

**DELAWARE UNION EDUCATIONAL SERVICE CENTER
DELAWARE COUNTY**

FINAL AUDIT

FOR THE PERIOD JULY 1, 2008 TO DECEMBER 31, 2008



Mary Taylor, CPA
Auditor of State

**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:	
Government-wide Financial Statements:	
Statement of Activities.....	13
Fund Financial Statements:	
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	15
Notes to the Basic Financial Statements	17
Supplementary Information: Schedule of Revenues, Expenditures and Changes in Fund Balance (Non-GAAP Budgetary Basis – General Fund)	37
Notes to the Supplementary Information	38
Independent Accountants' Report On Internal Control Over Financial Reporting and On Compliance and Other Matters Required By <i>Government Auditing Standards</i>	39

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Delaware-Union Educational Service Center, Delaware County, Ohio (the Center), as of December 31, 2008 and for the period July 1, 2008 to December 31, 2008, 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, for the period July 1, 2008 to December 31, 2008 in conformity with accounting principles generally accepted in the United States of America.

As described in Note 13, the Center merged with Franklin County Educational Service Center and ceased operations on December 31, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2009, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

Mary Taylor, CPA
Auditor of State

May 21, 2009

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD JULY 1, 2008 THROUGH DECEMBER 31, 2008
UNAUDITED**

The management's discussion and analysis of the Delaware-Union Educational Service Center (the "ESC") financial performance provides an overall review of the ESC's financial activities for the period July 1, 2008 through December 31, 2008. The intent of this discussion and analysis is to look at the ESC's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the ESC's financial performance.

Financial Highlights

Key financial highlights for the period July 1, 2008 through December 31, 2008 were as follows:

- In total, net assets of governmental activities decreased \$1,098,647, which represented a 100% decrease from fiscal year 2008. The ESC ceased operations on December 31, 2008 when it merged with the Educational Service Center of Franklin County (the "ESC of Franklin County") to form the Educational Service Center of Central Ohio (the "ESC of Central Ohio"). The ESC of Central Ohio began operations January 1, 2009.
- General revenues accounted for \$778,733 in revenue or 11.87% of all revenues. Program specific revenues in the form of charges for services, grants and contributions accounted for \$5,783,871 or 88.13% of total revenues of \$6,562,604.
- The ESC had \$6,481,372 in expenses related to governmental activities; \$5,783,871 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 \$778,733 were adequate to provide for these programs, the ESC primarily relied on charges for services, grants and contributions. The ESC reported a special item, in the amount of (\$1,179,879), to reflect the transfer of net assets to the ESC of Central Ohio on December 31, 2008 upon merger.
- The ESC's only major governmental fund was the general fund. The general fund had \$6,408,572 in revenues and \$6,143,802 in expenditures. The ESC reported a special item, in the amount of (\$1,649,777), to reflect the transfer of fund balance to the ESC of Central Ohio on December 31, 2008 upon merger. During the period July 1, 2008 through December 31, 2008, the general fund's fund balance decreased \$1,385,148 from \$1,385,148 to \$0 as the ESC merged with the ESC of Franklin County to form the ESC of Central Ohio effective December 31, 2008.

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 activities* provides 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 was by far the most significant fund, and the only governmental fund reported as a major fund.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD JULY 1, 2008 THROUGH DECEMBER 31, 2008
UNAUDITED**

As discussed in Note 13 to the basic financial statement, on December 31, 2008, the ESC merged with the ESC of Franklin County to form the ESC of Central Ohio. All assets and liabilities of the ESC were transferred to the ESC of Central Ohio on that date; therefore, a statement of net assets for the governmental activities and a balance sheet for the governmental funds is not presented at December 31, 2008.

Reporting the ESC as a Whole

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 the period July 1, 2008 through December 31, 2008?" The statement of activities answers this question. This statement includes *all 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 period's revenues and expenses regardless of when cash is received or paid.

This statement reports 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 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 activities, the governmental activities include the ESC's programs and services, including instruction, support services, and operation and maintenance. Due to the transfer of net assets from the ESC to the ESC of Central Ohio on December 31, 2008, a statement of net assets is not presented at December 31, 2008. The statement of activities is located on page 11 of the basic financial statements.

Reporting the ESC's Most Significant Funds

Fund Financial Statements

The analysis of the ESC's major governmental fund begins on page 8. Fund financial reports provide detailed information about the ESC's major funds. The ESC used 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 was the general fund.

Governmental Funds

Most of the ESC's activities were reported in governmental funds, which focus on how money flowed into and out of those funds and the balances left at the end of the period available for spending in future periods. These funds were reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the ESC's general government operations and the basic services it provided. 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 activities) and governmental *funds* is reconciled in the basic financial statements. The statement of revenues, expenditures and changes in fund balances for the governmental funds can be found on page 12 of this report.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD JULY 1, 2008 THROUGH DECEMBER 31, 2008
UNAUDITED**

Due to the transfer of fund balances from the ESC to the ESC of Central Ohio on December 31, 2008, a balance sheet for the governmental funds is not presented at December 31, 2008. The reconciliation between governmental *activities* (reported in the statement of activities) and governmental *funds* can be found on page 13 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 14-33 of this report.

Supplementary Information

The ESC has presented a budgetary comparison schedule for the period July 1, 2008 through December 31, 2008 for the general fund as supplementary information on pages 34 and 35 of this report.

The ESC as a Whole

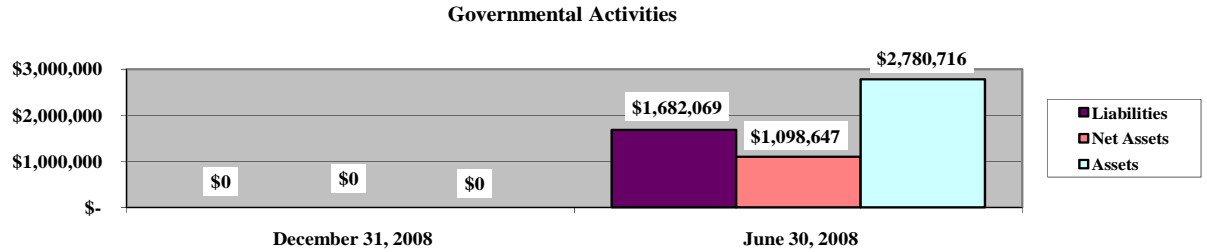
Recall that the statement of net assets provides the perspective of the ESC as a whole. The table below provides a summary of the ESC's net assets at December 31, 2008 and June 30, 2008.

