities do not require the use of financial resources and therefore are not reported as expenditures in governmental funds. (122,931)

**Change in net assets of governmental activities** \$ (178,689)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE 1 - DESCRIPTION OF THE ESC**

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

The ESC operates under a locally-elected Board form of government consisting of 5 members elected at-large for staggered four-year terms. The ESC has 116 support staff employees, 107 certified teaching personnel, and 5 administrative personnel that provide services to the local, city, and joint vocational school districts.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the ESC have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The ESC also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The ESC's significant accounting policies are described below.

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the ESC are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the ESC. For the ESC, this includes general operations, preschool and student related activities of the ESC.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

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

*JOINTLY GOVERNED ORGANIZATIONS*

Tri-Rivers Educational Computer Association (TRECA)

TRECA is a jointly governed organization among 21 school districts. TRECA was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to the administrative and instructional functions of member districts. Each of the governments of these schools supports TRECA based upon a per pupil charge, dependent upon the software package utilized. TRECA is governed by a board of directors consisting of superintendents of the member school districts. Financial information is available from Mike Carder, Director, at 2222 Marion/Mt. Gilead Road, Marion, Ohio 43302. During fiscal year 2007, the ESC paid \$16,926 to TRECA.

Delaware Area Career Center

The Delaware Area Career Center (the "Career Center") is a distinct political subdivision of the State of Ohio. The Career Center is operated under the direction of a Board consisting of two representatives from each of the participating school district's elected board, and one representative from the ESC. The Career Center possesses its own budgeting and taxing authority. Financial information is available from Christopher Bell, Treasurer, Delaware Area Career Center, at 4505 Columbus Pike, Delaware, Ohio 43015.

Tri-Rivers Career Center

The Tri-Rivers Career Center (the "Career Center") is a distinct political subdivision of the State of Ohio. The Career Center is operated under the direction of a Board consisting of one representative from each of the participating school 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, 2007  
(Continued)**

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

*GOVERNMENTAL FUNDS*

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

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

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

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

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

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

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

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

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

**D. Basis of Accounting**

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

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

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

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

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

Revenues received in advance of the fiscal year for which they are intended to finance have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

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

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. 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, 2007  
(Continued)**

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

**E. Budgetary Process**

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

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

**F. Cash and Investments**

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

During fiscal year 2007, investments were limited to 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 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, 2007.

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 2007 amounted to \$155,679, which includes \$3,025 assigned from other ESC funds.

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

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

**G. Inventory**

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

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

Inventory consists of expendable supplies held for consumption.

**H. Capital Assets**

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

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

<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, 2007  
(Continued)**

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

**J. Compensated Absences**

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

The ESC reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the ESC will compensate the employees for the benefits through paid time off or some other means. 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 age 50 years or older with fifteen (15) years of service and five (5) years of service with the ESC were included.

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

**K. Prepayments**

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

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

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

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

**M. Fund Balance Reserves**

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

**N. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The amount restricted for other purposes include amounts restricted for the education foundation fund (a nonmajor governmental fund).

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

**O. Estimates**

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

**P. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2007.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**Deficit Fund Balances**

Fund balances at June 30, 2007 included the following individual fund deficit:

<u>Nonmajor Governmental Funds</u>	<u>Deficit</u>
Alternative Schools	\$ 39

The general fund is liable for any deficit in this fund and provides transfers when cash is required, not when accruals occur. This deficit fund balance is the result of adjustments for accrued liabilities.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

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

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

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

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

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

**A. Deposits with Financial Institutions**

At June 30, 2007, the carrying amount of all ESC deposits was \$1,730,356. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007, \$720,898 of the ESC's bank balance of \$2,063,898 was exposed to custodial risk as discussed below, while \$1,343,000 was covered by Federal Deposit Insurance Corporation.

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

**B. Investments**

As of June 30, 2007, the ESC had the following investments and maturities:

Investment type	Fair Value	Investment Maturities				
		6 Months or Less	7 to 12 Months	13 to 18 Months	19 to 24 Months	Greater than 24 Months
FHLB	\$ 797,097	\$ -	\$ 198,312	\$ 249,687	\$ 199,614	\$ 149,484
FNMA	249,063	249,063	-	-	-	-
STAR Ohio	95,225	95,225	-	-	-	-
	<u>\$ 1,141,385</u>	<u>\$ 344,288</u>	<u>\$ 198,312</u>	<u>\$ 249,687</u>	<u>\$ 199,614</u>	<u>\$ 149,484</u>

The weighted average maturity of investments is 1.13 years.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

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

*Credit Risk:* The ESC's investments, except for STAR Ohio, were rated Aaa by Moody's Investor Services. Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the ESC will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the ESC's name. The ESC has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

*Concentration of Credit Risk:* The ESC places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the ESC at June 30, 2007:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
FHLB	\$ 797,097	69.84
FNMA	249,063	21.82
STAR Ohio	95,225	8.34
	<u>\$ 1,141,385</u>	<u>100.00</u>

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2007:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 1,730,356
Investments	<u>1,141,385</u>
Total	<u>\$ 2,871,741</u>

<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 2,871,741
	<u>\$ 2,871,741</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

**NOTE 5 - INTERFUND TRANSACTIONS**

Interfund balances at June 30, 2007 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor special revenue fund	\$ 627

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, 2007 are reported on the statement of net assets.

