



**Auditor of State
Betty Montgomery**

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

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Financial Statements:	
Balance Sheet-Governmental Funds	13
Reconciliation of Total Governmental Fund Balances to Net Assets Of Governmental Activities	14
Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes In Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) General Fund.....	17
Notes to the Basic Financial Statements	19
Schedule of Federal Awards Receipts and Expenditures.....	39
Notes to the Schedule of Federal Awards Receipts and Expenditures.....	40
Independent Accountants' Report on Internal Control over Financial Reporting and on Compliance And Other Matters Required by <i>Governmental Auditing Standards</i>	41
Independent Accountants' Report on Compliance with Requirements Applicable To The Major Federal Program and Internal Control over Compliance In Accordance with OBM Circular A-133	43
Schedule of Findings.....	45

THIS PAGE INTENTIONALLY LEFT BLANK



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Delaware-Union Educational Service Center, Delaware County, Ohio (the Center), as of and for the year ended June 30, 2005, 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, 2005, and the respective changes in financial position, and the budgetary comparison for the General Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2005, 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 & Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

We conducted our audit to opine on the financial statements that collectively comprise the Center's basic financial statements. The schedule of federal awards receipts and expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the schedule of federal awards receipts and expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

December 9, 2005

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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, 2005. 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 2005 are as follows:

- In total, net assets of governmental activities increased \$202,704, which represents a 11.89% increase from 2004.
- General revenues accounted for \$1,129,259 in revenue or 9.57% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$10,674,535 or 90.43% of total revenues of \$11,803,794.
- The ESC had \$11,601,090 in expenses related to governmental activities; only \$10,674,535 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 \$1,129,259 were adequate to provide for these programs, the ESC primarily relies on charges for services, grants and contributions.
- The ESC's only major governmental fund is the general fund. The general fund had \$10,184,227 in revenues and \$10,274,632 in expenditures. During fiscal 2005, the general fund's fund balance decreased \$90,405 from \$1,578,058 to \$1,487,653.

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 2005?" 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**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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 12 and 13 of the basic financial statements.

Reporting the ESC's Most Significant Funds

Fund Financial Statements

The analysis of the ESC's major governmental fund begins on page 9. Fund financial reports provide detailed information about the ESC's major funds. The ESC uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the ESC's most significant funds. The ESC's only major governmental fund is the general fund.

Governmental Funds

Most of the ESC's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the ESC's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 14-18 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 19-38 of this report.

The ESC as a Whole

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

The table below provides a summary of the ESC's net assets for 2005 and 2004.

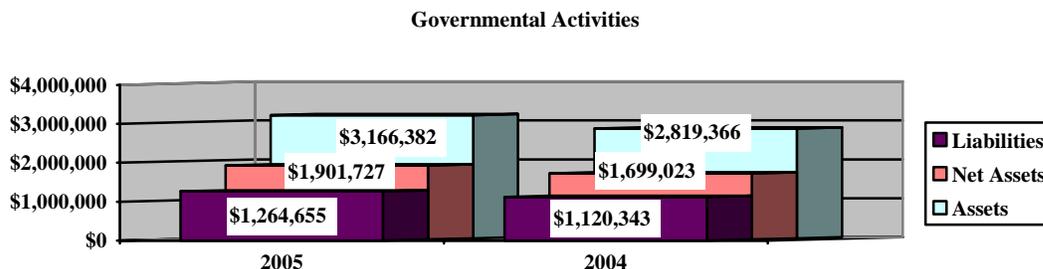
	Net Assets	
	Governmental Activities 2005	Governmental Activities 2004
Assets		
Current and other assets	\$ 2,924,159	\$ 2,555,010
Capital assets, net	242,223	264,356
Total assets	3,166,382	2,819,366
Liabilities		
Current liabilities	952,168	811,554
Long-term liabilities	312,487	308,789
Total liabilities	1,264,655	1,120,343
Net Assets		
Invested in capital assets, net of related debt	242,223	264,356
Restricted	178,069	129,888
Unrestricted	1,481,435	1,304,779
Total net assets	\$ 1,901,727	\$ 1,699,023

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the ESC's assets exceeded liabilities by \$1,901,727. At year-end, unrestricted net assets were \$1,481,435. The statement of net assets is located on page 12 of the basic financial statements.