	Net Assets	
	Governmental Activities December 31, 2008	Governmental Activities June 30, 2008
<u>Assets</u>		
Current and other assets	\$ -	\$ 2,616,800
Capital assets, net	-	163,916
	-	2,780,716
Total assets	-	2,780,716
<u>Liabilities</u>		
Current liabilities	-	1,186,452
Long-term liabilities	-	495,617
	-	1,682,069
Total liabilities	-	1,682,069
<u>Net Assets</u>		
Invested in capital assets	-	163,916
Restricted	-	26,802
Unrestricted	-	907,929
	-	1,098,647
Total net assets	\$ -	\$ 1,098,647

The ESC ceased operations on December 31, 2008 and transferred all assets and liabilities to the ESC of Central Ohio upon merger. The ESC transferred \$2,932,789 in assets and \$1,752,910 in liabilities to the ESC of Central Ohio on December 31, 2008. See Note 13 to the basic financial statements for more detail. The chart below compares the ESC's assets, liabilities and net assets at December 31, 2008 and June 30, 2008.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD JULY 1, 2008 THROUGH DECEMBER 31, 2008
UNAUDITED**



Comparative information for change in net assets for the two most recent financial reporting periods is available; however, the data for the period July 1, 2008 through December 31, 2008 consists of only six months of financial transactions compared to twelve months for the fiscal year ended June 30, 2008. The table below shows the change in net assets for the period July 1, 2008 through December 31, 2008 and the fiscal year ended June 30, 2008.

	Change in Net Assets	
	Governmental Activities Period Ended <u>December 31, 2008</u>	Governmental Activities Fiscal Year Ended <u>June 30, 2008</u>
<u>Revenues</u>		
Program revenues:		
Charges for services	\$ 5,612,940	\$ 10,403,333
Operating grants and contributions	170,931	614,940
General revenues:		
Grants and entitlements not restricted to specific programs	724,342	1,426,934
Investment earnings	54,391	130,579
Total revenues	<u>6,562,604</u>	<u>12,575,786</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD JULY 1, 2008 THROUGH DECEMBER 31, 2008
UNAUDITED**

Expenses

Program expenses:

Instruction:

Regular	674,418	1,152,688
Special	2,240,148	4,447,826
Other	9,408	310,720

Support services:

Pupil	1,417,952	2,965,018
Instructional staff	623,281	1,163,230
Board of education	91,321	206,814
Administration	1,033,778	2,306,989
Fiscal	213,295	357,812
Business	-	2,249
Operations and maintenance	65,973	120,198
Central	111,798	216,670

Total expenses	<u>6,481,372</u>	<u>13,250,214</u>
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Special item

Net assets transferred to the

ESC of Central Ohio upon merger	<u>(1,179,879)</u>	<u>-</u>
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Change in net assets	(1,098,647)	(674,428)
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Net assets at beginning of period	<u>1,098,647</u>	<u>1,773,075</u>
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Net assets at end of period	<u>\$ -</u>	<u>\$ 1,098,647</u>
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Governmental Activities

Net assets of the ESC's governmental activities decreased \$1,098,647. This decrease is due to the transfer of all remaining net assets, in the amount of \$1,179,879, to the ESC of Central Ohio at December 31, 2008. Total governmental expenses of \$6,481,372 were offset by program revenues of \$5,783,871 and general revenues of \$778,733. Program revenues supported 89.24% of the total governmental expenses.

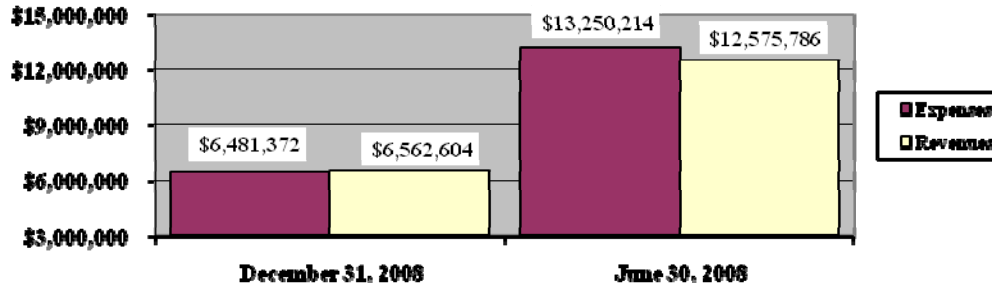
The primary source of revenue for governmental activities was derived from charges for services. This program revenue source totaled \$5,612,940 and represented 85.53% of total governmental revenue for the period July 1, 2008 through December 31, 2008.

Comparative information for governmental activities revenue and expenses for the two most recent financial reporting periods is available; however, the data for the period July 1, 2008 through December 31, 2008 consists of only six months of financial transactions compared to twelve months for the fiscal year ended June 30, 2008. The graph below presents the ESC's governmental activities revenue and expenses for the period July 1, 2008 through December 31, 2008 and the fiscal year ended June 30, 2008.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD JULY 1, 2008 THROUGH DECEMBER 31, 2008
UNAUDITED**

Governmental Activities - Revenues and Expenses



Comparative information for governmental activities total and net cost of services for the two most recent financial reporting periods is available; however, the data for the period July 1, 2008 through December 31, 2008 consists of only six months of financial transactions compared to twelve months for the fiscal year ended June 30, 2008. 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 the period July 1, 2008 through December 31, 2008 and the fiscal year ended June 30, 2008. That is, it identifies the cost of these services supported by unrestricted State grants and entitlements.