**NOTE 6 - RECEIVABLES**

Receivables at June 30, 2007 consisted of accounts (billings for user charged services), accrued interest and intergovernmental grants and entitlements. Intergovernmental receivables are considered collectible in full due to the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

<u>Governmental Activities</u>	<u>Amount</u>
Accounts receivable	\$ 261,707
Accrued interest	25,879
Intergovernmental	<u>34,618</u>
Total	<u>\$ 322,204</u>

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

**NOTE 7 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	<u>Balance 06/30/06</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/07</u>
<b>Governmental Activities</b>				
<i>Capital assets, being depreciated:</i>				
Furniture and equipment	\$ 554,337	\$ 29,141	\$ (52,639)	\$ 530,839
Total capital assets, being depreciated	<u>554,337</u>	<u>29,141</u>	<u>(52,639)</u>	<u>530,839</u>
<i>Less: accumulated depreciation:</i>				
Furniture and equipment	<u>(313,319)</u>	<u>(50,675)</u>	<u>25,933</u>	<u>(338,061)</u>
Total accumulated depreciation	<u>(313,319)</u>	<u>(50,675)</u>	<u>25,933</u>	<u>(338,061)</u>
Governmental activities capital assets, net	<u>\$ 241,018</u>	<u>\$ (21,534)</u>	<u>\$ (26,706)</u>	<u>\$ 192,778</u>



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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

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

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>		
Regular		\$ 34,091
Special		2,077
<u>Support Services:</u>		
Instructional		3,577
Administration		5,412
Fiscal		114
Central		5,404
<hr/>		
Total depreciation expense		<u>\$ 50,675</u>

**NOTE 8 - LONG-TERM OBLIGATIONS**

During fiscal year 2007, the following changes occurred in governmental activities long-term obligations:

	Balance 06/30/06	Increase	Decrease	Balance 06/30/07	Amount Due in One Year
<u>Other Long-Term Obligations</u>					
Compensated absences	<u>\$ 378,273</u>	<u>\$ 320,044</u>	<u>\$ (186,898)</u>	<u>\$ 511,419</u>	<u>\$ 204,404</u>

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

**NOTE 9 - OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

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

**B. Insurance Benefits**

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

**NOTE 10 - RISK MANAGEMENT**

**A. Comprehensive**

The ESC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The ESC carries commercial insurance for all risks of loss, including general liability and employee health and accident insurance. During fiscal year 2007, the Education Service Center contracted with Ohio School Plan for liability insurance and with Hartford Casualty Insurance Company for property. Coverages are as follows:

Building contents - replacement cost (\$1,000 deductible)	\$ 805,400
General liability per occurrence	1,000,000
Total per year	3,000,000

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

**B. Workers' Compensation**

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

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

The ESC pays the State Bureau of Workers' Compensation a premium based on a rate of \$.006870 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 Board (currently, single coverage is 91% Board paid and 9% employee-paid, while family coverage is 71% Board-paid and 29% employee-paid).

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

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

While all benefit plans are traditionally-funded through common carriers, the Board's group health plan contains provisions for discounted amounts to be remitted to the carrier during the year (90% of the carrier-established premium for fiscal 2007), contingent upon the group's claims experience for the year. While the ESC has not retained risk for any claims, should the group's claim costs for the year exceed the threshold of the discounted amount remitted to the carrier during the year, the ESC must remit additional premiums, to a maximum of the difference between the discounted premium and the full premium.

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

**NOTE 11 - PENSION PLANS**

**A. School Employees Retirement System**

The ESC contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, [www.ohsers.org](http://www.ohsers.org), under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the ESC is required to contribute at an actuarially determined rate. The current ESC rate is 14 percent of annual covered payroll. A portion of the ESC's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The ESC's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$300,413, \$286,749, and \$247,546, respectively; 100% has been contributed for all fiscal years.