At year-end, capital assets represented 7.65% of total assets. Capital assets include furniture and equipment. Capital assets, net of related debt to acquire the assets at June 30, 2005, were \$242,223. 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, \$178,069, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$1,481,435 may be used to meet the ESC's ongoing obligations to the students and creditors.

The chart below compares the ESC's assets, liabilities and net assets at fiscal year-end.



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

The table below shows the change in net assets for fiscal year 2005 and 2004. The statement of activities is located on page 13 of the basic financial statements.

	<u>Change in Net Assets</u>	
	<u>Governmental Activities 2005</u>	<u>Governmental Activities 2004</u>
<u>Revenues</u>		
Program revenues:		
Charges for services	\$ 9,048,805	\$ 8,655,121
Operating grants and contributions	1,625,730	1,407,014
General revenues:		
Grants and entitlements not restricted to specific programs	1,063,754	975,331
Investment earnings	<u>65,505</u>	<u>44,952</u>
Total revenues	<u>11,803,794</u>	<u>11,082,418</u>
Instruction:		
Regular	\$ 1,394,141	\$ 1,484,940
Special	3,981,369	3,545,964
Other	-	2,255
Support services:		
Pupil	2,363,470	2,231,331
Instructional staff	547,085	536,062
Board of education	79,277	85,686
Administration	2,598,623	2,462,269
Fiscal	332,155	181,541
Business	426	392
Operations and maintenance	118,453	102,941
Central	184,129	136,805
Interest and fiscal charges	<u>1,962</u>	<u>-</u>
Total expenses	<u>11,601,090</u>	<u>10,770,186</u>
Change in net assets	202,704	312,232
Net assets at beginning of year	<u>1,699,023</u>	<u>1,386,791</u>
Net assets at end of year	<u>\$ 1,901,727</u>	<u>\$ 1,699,023</u>

Governmental Activities

Net assets of the ESC's governmental activities increased \$202,704. Total governmental expenses of \$11,601,090 were offset by program revenues of \$10,674,535 and general revenues of \$1,129,259. Program revenues supported 92.01% of the total governmental expenses.

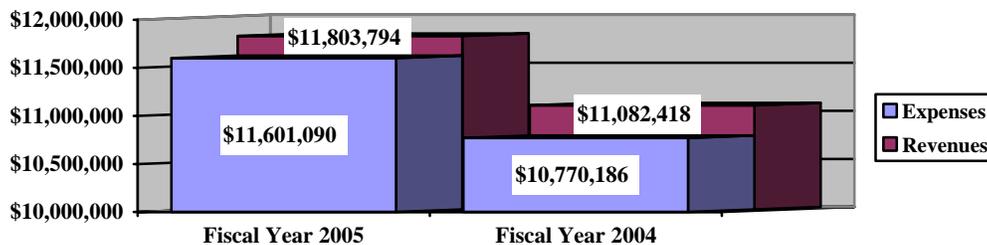
**DELAWARE-UNION EDUCATIONAL SERVICE CENTER
DELAWARE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

The primary source of revenue for governmental activities is derived from charges for services. This program revenue source totaled \$9,048,805 and represents 76.66% of total governmental revenue. The ESC had an increase in contract services revenue during fiscal year 2005, due to an increase in services provided to area school districts.

The graph below presents the ESC's governmental activities revenue and expenses for fiscal year 2005 and 2004.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2005 and 2004. That is, it identifies the cost of these services supported by unrestricted State grants and entitlements.

Governmental Activities

	Total Cost of Services 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
Program expenses				
Instruction:				
Regular	\$ 1,394,141	\$ (461,232)	\$ 1,484,940	\$ (48,326)
Special	3,981,369	283,246	3,545,964	(219,867)
Other	-	-	2,255	(9,982)
Support services:				
Pupil	2,363,470	(195,323)	2,231,331	(336,392)
Instructional staff	547,085	(47,584)	536,062	103,496
Board of education	79,277	79,277	85,686	85,686
Administration	2,598,623	1,096,841	2,462,269	1,042,060
Fiscal	332,155	8,338	181,541	34,652
Business	426	426	392	392
Operations and maintenance	118,453	29,202	102,941	(24,469)
Central	184,129	131,402	136,805	80,801
Interest and fiscal charges	1,962	1,962	-	-
Total expenses	\$ 11,601,090	\$ 926,555	\$ 10,770,186	\$ 708,051