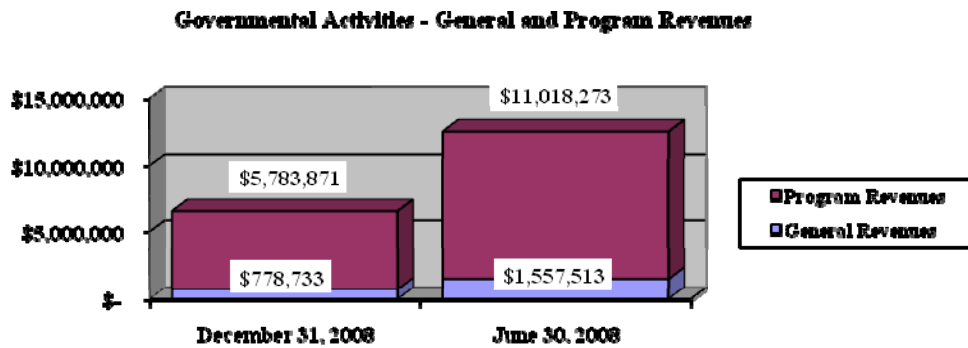
	Governmental Activities			
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	Period Ended <u>December 31, 2008</u>	Period Ended <u>December 31, 2008</u>	Fiscal Year Ended <u>June 30, 2008</u>	Fiscal Year Ended <u>June 30, 2008</u>
Program expenses				
Instruction:				
Regular	\$ 674,418	\$ (642,522)	\$ 1,152,688	\$ (469,029)
Special	2,240,148	612,027	4,447,826	118,217
Other	9,408	9,408	310,720	249,764
Support services:				
Pupil	1,417,952	(55,119)	2,965,018	148,597
Instructional staff	623,281	87,970	1,163,230	263,517
Board of education	91,321	91,321	206,814	206,814
Administration	1,033,778	652,497	2,306,989	1,322,313
Fiscal	213,295	(186,403)	357,812	138,762
Business	-	-	2,249	(65)
Operations and maintenance	65,973	18,324	120,198	39,381
Central	111,798	109,998	216,670	213,670
Total expenses	<u>\$ 6,481,372</u>	<u>\$ 697,501</u>	<u>\$ 13,250,214</u>	<u>\$ 2,231,941</u>

For all governmental activities, program revenue support was 89.24% and 83.16% for the period July 1, 2008 through December 31, 2008 and the fiscal year ended June 30, 2008, respectively. The ESC's contracted services, as a whole, were by far the primary support for the ESC's delivery of services.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD JULY 1, 2008 THROUGH DECEMBER 31, 2008
UNAUDITED**

Comparative information for governmental activities general and program revenues for the two most recent financial reporting periods is available; however, the data for the period July 1, 2008 through December 31, 2008 consists of only six months of financial transactions compared to twelve months for the fiscal year ended June 30, 2008. The graph below presents the ESC's governmental activities revenue for the period July 1, 2008 through December 31, 2008 and the fiscal year ended June 30, 2008.



The ESC's Funds

The ESC did not report any assets or liabilities at December 31, 2008 as they were all transferred to the ESC of Central Ohio upon merger. As such, the ESC had no fund balances at December 31, 2008. The total amount of fund balances transferred to the ESC of Central Ohio on December 31, 2008 was \$1,649,777. The schedule below indicates the fund balance and total change in fund balance as of December 31, 2008 and June 30, 2008.

	Fund Balance <u>December 31, 2008</u>	Fund Balance (Deficit) <u>June 30, 2008</u>	Increase/ (Decrease)
General	\$ -	\$ 1,385,148	\$ (1,385,148)
Other Governmental	-	(357)	357
Total	<u>\$ -</u>	<u>\$ 1,384,791</u>	<u>\$ (1,384,791)</u>

General Fund

The ESC's general fund balance decreased by \$1,385,148 as a result of operations for the period July 1, 2008 through December 31, 2008 and the transfer of fund balance, in the amount of \$1,649,918, to the ESC of Central Ohio upon merger.

Comparative information for general fund revenues and expenditures for the two most recent financial reporting periods is available; however, the data for the period July 1, 2008 through December 31, 2008 consists of only six months of financial transactions compared to twelve months for the fiscal year ended June 30, 2008.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD JULY 1, 2008 THROUGH DECEMBER 31, 2008
UNAUDITED**

The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	Period Ended December 31, 2008 <u>Amount</u>	Fiscal Year Ended June 30, 2008 <u>Amount</u>	<u>Decrease</u>	<u>Percentage Change</u>
<u>Revenues</u>				
Tuition	\$ 2,699,712	\$ 4,386,143	\$ (1,686,431)	(38.45) %
Earnings on investments	55,548	147,065	(91,517)	(62.23) %
Contract services	2,653,991	5,299,575	(2,645,584)	(49.92) %
Intergovernmental	724,971	1,467,798	(742,827)	(50.61) %
Other revenues	<u>274,350</u>	<u>834,349</u>	<u>(559,999)</u>	(67.12) %
Total	<u>\$ 6,408,572</u>	<u>\$ 12,134,930</u>	<u>\$ (5,726,358)</u>	(47.19) %
<u>Expenditures</u>				
Instruction	\$ 2,805,061	\$ 5,781,950	\$ (2,976,889)	(51.49) %
Support services	<u>3,338,741</u>	<u>6,870,536</u>	<u>(3,531,795)</u>	(51.40) %
Total	<u>\$ 6,143,802</u>	<u>\$ 12,652,486</u>	<u>\$ (6,508,684)</u>	(51.44) %

Capital Assets

At December 31, 2008, the ESC transferred all capital assets, net of accumulated depreciation, to the ESC of Central Ohio and therefore reported no capital assets at the end of the period. The following table shows December 31, 2008 balances compared to June 30, 2008:

	Capital Assets (Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>December 31, 2008</u>	<u>June 30, 2008</u>
Furniture and equipment	<u>\$ -</u>	<u>\$ 163,916</u>

See Note 5 to the basic financial statements for additional information on the ESC's capital assets and Note 13 for the amount of capital assets, net of accumulated depreciation, transferred to the ESC of Central Ohio on December 31, 2008.

Current Financial Related Activities

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

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD JULY 1, 2008 THROUGH DECEMBER 31, 2008
UNAUDITED**

As a result of current economic situations facing the ESC and to achieve the best interest of students, parents and school districts involved, the ESC agreed to merge with the ESC of Franklin County to form the ESC of Central Ohio. The merger was effective December 31, 2008 and the ESC of Central Ohio began operations on January 1, 2009. As such, the ESC ceased operations on December 31, 2008. See Note 13 to the basic financial statements for more detail.