**B. State Teachers Retirement System**

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

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

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

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

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The ESC was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal years 2006 and 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The ESC's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2007, 2006, and 2005 were \$723,015, \$705,512, and \$686,667, respectively; 100% has been contributed for all fiscal years. Contributions to the DC and Combined Plans for fiscal 2007 were \$37,283 made by the ESC and \$61,822 made by plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2007, certain members of the Board have elected Social Security. The ESC's liability is 6.2% of wages paid.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

**NOTE 12 - POSTEMPLOYMENT BENEFITS**

The ESC provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the ESC, this amount equaled \$55,617 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006 (the latest information available), net health care costs paid by STRS Ohio were \$282.743 million and STRS Ohio had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease of .10 percent from fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. Total surcharge is capped at 2 percent of each employer's SERS salaries. For the 2007 fiscal year, ESC paid \$147,068 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were \$158.751 million. At June 30, 2006 (the latest information available), SERS had net assets available for payment of health care benefits of \$295.6 million. At June 30, 2006 (the latest information available), SERS had 59,492 participants currently receiving health care benefits.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

**NOTE 13 - CONTINGENCIES**

**A. Grants**

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

**B. Litigation**

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

**NOTE 14 - STATE FUNDING**

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

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

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

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

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
From local sources:				
Tuition. . . . .	\$ 1,028,163	\$ 1,183,758	\$ 1,183,758	\$ -
Earnings on investments. . . . .	85,000	158,967	158,967	-
Contract services. . . . .	6,552,669	8,529,891	8,529,891	-
Other local revenues . . . . .	378,687	419,727	419,727	-
Intergovernmental - intermediate . . . . .	50,000	32,171	32,171	-
Intergovernmental - state . . . . .	1,487,357	835,780	835,780	-
Intergovernmental - federal . . . . .	60,000	219,866	219,866	-
Total revenues. . . . .	<u>9,641,876</u>	<u>11,380,160</u>	<u>11,380,160</u>	<u>-</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	1,069,504	1,313,638	1,081,659	231,979
Special. . . . .	4,477,395	4,727,991	4,624,307	103,684
Support services:				
Pupil. . . . .	2,436,292	2,623,939	2,533,353	90,586
Instructional staff . . . . .	583,038	670,096	636,697	33,399
Board of education . . . . .	113,411	135,506	102,429	33,077
Administration. . . . .	1,941,205	2,212,731	1,720,726	492,005
Fiscal . . . . .	396,668	407,909	379,889	28,020
Business . . . . .	500	500	59	441
Operations and maintenance. . . . .	112,566	116,007	114,967	1,040
Central. . . . .	135,332	208,565	141,672	66,893
Total expenditures . . . . .	<u>11,265,911</u>	<u>12,416,882</u>	<u>11,335,758</u>	<u>1,081,124</u>
Excess of revenues over (under) expenditures. . . . .	<u>(1,624,035)</u>	<u>(1,036,722)</u>	<u>44,402</u>	<u>1,081,124</u>
<b>Other financing sources (uses):</b>				
Refund of prior year expenditure. . . . .	85,000	2,931	2,931	-
Transfers in. . . . .	84,919	84,919	84,919	-
Transfers (out) . . . . .	(84,919)	(84,919)	(84,919)	-
Advances in. . . . .	20,325	20,326	20,326	-
Sale of capital assets. . . . .	-	975	975	-
Total other financing sources (uses) . . . . .	<u>105,325</u>	<u>24,232</u>	<u>24,232</u>	<u>-</u>
Net change in fund balance . . . . .	(1,518,710)	(1,012,490)	68,634	1,081,124
<b>Fund balance at beginning of year. . . . .</b>	2,740,758	2,740,758	2,740,758	-
<b>Prior year encumbrances appropriated . . . . .</b>	11,842	11,842	11,842	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 1,233,890</u>	<u>\$ 1,740,110</u>	<u>\$ 2,821,234</u>	<u>\$ 1,081,124</u>

**THIS PAGE INTENTIONALLY LEFT BLANK**





# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Delaware-Union Educational Service Center, Delaware County, Ohio (the Center) as of and for the year ended June 30, 2007, which collectively comprise the Center's basic financial statements and have issued our report thereon dated November 14, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Center's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the Center's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Center's internal control over financial reporting.

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

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

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

We noted a certain matter that we reported to the Center's management in a separate letter dated November 14, 2007.

88 E. Broad St. / Tenth Floor / Columbus, OH 43215-3506  
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

### **Compliance and Other Matters**

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

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

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

**Mary Taylor, CPA**  
Auditor of State

November 14, 2007



**Mary Taylor, CPA**  
Auditor of State

**DELAWARE-UNION EDUCATIONAL SERVICE CENTER**

**DELAWARE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
DECEMBER 18, 2007**