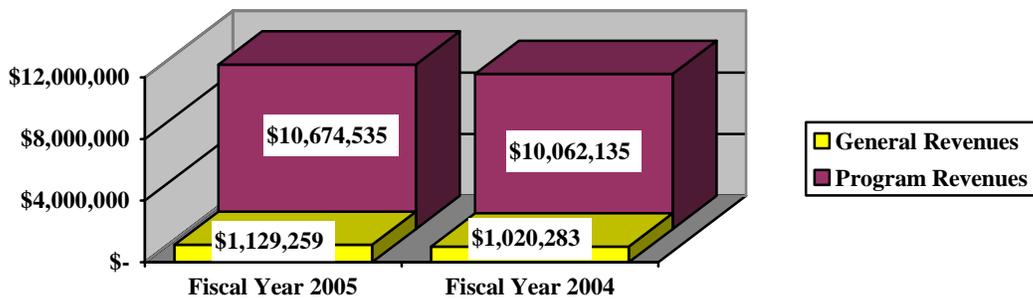
**DELAWARE-UNION EDUCATIONAL SERVICE CENTER
DELAWARE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

The dependence upon grants and other general revenues for governmental activities is apparent, 17.56% of support services are supported through grants and other general revenues. For all governmental activities, general revenue support is 7.99%. The ESC's contracted services, as a whole, are by far the primary support for ESC's delivery of services.

The graph below presents the ESC's governmental activities revenue for fiscal year 2005 and 2004.

Governmental Activities - General and Program Revenues



The ESC's Funds

The ESC's governmental funds, as presented on the balance sheet on page 14, reported a combined fund balance of \$1,674,527, which is less than last year's total of \$1,735,432. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance June 30, 2005	Fund Balance June 30, 2004	Increase/ (Decrease)
General	\$ 1,487,653	\$ 1,578,058	\$ (90,405)
Other Governmental	<u>177,305</u>	<u>157,374</u>	<u>19,931</u>
Total	<u>\$ 1,664,958</u>	<u>\$ 1,735,432</u>	<u>\$ (70,474)</u>

General Fund

The ESC's general fund balance decreased by \$90,405. The decrease in fund balance can be attributed to an increase in contract services revenue due to an increase in expenditures during fiscal year 2005 that exceeded the increase in revenues. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

	<u>Amount</u>	<u>Amount</u>	<u>(Decrease)</u>	<u>Change</u>
<u>Revenues</u>				
Tuition	\$ 930,360	\$ 1,310,818	\$ (380,458)	(29.02) %
Earnings on investments	60,531	44,952	15,579	34.66 %
Contract services	7,449,984	7,198,352	251,632	3.50 %
Intergovernmental	1,376,033	1,135,486	240,547	21.18 %
Other revenues	<u>367,319</u>	<u>145,951</u>	<u>221,368</u>	151.67 %
Total	<u>\$ 10,184,227</u>	<u>\$ 9,835,559</u>	<u>\$ 348,668</u>	3.54 %
<u>Expenditures</u>				
Instruction	\$ 5,108,409	\$ 4,767,570	\$ 340,839	7.15 %
Support services	5,166,223	4,726,774	439,449	9.30 %
Total	<u>\$ 10,274,632</u>	<u>\$ 9,494,344</u>	<u>\$ 780,288</u>	8.22 %

The significant decrease which occurred in revenues occurred in tuition. This decrease was due to a decrease in courses offered by the ESC. The ESC had an increase in contract services revenue due to an increase in services provided. The increase in intergovernmental revenue is primarily due to the receipt of funds through the MACSIS program to provide mental health services to students served by the ESC. The increase in other revenues is primarily due to the receipt of fees for sponsorship of new community schools (which were not yet operational). The overall increase in expenditures is due to an increased number of employees in addition to wage and benefit increases.