Contacting the ESC's Financial Management

This financial report is designed to provide the ESC's local school districts, creditors and other interested parties with a general overview of the ESC's finances and to show the ESC's accountability for the money it receives. If you have questions about this report or need additional financial information contact: Ms. Patty Auck, Assistant Treasurer, Educational Service Center of Central Ohio, 2080 Citygate Dr., Columbus, Ohio 43219.

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

**STATEMENT OF ACTIVITIES
FOR THE PERIOD JULY 1, 2008 THROUGH DECEMBER 31, 2008**

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Revenue and</u>
		<u>Services</u>	<u>Grants and</u>	<u>Changes in</u>
			<u>Contributions</u>	<u>Net Assets</u>
				<u>Governmental</u>
				<u>Activities</u>
Governmental activities:				
Instruction:				
Regular	\$ 674,418	\$ 1,278,714	\$ 38,226	\$ 642,522
Special	2,240,148	1,621,881	6,240	(612,027)
Other	9,408	-	-	(9,408)
Support services:				
Pupil	1,417,952	1,471,486	1,585	55,119
Instructional staff	623,281	499,310	36,001	(87,970)
Board of education	91,321	-	-	(91,321)
Administration	1,033,778	306,016	75,265	(652,497)
Fiscal	213,295	387,884	11,814	186,403
Operations and maintenance	65,973	47,649	-	(18,324)
Central	111,798	-	1,800	(109,998)
Total governmental activities	<u>\$ 6,481,372</u>	<u>\$ 5,612,940</u>	<u>\$ 170,931</u>	<u>(697,501)</u>

General Revenues:

Grants and entitlements not restricted to specific programs	724,342
Investment earnings	<u>54,391</u>
Total general revenues	<u>778,733</u>

Special Item:

Net assets transferred to the ESC of Central Ohio upon merger	<u>(1,179,879)</u>
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Total general revenues and special items (401,146)

Change in net assets (1,098,647)

Net assets at beginning of period 1,098,647

Net assets at end of period \$ -

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 PERIOD JULY 1, 2008 THROUGH DECEMBER 31, 2008**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Tuition	\$ 2,699,712	\$ -	\$ 2,699,712
Earnings on investments	55,548	-	55,548
Contract services	2,653,991	-	2,653,991
Other local revenues	274,350	-	274,350
Intergovernmental - state	724,342	192,810	917,152
Intergovernmental - federal	629	6,500	7,129
Total revenues	<u>6,408,572</u>	<u>199,310</u>	<u>6,607,882</u>
Expenditures:			
Current:			
Instruction:			
Regular	568,992	47,034	616,026
Special	2,222,427	6,239	2,228,666
Other	13,642	-	13,642
Support services:			
Pupil	1,404,561	1,873	1,406,434
Instructional staff	561,304	40,752	602,056
Board of education	91,321	-	91,321
Administration	931,501	88,973	1,020,474
Fiscal	176,645	14,223	190,868
Operations and maintenance	65,832	-	65,832
Central	107,577	-	107,577
Total expenditures	<u>6,143,802</u>	<u>199,094</u>	<u>6,342,896</u>
Excess of revenues over expenditures	<u>264,770</u>	<u>216</u>	<u>264,986</u>
Special item:			
Fund balance transferred to the ESC of Central Ohio upon merger			
	<u>(1,649,918)</u>	<u>141</u>	<u>(1,649,777)</u>
Net change in fund balances	(1,385,148)	357	(1,384,791)
Fund balances (deficit) at beginning of period	<u>1,385,148</u>	<u>(357)</u>	<u>1,384,791</u>
Fund balances at end of period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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 PERIOD JULY 1, 2008 THROUGH DECEMBER 31, 2008**

Net change in fund balances - total governmental funds **\$ (1,384,791)**

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

Government funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period. (12,566)

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. (39,667)

In accordance with the merger agreement, the ESC transferred capital assets and long-term liabilities to the ESC of Central Ohio. The transfer of capital assets and long-term liabilities did not have an effect on the governmental fund statements; however, they had the following effect on the statement of activities:

Transfer of capital assets to the ESC of Central Ohio	\$ (111,683)	
Transfer of long-term liabilities to the ESC of Central Ohio	<u>581,581</u>	
Total		469,898

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

Contract services	\$ (15,113)	
Intergovernmental	(29,008)	
Earnings of investments	<u>(1,157)</u>	
Total		(45,278)

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of financial resources and therefore are not reported as expenditures in governmental funds. (86,243)

Change in net assets of governmental activities **\$ (1,098,647)**

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2008 THROUGH DECEMBER 31, 2008**

NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER

The Delaware-Union Educational Service Center (the "ESC") was located in Delaware, Ohio. The ESC supplied 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 provided 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 furnished leadership and consulting services designed to strengthen the school districts in areas they were unable to finance or staff independently.

The ESC ceased operations on December 31, 2008 (see Note 13). On that date, the ESC merged with the Educational Service Center of Franklin County (the "ESC of Franklin County") to form the Educational Service Center of Central Ohio (the "ESC of Central Ohio"). The ESC of Central Ohio began operations on January 1, 2009.

The ESC operated under a locally-elected Board form of government consisting of 5 members elected at-large for staggered four-year terms. During the period July 1, 2008 through December 31, 2008, the ESC had 96 support staff employees, 114 certified teaching personnel and 5 administrative personnel that provided 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 applied Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they did not conflict with or contradict GASB pronouncements. The ESC's significant accounting policies are described below.

A. Reporting Entity

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2008 THROUGH DECEMBER 31, 2008
(Continued)**

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

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

JOINTLY GOVERNED ORGANIZATIONS

Tri-Rivers Educational Computer Association (TRECA)

TRECA is a jointly governed organization among 21 school districts. TRECA was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to the administrative and instructional functions of member districts. Each of the governments of these schools supports TRECA based upon a per pupil charge, dependent upon the software package utilized. TRECA is governed by a board of directors consisting of superintendents of the member school districts. Financial information is available from Mike Carder, Director, at 100 Executive Drive, Marion, Ohio 43302. During the period July 1, 2008 through December 31, 2008, the ESC paid \$11,200 to TRECA.

Delaware Area Career Center

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

Tri-Rivers Career Center

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

PUBLIC ENTITY RISK POOL

Ohio Association of School Business Officials Workers' Compensation Group Rating Plan

The ESC participated in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP) was established through the Ohio Association of School Business Officials (OASBO) as a group purchasing pool.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2008 THROUGH DECEMBER 31, 2008
(Continued)**

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

B. Fund Accounting

The ESC used funds to maintain its financial records during the period. 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 had no proprietary or fiduciary funds; therefore, only governmental funds are described in these financial statements.

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 was 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 were used to account for grants and other resources whose use was 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.

As discussed in Note 13, on December 31, 2008, the ESC merged with the ESC of Franklin County to form the ESC of Central Ohio. All assets and liabilities of the ESC were transferred to the ESC of Central Ohio on that date; therefore, a statement of net assets for the governmental activities is not presented at December 31, 2008.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2008 THROUGH DECEMBER 31, 2008
(Continued)**

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

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.

As discussed in Note 13, on December 31, 2008, the ESC merged with the ESC of Franklin County to form the ESC of Central Ohio. All assets and liabilities of the ESC were transferred to the ESC of Central Ohio on that date; therefore, a balance sheet for the governmental funds is not presented at December 31, 2008.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The government-wide financial statement is 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 period in which the resources are measurable and become available. Available means that the resources will be collected within the current period or are expected to be collected soon enough thereafter to be used to pay liabilities of the current period. For the ESC, available meant expected to be received within sixty days after the end of the period.

Nonexchange transactions, in which the ESC received value without directly giving equal value in return, included grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the period in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the period when the resources are required to be used or the period when use is first permitted, matching requirements, in which the ESC provided local resources to be used for a specified purpose, and expenditure requirements, in which the resources were 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 the end of the period: interest, tuition, grants, and contract services.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2008 THROUGH DECEMBER 31, 2008
(Continued)**

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

As discussed in Note 13, on December 31, 2008, the ESC merged with the ESC of Franklin County to form the ESC of Central Ohio. All accounts receivable, accrued interest receivable and amounts due from other governments were transferred to the ESC of Central Ohio on December 31, 2008.

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

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

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

As discussed in Note 13, on December 31, 2008, the ESC merged with the ESC of Franklin County to form the ESC of Central Ohio. All unearned and deferred revenue balances of the ESC were transferred to the ESC of Central Ohio on December 31, 2008.

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

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

E. Budgetary Process

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

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

F. Cash and Investments

To improve cash management, cash received by the ESC was pooled in a central bank account. Monies for all funds were maintained in this pool. Individual fund integrity was maintained through the ESC's records.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2008 THROUGH DECEMBER 31, 2008
(Continued)**

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

During the period July 1, 2008 through December 31, 2008, investments were limited to nonnegotiable certificates of deposit, negotiable 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 nonnegotiable certificates of deposit, are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price, which is the price the investment could be sold for on December 31, 2008.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during the period July 1, 2008 through December 31, 2008 was \$55,548.

As discussed in Note 13, on December 31, 2008, the ESC merged with the ESC of Franklin County to form the ESC of Central Ohio. All cash and investment balances of the ESC were transferred to the ESC of Central Ohio on December 31, 2008.

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

G. Inventory

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

Inventory consisted of expendable supplies held for consumption.

As discussed in Note 13, on December 31, 2008, the ESC merged with the ESC of Franklin County to form the ESC of Central Ohio. The ESC did not have a material balance of materials and supplies inventory at December 31, 2008; therefore, no balance was reported as transferred to the ESC of Central Ohio on December 31, 2008.

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 only reported on a full accrual basis.

All capital assets were capitalized at cost (or estimated historical cost) and updated for additions and deductions during the period. Donated capital assets are recorded at their fair market values as of the date received. During the period July 1, 2008 through December 31, 2008, the ESC increased its capitalization threshold from \$500 to \$1,000 for its general capital assets. The ESC did not possess any land, buildings, vehicles, or infrastructure.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2008 THROUGH DECEMBER 31, 2008
(Continued)**

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

Depreciation was 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

As discussed in Note 13, on December 31, 2008, the ESC merged with the ESC of Franklin County to form the ESC of Central Ohio. All capital asset balances, net of accumulated depreciation, were transferred to the ESC of Central Ohio on December 31, 2008.

I. Interfund Balances

On a modified accrual basis, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables."

On a modified accrual basis, receivables and payables resulting from short-term interfund loans from the general fund to cover negative cash balances in other governmental funds are classified as "due to/from other funds."

As discussed in Note 13, on December 31, 2008, the ESC merged with the ESC of Franklin County to form the ESC of Central Ohio. All interfund receivables/payables and amounts due to/from other funds were transferred to the ESC of Central Ohio on December 31, 2008.

J. Compensated Absences

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

The ESC reported compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences". Vacation benefits were accrued as a liability as the benefits were earned if the employee's rights to receive compensation were attributable to services already rendered and it was probable that the ESC would compensate the employees for the benefits through paid time off or some other means. An accrual for earned sick leave was made to the extent that it was probable that the benefits would result in termination (severance) payments. Sick leave benefits were accrued as a liability using the "vesting method". A liability for sick leave was based on the sick leave accumulated at the balance sheet date by those employees who were currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for this future severance eligibility, all employees at least 50 years old with 15 years of service and 5 years of service with the ESC were included.

The entire compensated absence liability is reported on a full accrual basis, with the portion due within one year also being reported as a current liability on a modified accrual basis. The amount due within one year is expected to be paid using expendable available resources in the fund from which the employees who have the accumulated unpaid leave are paid.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2008 THROUGH DECEMBER 31, 2008
(Continued)**

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

As discussed in Note 13, on December 31, 2008, the ESC merged with the ESC of Franklin County to form the ESC of Central Ohio. All compensated absences balances were transferred to the ESC of Central Ohio on December 31, 2008.

K. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items on both a full accrual and modified accrual basis. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the period in which services are consumed.