General Fund Budgeting Highlights

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

During the course of fiscal 2005, the ESC amended its general fund budget a few times. For the general fund, final budgeted revenues and other financing sources were \$10,417,041, which approximates the original budgeted revenues and other financing sources estimate of \$9,101,659. Actual revenues and other financing sources for fiscal 2005 was \$10,429,353. This represents a \$12,312 increase above final budgeted revenues. This increase is primarily due to an increase in advances made in the previous year which were repaid during fiscal year 2005 that were not included in the budgeted revenues.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$11,112,329 were increased to \$11,260,284 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$10,266,898, which was \$993,386 less than the final budget appropriations due to conservative estimates.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Capital Assets

At the end of fiscal 2005, the ESC had \$242,223 invested in furniture and equipment. This entire amount is reported in governmental activities statement of net assets. The following table shows fiscal 2005 balances compared to 2004:

	Capital Assets at June 30 (Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Furniture and equipment	\$ <u>242,223</u>	\$ <u>264,356</u>

Total additions to capital assets for 2005 were \$35,725. The overall decrease in capital assets of \$22,133 was primarily due to the recording of \$57,528 in depreciation expense for fiscal 2005. See Note 7 to the basic financial statements for additional information on the ESC's capital assets.

Current Financial Related Activities

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

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

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

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

Contacting the ESC's Financial Management

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

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

**STATEMENT OF NET ASSETS
JUNE 30, 2005**

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents . . .	\$ 2,370,562
Receivables:	
Accounts	101,169
Intergovernmental	419,516
Accrued interest	5,997
Prepayments	22,665
Materials and supplies inventory	4,250
Capital assets, net.	242,223
 Total assets.	 3,166,382
 Liabilities:	
Accounts payable.	18,063
Accrued wages and benefits	764,662
Pension obligation payable.	148,546
Intergovernmental payable	20,897
Long-term liabilities:	
Due within one year.	168,330
Due in more than one year	144,157
 Total liabilities	 1,264,655
 Net Assets:	
Invested in capital assets, net of related debt.	242,223
Restricted for:	
Locally funded progams.	549
State funded progams	138,917
Federally funded progams.	33,350
Other purposes.	5,253
Unrestricted.	1,481,435
 Total net assets	 \$ 1,901,727

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, 2005**

	<u>Program Revenues</u>			Net (Expense) Revenue and Changes in Net Assets
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental activities:				
Instruction:				
Regular	\$ 1,394,141	\$ 1,477,907	\$ 377,466	\$ 461,232
Special	3,981,369	3,693,857	4,266	(283,246)
Support services:				
Pupil	2,363,470	2,551,699	7,094	195,323
Instructional staff	547,085	426,181	168,488	47,584
Board of education	79,277	-	-	(79,277)
Administration	2,598,623	588,150	913,632	(1,096,841)
Fiscal	332,155	221,760	102,057	(8,338)
Business	426	-	-	(426)
Operations and maintenance	118,453	89,251	-	(29,202)
Central	184,129	-	52,727	(131,402)
Interest and fiscal charges	1,962	-	-	(1,962)
Total governmental activities	<u>\$ 11,601,090</u>	<u>\$ 9,048,805</u>	<u>\$ 1,625,730</u>	<u>(926,555)</u>

General Revenues:

Grants and entitlements not restricted to specific programs	1,063,754
Investment earnings	65,505
Total general revenues	<u>1,129,259</u>
 Change in net assets	 202,704
 Net assets at beginning of year	 <u>1,699,023</u>
 Net assets at end of year	 <u>\$ 1,901,727</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 2,215,198	\$ 155,364	\$ 2,370,562
Receivables:			
Accounts	101,169	-	101,169
Intergovernmental	330,566	88,950	419,516
Accrued interest	5,997	-	5,997
Interfund receivable	58,261	-	58,261
Prepayments	20,300	2,365	22,665
Materials and supplies inventory	4,250	-	4,250
Total assets	<u>\$ 2,735,741</u>	<u>\$ 246,679</u>	<u>\$ 2,982,420</u>
Liabilities:			
Accounts payable	\$ 7,435	\$ 10,628	\$ 18,063
Accrued wages and benefits	764,623	39	764,662
Compensated absences payable	917	-	917
Pension obligation payable	148,546	-	148,546
Intergovernmental payable	20,451	446	20,897
Interfund payable	-	58,261	58,261
Deferred revenue	306,116	-	306,116
Total liabilities	<u>1,248,088</u>	<u>69,374</u>	<u>1,317,462</u>
Fund Balances:			
Reserved for encumbrances	10,548	109,776	120,324
Reserved for materials and supplies inventory	4,250	-	4,250
Reserved for prepayments	20,300	2,365	22,665
Unreserved, undesignated, reported in:			
General fund	1,452,555	-	1,452,555
Special revenue funds	-	65,164	65,164
Total fund balances	<u>1,487,653</u>	<u>177,305</u>	<u>1,664,958</u>
Total liabilities and fund balances	<u>\$ 2,735,741</u>	<u>\$ 246,679</u>	<u>\$ 2,982,420</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