As discussed in Note 13, on December 31, 2008, the ESC merged with the ESC of Franklin County to form the ESC of Central Ohio. All prepayment balances were transferred to the ESC of Central Ohio on December 31, 2008.

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported on a full accrual basis.

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 on a modified accrual basis only to the extent that they are due for payment during the current period.

As discussed in Note 13, on December 31, 2008, the ESC merged with the ESC of Franklin County to form the ESC of Central Ohio. All accounts payable, accrued wages and benefits payable, pension obligations payable, and amounts due to other governments were transferred to the ESC of Central Ohio on December 31, 2008.

M. 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.

N. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. At December 31, 2008, as discussed in Note 13, the ESC transferred all assets, liabilities and fund balance/net assets to the ESC of Central Ohio due to a merger between the ESC and the ESC of Franklin County which formed the ESC of Central Ohio. On the statement of revenues, expenditures and changes in fund balance, the amount of fund balance transferred to the ESC of Central Ohio has been reported as "fund balance transferred to the ESC of Central Ohio upon merger" and on the statement of activities, the net assets transferred to the ESC of Central Ohio has been reported as "net assets transferred to the ESC of Central Ohio upon merger".

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2008 THROUGH DECEMBER 31, 2008
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Change in Accounting Principles

For the period July 1, 2008 through December 31, 2008, the ESC implemented GASB Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations". GASB Statement No. 49 establishes the enhancement of the usefulness and comparability of pollution remediation obligations. The implementation of GASB Statement No. 49 did not have an effect on the financial statements of the ESC.

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 were to be maintained either as cash in the ESC treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2008 THROUGH DECEMBER 31, 2008
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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

A. Deposits with Financial Institutions

At December 31, 2008, the carrying amount of all ESC deposits was \$1,338,558. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2008, \$1,163,296 of the ESC's bank balance of \$495,727 was exposed to custodial risk as discussed below, while \$1,659,023 was covered by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the ESC's deposits may not be returned. All deposits were 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, was held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the ESC. The ESC had no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could have potentially subjected the ESC to a successful claim by the FDIC.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2008 THROUGH DECEMBER 31, 2008
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

B. Investments

As of December 31, 2008, the ESC had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>				
		<u>6 Months or Less</u>	<u>7 to 12 Months</u>	<u>13 to 18 Months</u>	<u>19 to 24 Months</u>	<u>Greater than 24 Months</u>
FFCB	\$ 200,626	\$ -	\$ -	\$ -	\$ -	\$ 200,626
Negotiable cd's	500,144	99,365	301,923	98,856	-	-
STAR Ohio	209,763	209,763	-	-	-	-
Total	<u>\$ 910,533</u>	<u>\$ 309,128</u>	<u>\$ 301,923</u>	<u>\$ 98,856</u>	<u>\$ -</u>	<u>\$ 200,626</u>

The weighted average maturity of investments was 1.32 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 limited investment portfolio maturities to five years or less.

Credit Risk: The ESC's investments in federal agency securities were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

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

Concentration of Credit Risk: The ESC placed no limit on the amount that could have been invested in any one issuer. The following table includes the percentage of each investment type held by the ESC at December 31, 2008:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
FFCB	\$ 200,626	22.03
Negotiable cd's	500,144	54.93
STAR Ohio	209,763	23.04
Total	<u>\$ 910,533</u>	<u>100.00</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2008 THROUGH DECEMBER 31, 2008
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Reconciliation of Cash and Investments to the Amount Transferred to ESCCO

The following is a reconciliation of cash and investments as reported in the note above to cash and investments that were transferred to the ESC of Central Ohio as reported in Note 13:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 1,338,558
Investments	<u>910,533</u>
Total	<u>\$ 2,249,091</u>
 <u>Cash and investments transferred to ESC of Central Ohio (see Note 13)</u>	
Governmental activities	<u>\$ 2,249,091</u>

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the period July 1, 2008 through December 31, 2008, was as follows:

	Balance 07/01/08	Additions	Deductions	Transfer of Assets to the ESC of Central Ohio	Balance 12/31/08
Governmental Activities					
<i>Capital assets, being depreciated:</i>					
Furniture and equipment	\$ 447,942	\$ -	\$ (136,390)	\$ (311,552)	\$ -
Total capital assets, being depreciated	<u>447,942</u>	<u>-</u>	<u>(136,390)</u>	<u>(311,552)</u>	<u>-</u>
<i>Less: accumulated depreciation:</i>					
Furniture and equipment	<u>(284,026)</u>	<u>(12,566)</u>	<u>96,723</u>	<u>199,869</u>	<u>-</u>
Total accumulated depreciation	<u>(284,026)</u>	<u>(12,566)</u>	<u>96,723</u>	<u>199,869</u>	<u>-</u>
Governmental activities capital assets, net	<u>\$ 163,916</u>	<u>\$ (12,566)</u>	<u>\$ (39,667)</u>	<u>\$ (111,683)</u>	<u>\$ -</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2008 THROUGH DECEMBER 31, 2008
(Continued)**

NOTE 5 - CAPITAL ASSETS - (Continued)

For the period July 1, 2008 through December 31, 2008, depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 6,791
Special	82

Support services:

Instructional	2,071
Administration	538
Fiscal	57
Central	<u>3,027</u>

Total depreciation expense	<u>\$ 12,566</u>
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As discussed in Note 13, on December 31, 2008, the ESC merged with the ESC of Franklin County to form the ESC of Central Ohio. All capital asset balances, net of accumulated depreciation, were transferred to the ESC of Central Ohio on December 31, 2008.

NOTE 6 - LONG-TERM OBLIGATIONS

During the period July 1, 2008 through December 31, 2008, the following changes occurred in governmental activities long-term obligations:

<u>Other Long-Term Obligations</u>	<u>Balance</u> <u>07/01/08</u>	<u>Increase</u>	<u>Decrease</u>	<u>Transfer of</u> <u>Liabilities to the</u> <u>ESC of Central Ohio</u>	<u>Balance</u> <u>12/31/08</u>
Compensated absences	<u>\$ 495,617</u>	<u>\$ 132,696</u>	<u>\$ (46,732)</u>	<u>\$ (581,581)</u>	<u>\$ -</u>

During the period July 1, 2008 through December 31, 2008, compensated absences were paid from the fund from which the employee is paid, which, for the ESC, was primarily the general fund.

As discussed in Note 13, on December 31, 2008, the ESC merged with the ESC of Franklin County to form the ESC of Central Ohio. All compensated absences liabilities were transferred to the ESC of Central Ohio on December 31, 2008.

NOTE 7 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2008 THROUGH DECEMBER 31, 2008
(Continued)**

NOTE 7 - OTHER EMPLOYEE BENEFITS (Continued)

A. Compensated Absences (Continued)

Upon completion of five or more years of service to the ESC, State, or other political subdivision and retirement from the profession, payment was made for one-fourth of accrued, but unused sick leave credit up to a maximum of 30 days for all employees, with the exception of the Superintendent who had no maximum.

B. Insurance Benefits

For the period July 1, 2008 through December 31, 2008, the ESC provided life insurance and accidental death and dismemberment insurance to most employees through Coresources Inc.

NOTE 8 - RISK MANAGEMENT

A. Comprehensive

The ESC was 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 carried commercial insurance for all risks of loss, including general liability and employee health and accident insurance. During the period July 1, 2008 through December 31, 2008, the ESC contracted with Ohio School Plan for liability insurance and with Hartford Casualty Insurance Company for property. Coverages were as follows:

Building contents - replacement cost (\$1,000 deductible)	\$ 947,400
General liability per occurrence	2,000,000
Total per year	4,000,000

Settled claims did not exceed this commercial coverage in any of the past three years. There was no significant change in coverage from the previous reporting period.

B. Workers' Compensation

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2008 THROUGH DECEMBER 31, 2008
(Continued)**

NOTE 8 - RISK MANAGEMENT - (Continued)

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

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

C. Group Health, Life and Dental Insurance

Health, life, dental and other group insurance was offered to employees as a fringe benefit. Employer and employee contributions to premium were approved by the Board (as of December 31, 2008, single coverage is 90% Board paid and 10% 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 contained provisions for discounted amounts to be remitted to the carrier during the year (90% of the carrier-established premium for the period July 1, 2008 through December 31, 2008), contingent upon the group's claims experience for the period. While the ESC had not retained risk for any claims, should the group's claim costs for the year exceeded the threshold of the discounted amount remitted to the carrier during the year, the ESC would have remitted additional premiums, to a maximum of the difference between the discounted premium and the full premium.

Post employment health care was provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 10. As such, no funding provisions were required by the ESC.

NOTE 9 - PENSION PLANS

A. School Employees Retirement System

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2008 THROUGH DECEMBER 31, 2008
(Continued)**

NOTE 9 - PENSION PLANS - (Continued)

Funding Policy - Plan members were required to contribute 10 percent of their annual covered salary and the ESC was required to contribute at an actuarially determined rate. The ESC rate for the period July 1, 2008 through December 31, 2008 was 14 percent of annual covered payroll. A portion of the ESC's contribution was used to fund pension obligations with the remainder being used to fund health care benefits. For the period July 1, 2008 through December 31, 2008, 9.16 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers were established and could have been amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The ESC's required contributions for pension obligations to SERS for the period July 1, 2008 through December 31, 2008, fiscal year ended June 30, 2008 and fiscal year ended June 30, 2007 were \$124,222, \$308,152 and \$300,413, respectively; 100 percent had been contributed for the period July 1, 2008 through December 31, 2008, fiscal year 2008 and fiscal year 2007.

B. State Teachers Retirement System of Ohio

Plan Description - The ESC participated in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2008 THROUGH DECEMBER 31, 2008
(Continued)**

NOTE 9 - PENSION PLANS - (Continued)

Funding Policy - For the period July 1, 2008 through December 31, 2008, plan members were required to contribute 10 percent of their annual covered salaries. The ESC was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The ESC's required contributions for pension obligations to STRS Ohio for the period July 1, 2008 through December 31, 2008, fiscal year ended June 30, 2008 and fiscal year ended June 30, 2007 were \$399,474, \$754,957 and \$723,015, respectively; 100 percent had been contributed for the period July 1, 2008 through December 31, 2008, fiscal year 2008 and fiscal year 2007.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS/STRS Ohio have an option to choose Social Security or SERS/STRS Ohio. As of December 31, 2008, certain members of the Board of Education elected Social Security. The ESC's liability was 6.2 percent of wages paid.

NOTE 10 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For the period July 1, 2008 through December 31, 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for the period July 1, 2008 through December 31, 2008, this amount was \$35,800.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2008 THROUGH DECEMBER 31, 2008
(Continued)**

NOTE 10 - POSTEMPLOYMENT BENEFITS - (Continued)

The ESC's contributions for health care for the period July 1, 2008 through December 31, 2008, fiscal year ended June 30, 2008 and fiscal year ended June 30, 2007 were \$124,434, \$197,266 and \$147,068, respectively; 100 percent had been contributed for the period July 1, 2008 through December 31, 2008, fiscal year 2008 and fiscal year 2007.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For the period July 1, 2008 through December 31, 2008, this actuarially required allocation was 0.66 percent of covered payroll. The ESC's contributions for Medicare Part B for the period July 1, 2008 through December 31, 2008, fiscal year ended June 30, 2008 and fiscal year ended June 30, 2007 were \$8,951, \$22,203 and \$19,127, respectively; 100 percent had been contributed for the period July 1, 2008 through December 31, 2008, fiscal year 2008 and fiscal year 2007.

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For the period July 1, 2008 through December 31, 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The ESC's contributions for health care for the period July 1, 2008 through December 31, 2008, fiscal year ended June 30, 2008 and fiscal year ended June 30, 2007 were \$30,729, \$58,074 and \$55,617, respectively; 100 percent had been contributed for the period July 1, 2008 through December 31, 2008, fiscal year 2008 and fiscal year 2007.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2008 THROUGH DECEMBER 31, 2008
(Continued)**

NOTE 11 - CONTINGENCIES

A. Grants

The ESC received significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally required 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 have become a liability of the ESC of Central Ohio due to the merger which occurred December 31, 2008. However, in the opinion of management, any such disallowed claims did not have a material effect on the financial position of the ESC of Central Ohio.