DELAWARE-UNION EDUCATIONAL SERVICE CENTER
DELAWARE COUNTY

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2005

Total governmental fund balances		\$	1,664,958
<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.			242,223
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Contract services revenue	\$	301,142	
Accrued interest		<u>4,974</u>	
Total			306,116
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		<u>(311,570)</u>	
Total			<u>(311,570)</u>
Net assets of governmental activities		\$	<u><u>1,901,727</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, 2005**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Tuition.	\$ 930,360	\$ -	\$ 930,360
Earnings on investments.	60,531	-	60,531
Contract services.	7,449,984	-	7,449,984
Other local revenues.	367,319	12,500	379,819
Intergovernmental - intermediate	73,341	3,250	76,591
Intergovernmental - state	959,727	855,252	1,814,979
Intergovernmental - federal	342,965	442,449	785,414
Total revenues.	<u>10,184,227</u>	<u>1,313,451</u>	<u>11,497,678</u>
Expenditures:			
Current:			
Instruction:			
Regular	1,143,347	201,302	1,344,649
Special.	3,965,062	2,505	3,967,567
Support services:			
Pupil.	2,356,097	7,179	2,363,276
Instructional staff	481,049	72,716	553,765
Board of education	79,277	-	79,277
Administration.	1,693,485	906,710	2,600,195
Fiscal	236,077	100,108	336,185
Business	426	-	426
Operations and maintenance.	116,976	-	116,976
Central.	202,836	3,000	205,836
Total expenditures	<u>10,274,632</u>	<u>1,293,520</u>	<u>11,568,152</u>
Net change in fund balances	(90,405)	19,931	(70,474)
Fund balances at beginning of year	<u>1,578,058</u>	<u>157,374</u>	<u>1,735,432</u>
Fund balances at end of year	<u>\$ 1,487,653</u>	<u>\$ 177,305</u>	<u>\$ 1,664,958</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