B. Litigation

The ESC was a party to legal proceedings during the period July 1, 2008 through December 31, 2008; however, they are not expected to have a material effect on the financial condition of the ESC of Central Ohio after the merger which occurred December 31, 2008.

NOTE 12 - STATE FUNDING

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

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

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

NOTE 13 – CEASED OPERATIONS

On July 10, 2008, the Board of Directors of the ESC passed a resolution (the "Merger Resolution") to combine all property of every description, and every interest therein, and all obligations of or belonging to or due the ESC including all budgets and appropriations with the ESC of Franklin County. This merger resulted in the formation of the ESC of Central Ohio which began operations on January 1, 2009.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2008 THROUGH DECEMBER 31, 2008
(Continued)**

NOTE 13 – CEASED OPERATIONS – (Continued)

On December 31, 2008, the ESC transferred the following assets and liabilities to the ESC of Central Ohio in accordance with the Merger Resolution:

	Modified Accrual	Full Accrual	Total
<u>Assets:</u>			
Cash and investments	\$ 2,249,091	\$ -	\$ 2,249,091
Accounts receivable	145,162	-	145,162
Accrued interest receivable	7,394	-	7,394
Interfund loan receivable	627	-	627
Due from other governments	279,176	-	279,176
Prepayments	123,737	-	123,737
Due from other funds	15,919	-	15,919
Capital assets, net of accumulated depreciation	-	111,683	111,683
 Total assets transferred to the ESC of Central Ohio upon merger	 2,821,106	 111,683	 2,932,789
<u>Liabilities:</u>			
Accounts payable	11,429	-	11,429
Accrued wages and benefits	581,913	-	581,913
Due to other governments	126,210	-	126,210
Deferred revenue	332,852	-	332,852
Pension obligation payable	102,379	-	102,379
Due to other funds	15,919	-	15,919
Interfund loan payable	627	-	627
Long-term liabilities	-	581,581	581,581
 Total liabilities transferred to the ESC of Central Ohio upon merger	 1,171,329	 581,581	 1,752,910
 Total fund balance transferred to the ESC of Central Ohio upon merger	 \$ 1,649,777		
 Net effect of transferring capital assets and long-term liabilities to the ESC of Central Ohio upon merger		 \$ (469,898)	
 Total net assets transferred to the ESC of Central Ohio upon merger			 \$ 1,179,879

On the statement of revenues, expenditures and changes in fund balance, the amount of fund balance transferred to the ESC of Central Ohio has been reported as “fund balance transferred to the ESC of Central Ohio upon merger” and on the statement of activities, the net assets transferred to the ESC of Central Ohio has been reported as “net assets transferred to the ESC of Central Ohio upon merger”.

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

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE PERIOD JULY 1, 2008 TO DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>(Negative)</u>
Revenues:				
From local sources:				
Tuition.	\$ 2,298,930	\$ 2,313,925	\$ 2,731,926	\$ 418,001
Earnings on investments.	50,000	50,000	44,394	(5,606)
Contract services.	2,521,894	2,491,394	2,653,771	162,377
Other local revenues.	317,279	317,279	600,654	283,375
Intergovernmental - state	715,183	715,183	724,342	9,159
Intergovernmental - federal	250	250	629	379
Total revenues.	<u>5,903,536</u>	<u>5,888,031</u>	<u>6,755,716</u>	<u>867,685</u>
Expenditures:				
Current:				
Instruction:				
Regular	516,699	559,568	632,101	(72,533)
Special.	2,237,848	2,423,515	2,463,541	(40,026)
Other.	7,213	7,811	14,518	(6,707)
Support services:				
Pupil.	1,291,641	1,398,805	1,525,963	(127,158)
Instructional staff	486,797	527,185	581,054	(53,869)
Board of education	80,841	87,548	137,076	(49,528)
Administration.	1,444,938	1,564,820	1,122,712	442,108
Fiscal	173,833	188,256	197,470	(9,214)
Operations and maintenance.	57,723	62,513	65,636	(3,123)
Central.	96,198	104,180	169,646	(65,466)
Total expenditures	<u>6,393,731</u>	<u>6,924,201</u>	<u>6,909,717</u>	<u>14,484</u>
Excess of expenditures over revenues.	<u>(490,195)</u>	<u>(1,036,170)</u>	<u>(154,001)</u>	<u>882,169</u>
Other financing sources:				
Refund of prior year expenditure.	29,630	29,630	45,975	16,345
Sale of capital assets.	2,000	2,000	4,000	2,000
Total other financing sources	<u>31,630</u>	<u>31,630</u>	<u>49,975</u>	<u>18,345</u>
Net change in fund balance before special item.	<u>(458,565)</u>	<u>(1,004,540)</u>	<u>(104,026)</u>	<u>900,514</u>
Special item:				
Fund balance transferred to the ESC of Central Ohio upon merger	<u>(1,573,017)</u>	<u>(1,027,042)</u>	<u>(1,927,556)</u>	<u>(900,514)</u>
Net change in fund balance after special item.	<u>(2,031,582)</u>	<u>(2,031,582)</u>	<u>(2,031,582)</u>	<u>-</u>
Fund balance at beginning of period.	1,916,193	1,916,193	1,916,193	-
Prior year encumbrances appropriated	115,389	115,389	115,389	-
Fund balance at end of period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTE TO THE SUPPLEMENTARY INFORMATION

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

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

	<u>General Fund</u>
Budget basis	\$ (104,026)
Net adjustment for revenue accruals	(347,144)
Net adjustment for expenditure accruals	452,835
Net adjustment for other sources/uses	(1,699,893)
Adjustment for encumbrances	<u>313,080</u>
GAAP basis	<u>\$ (1,385,148)</u>



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Delaware-Union Educational Service Center, Delaware County, Ohio (the Center) for the period July 1, 2008 to December 31, 2008, and have issued our report thereon dated May 21, 2009, wherein we noted the Center merged with Franklin County Educational Service Center and ceased operations on December 31, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

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

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

Mary Taylor, CPA
Auditor of State

May 21, 2009



Mary Taylor, CPA
Auditor of State

DELAWARE-UNION EDUCATIONAL SERVICE CENTER

DELAWARE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 7, 2009**