DELAWARE-UNION EDUCATIONAL SERVICE CENTER
DELAWARE COUNTY

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005**

Net change in fund balances - total governmental funds		\$ (70,474)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
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	\$ 35,725	
Current year depreciation	<u>(57,528)</u>	
Total		(21,803)
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.		
		(330)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Contract services	301,142	
Accrued interest	<u>4,974</u>	
Total		306,116
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.		
		<u>(10,805)</u>
Change in net assets of governmental activities		<u>\$ 202,704</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Tuition.	\$ 739,846	\$ 903,141	\$ 903,141	\$ -
Earnings on investments.	50,000	64,813	64,813	-
Contract services.	6,171,350	7,440,258	7,440,258	-
Other local revenues.	222,600	364,732	364,732	-
Intergovernmental - intermediate	-	183,240	183,240	-
Intergovernmental - state	1,432,773	960,935	960,935	-
Intergovernmental - federal	450,000	440,037	440,037	-
Total revenues.	<u>9,066,569</u>	<u>10,357,156</u>	<u>10,357,156</u>	<u>-</u>
Expenditures:				
Current:				
Instruction:				
Regular	1,272,828	1,186,807	1,166,409	20,398
Special.	4,228,113	4,064,278	3,874,607	189,671
Support services:				
Pupil.	2,522,539	2,398,360	2,311,633	86,727
Instructional staff	552,559	542,240	506,360	35,880
Board of education	86,115	136,201	78,915	57,286
Administration.	1,840,003	2,254,472	1,686,163	568,309
Fiscal	258,643	245,370	237,018	8,352
Business	465	500	426	74
Operations and maintenance.	127,131	117,517	116,502	1,015
Central.	<u>223,933</u>	<u>230,884</u>	<u>205,210</u>	<u>25,674</u>
Total expenditures	<u>11,112,329</u>	<u>11,176,629</u>	<u>10,183,243</u>	<u>993,386</u>
Excess of revenues over (under) expenditures.	<u>(2,045,760)</u>	<u>(819,473)</u>	<u>173,913</u>	<u>993,386</u>
Other financing sources (uses):				
Refund of prior year expenditure.	10,100	34,895	34,895	-
Refund of prior year receipts	-	(6,385)	(6,385)	-
Advances in.	24,990	24,990	37,302	12,312
Advances out	-	(77,270)	(77,270)	-
Total other financing sources (uses)	<u>35,090</u>	<u>(23,770)</u>	<u>(11,458)</u>	<u>12,312</u>
Net change in fund balance	(2,010,670)	(843,243)	162,455	1,005,698
Fund balance at beginning of year.	2,029,689	2,029,689	2,029,689	-
Prior year encumbrances appropriated	20,228	20,228	20,228	-
Fund balance at end of year	<u>\$ 39,247</u>	<u>\$ 1,206,674</u>	<u>\$ 2,212,372</u>	<u>\$ 1,005,698</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

THIS PAGE INTENTIONALLY LEFT BLANK

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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 103 support staff employees, 115 certified teaching personnel, and 5 administrative personnel that provide services to the local, city, and joint vocational school districts.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

JOINTLY GOVERNED ORGANIZATIONS

Tri-Rivers Educational Computer Association (TRECA)

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

Delaware Area Career Center

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

Tri-Rivers Career Center

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

PUBLIC ENTITY RISK POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

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

B. Fund Accounting

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

GOVERNMENTAL FUNDS

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

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

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

C. Basis of Presentation and Measurement Focus

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

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

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

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

D. Basis of Accounting

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

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

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

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

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

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

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

E. Budgets

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

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

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

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

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

APPROPRIATIONS

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

The ESC's Governing Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. The budget figures which appear in the budgetary statement represent the original and final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions. All supplemental appropriations were legally enacted by the Governing Board during fiscal 2005.

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

F. Cash and Investments

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

During fiscal year 2005, investments were limited to a repurchase agreement, certificates of deposit, State Treasury Asset Reserve of Ohio (Star Ohio) and federal agency securities. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as repurchase agreements and nonnegotiable certificates of deposit, are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2005.

Under existing Ohio statutes all investment earning are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$60,531, which includes \$3,540 assigned from other ESC funds.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

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

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

G. Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories on the fund financial statements 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**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

J. Compensated Absences

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

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

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

K. Prepayments

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

L. Accrued Liabilities and Long-Term Obligations

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(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, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

O. Estimates

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

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Governing Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2005.

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES & ACCOUNTABILITY

A. Change in Accounting Principles

For fiscal year 2005, the ESC has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES & ACCOUNTABILITY- (Continued)

The implementation of GASB Statement No. 40 and GASB Technical Bulletin No. 2004-2 did not have an effect on the financial statements of the ESC, however additional note disclosure can be found in Note 4.

B. Deficit Fund Balances

Fund balances at June 30, 2005 included the following individual fund deficit:

<u>Nonmajor Governmental Funds</u>	<u>Deficit</u>
Miscellaneous Federal Grants	\$ 764

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

A. Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all ESC deposits was \$909,813, exclusive of the \$556,273 repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$719,425 of the ESC's bank balance of \$1,347,863 was exposed to custodial risk as discussed below, while \$628,438 was covered by Federal Deposit Insurance Corporation.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

B. Investments

As of June 30, 2005, the ESC had the following investments and maturities:

<u>Investment type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturities</u>				
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>19 to 24 months</u>	<u>Greater than 24 months</u>
Repurchase Agreement	\$ 556,273	\$ 556,273	\$ -	\$ -	\$ -	\$ -
STAR Ohio	60,380	60,380	-	-	-	-
FHLB	596,126	-	-	396,376	-	199,750
FNMA	247,970	-	-	-	-	247,970
	<u>\$ 1,460,749</u>	<u>\$ 616,653</u>	<u>\$ -</u>	<u>\$ 396,376</u>	<u>\$ -</u>	<u>\$ 447,720</u>

The weighted average maturity of investments is 1.05 years.

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

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

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the ESC will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Of the ESC's investment in repurchase agreements, the entire balance is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the ESC.

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, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
Repurchase Agreement	\$ 556,273	38.08
STAR Ohio	60,380	4.13
FNMA	247,970	16.98
FHLB	596,126	40.81
	<u>\$ 1,460,749</u>	<u>100.00</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 909,813
Investments	1,460,749
Total	<u>\$ 2,370,562</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	<u>\$ 2,370,562</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund balances at June 30, 2005 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	\$58,261

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, 2005 are reported on the statement of net assets.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2005 consisted of accounts (billings for user charged services and student fees), 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	\$ 101,169
Accrued interest	5,997
Intergovernmental	<u>419,516</u>
Total	<u>\$ 526,682</u>

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	<u>Balance 06/30/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/05</u>
Governmental Activities				
<i>Capital assets, being depreciated:</i>				
Furniture and equipment	\$ 490,322	\$ 35,725	\$ (5,310)	\$ 520,737
Total capital assets, being depreciated	<u>490,322</u>	<u>35,725</u>	<u>(5,310)</u>	<u>520,737</u>
<i>Less: accumulated depreciation:</i>				
Furniture and equipment	<u>(225,966)</u>	<u>(57,528)</u>	<u>4,980</u>	<u>(278,514)</u>
Total accumulated depreciation	<u>(225,966)</u>	<u>(57,528)</u>	<u>4,980</u>	<u>(278,514)</u>
Governmental activities capital assets, net	<u>\$ 264,356</u>	<u>\$ (21,803)</u>	<u>\$ (330)</u>	<u>\$ 242,223</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 49,162
Special	1,912
<u>Support Services:</u>	
Administration	4,098
Fiscal	352
Central	<u>2,004</u>
Total depreciation expense	<u>\$ 57,528</u>

NOTE 8 - LONG-TERM OBLIGATIONS

During fiscal year 2005, the following changes occurred in governmental activities long-term obligations:

	<u>Balance 06/30/04</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance 06/30/05</u>	<u>Amount Due in One Year</u>
Compensated absences	\$ 308,789	\$ 183,646	\$(179,948)	\$ 312,487	\$ 168,330

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 9 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components derive 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 Treasurer whose maximum is 52.5 days, and the Superintendent who has no maximum.

B. Insurance Benefits

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

NOTE 10 - RISK MANAGEMENT

A. Comprehensive

The ESC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The ESC carries commercial insurance for all risks of loss, including general liability and employee health and accident insurance. During fiscal year 2005, the Education Service Center contracted with Ohio School Plan for liability insurance and with Hartford Casualty Insurance Company for property. Coverages are as follows:

Building contents - replacement cost (\$1,000 deductible)	\$ 859,000
General liability per occurrence	1,000,000
Total per year	3,000,000

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

B. Workers' Compensation

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 10 - RISK MANAGEMENT - (Continued)

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 \$.001566 per \$100 of salaries. This rate is calculated based on claims history and administrative costs.

C. Group Health, Life and Dental Insurance

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

While all benefit plans are traditionally-funded through common carriers, the Board's group health plan contains provisions for discounted amounts to be remitted to the carrier during the year (90% of the carrier-established premium for fiscal 2005), 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 - DEFINED BENEFIT PENSION PLAN

A. School Employees Retirement System

The ESC contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (614) 222-5853.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 10% of their annual covered salary and the ESC is required to contribute at an actuarially determined rate. The current ESC rate is 14% of annual covered payroll. A portion of the ESC's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The ESC's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$327,875, \$294,052 and \$135,498, respectively; 100% has been contributed for all fiscal years.

B. State Teachers Retirement System

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. 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.

Plan members are required to contribute 10% of their annual covered salary and the ESC is required to contribute at an actuarially determined rate. The current ESC rate is 14% of annual covered payroll. A portion of the ESC's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2005 and 2004, 13% of annual covered salary was the portion used to fund pension obligations.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The ESC's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$739,487, \$700,491, and \$574,407, respectively; 100% has been contributed for all fiscal years. Contributions to the DC and Combined Plans for fiscal 2005 were \$28,846 made by the ESC and \$39,908 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement Systems/State Teachers Retirement System. As of June 30, 2005, certain members of the Governing Board have elected Social Security. The ESC's liability is 6.2% of wages paid.

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the ESC, this amount equaled \$52,821 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004 (the latest information available), net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 12 - POSTEMPLOYMENT BENEFITS (Continued)

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the ESC, the amount to fund health care benefits, including surcharge, equaled \$121,608 during the 2005 fiscal year.

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ 162,455
Net adjustment for revenue accruals	(172,929)
Net adjustment for expenditure accruals	(128,616)
Net adjustment for other sources/uses	38,137
Adjustment for encumbrances	10,548
GAAP basis	\$ (90,405)

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 14 - CONTINGENCIES

A. Grants

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

B. Litigation

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

C. State School Funding Decision

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

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

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

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education</i>				
Title I Grants to Local Education Agencies	046730-C1ST-2004	84.010	\$34,308	\$37,991
Safe and Drug-Free Schools and Communities National Programs	046730-T4S1-2004	84.184C	6,745	7,179
Twenty-First Century Community Learning Centers	046730-T1S1-2004	84.287	2,995	2,995
Twenty-First Century Community Learning Centers	046730-T1S1-2005	84.287	300,270	354,220
Total Twenty-First Century Community Learning Centers			<u>303,265</u>	<u>357,215</u>
Comprehensive School Reform Demonstration	046730-RFBA-2003	84.332	73,169	73,169
Total U.S. Department of Education			<u>417,487</u>	<u>475,554</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities</i>				
Medical Assistance Program	N/A	93.778	230,916	230,916
Total U.S. Department of Health and Human Services			<u>230,916</u>	<u>230,916</u>
Total			<u>\$648,403</u>	<u>\$706,470</u>

The accompanying notes are an integral part of this schedule.

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

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2005**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON 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, 2005, which collectively comprise the Center's basic financial statements and have issued our report thereon dated December 9, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Center's management dated December 9, 2005, we reported an other matter involving internal control over financial reporting we did not deem a reportable condition.

Compliance and Other Matters

As part of reasonably assuring whether the Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2005-001.

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

Delaware-Union Educational Service Center
Delaware County
Independent Accountants' Report on Internal Control Over
Financial Reporting and On Compliance And Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

December 9, 2005



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

We have audited the compliance of the Delaware-Union Educational Service Center, Delaware County, Ohio (the Center) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the Center's major federal program. The Center's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to the major federal program. Our responsibility is to express an opinion on the Center's compliance based on our audit.

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

In our opinion, the Center complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2005.

Internal Control Over Compliance

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

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

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

We intend this report solely for the information and use of management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

December 9, 2005

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

FINDING NUMBER 2005-001

Withholding of Income Tax at Source

26 U.S.C. Section 3402 requires employers making payment of wages to deduct and withhold upon such wages a tax as determined in accordance with the tables or computation procedures prescribed by the Secretary of the Treasury. 26 U.S.C. Section 3401 defines "wages" to include all remuneration (other than fees paid to a public official) for services performed by an employee for his employer, including the cash value of all remuneration (including benefits) paid in any medium other than cash.

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005
(Continued)**

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

FINDING NUMBER 2005-001 (Continued)

Withholding of Income Tax at Source (Continued)

During fiscal year 2005, the Center paid performance bonuses totaling \$16,014.80 to six employees, but did not deduct and withhold such taxes as required. This was a result of these payments not being processed through the normal payroll procedures. As a result, these wages are not included in the respective employees' W-2s. Subsequently, the Center notified the six employees in writing that the amount of the bonuses needs to be included in their respective gross wages.

We recommend the Center withhold the required tax following the procedures prescribed by the Secretary of the Treasury.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

**DELAWARE UNION EDUCATIONAL SERVICE CENTER
DELAWARE COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 30, 2005**