



**Auditor of State
Betty Montgomery**

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANT'S REPORT

Delphos City School District
Allen County
234 North Jefferson Street
Delphos, Ohio 45833

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Delphos City School District, Allen County (the District), as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2003, and the respective budgetary comparison for the General Fund, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2003 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the federal awards expenditure schedule 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.



Betty Montgomery
Auditor of State

November 19, 2003

**Delphos City School District
Allen County**

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

The discussion and analysis of Delphos City School District's financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the School District's financial performance as a whole.

HIGHLIGHTS

Key highlights for fiscal year 2003 are as follows:

Negotiated salaries increased during fiscal year 2003 by 3.5 percent. Medical insurance premiums for the First Care + Plan were increased by 26 percent on January 1, 2003. The Network Plan premiums were increased by 10 percent. The Board of Education paid for all of the increase except for \$45 per family plan and \$22.50 per single plan for those employees covered under the First Care + Plan.

Basic aid funding was reduced by the State of Ohio by \$55,000 beginning March 2, 2003, through fiscal year end.

General liability and property insurance premiums increased by 39 percent during fiscal year 2003.

Special education instruction costs paid to the Allen County Educational Service Center increased by 51.7 percent or \$136,334 over the amount paid during fiscal year 2002.

Unrestricted grants and entitlements will decrease during fiscal year 2004 due to the new funding formula used to compute basic aid funding.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand Delphos City School District's financial position.

The statement of net assets and the statement of activities provide information about the activities of the School District as a whole, presenting both an aggregate and a longer-term view of the School District.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term and what remains for future spending. Fund financial statements report the School District's most significant funds individually and the School District's non-major funds in a single column. The School District's major funds are the General Fund and Permanent Improvement Capital Projects Fund.

REPORTING THE SCHOOL DISTRICT AS A WHOLE

Statement of Net Assets and Statement of Activities

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2003. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

**Delphos City School District
Allen County**

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

These statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the School District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Nonfinancial factors can include changes in the School District's property tax base and the condition of the School District's capital assets. These factors must be considered when assessing the overall health of the School District.

In the statement of net assets and the statement of activities, the School District reports governmental activities. All of the School District's programs and services are reported here, including instruction, support services, noninstructional services, and extracurricular activities. These services are primarily funded by property tax revenues and from intergovernmental revenues, including federal and state grants and other shared revenues.

REPORTING THE SCHOOL DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

Fund financial statements provide detailed information about the School District's major funds. The School District's major governmental funds are the General Fund and Permanent Improvement Capital Projects Fund. While the School District uses many funds to account for its financial transactions, these are the most significant.

Governmental Funds - The School District's governmental funds are used to account for the same programs reported as governmental activities on the government-wide financial statements. The School District's basic services are reported in these funds and focus on how money flows into and out of the funds as well as the balances available for spending at fiscal year end. These funds are reported using the modified accrual basis of accounting which measures cash and all other financial assets that can be readily converted to cash. The governmental fund financial statements provide a detailed short-term view of the School District's operations.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities on the government-wide financial statements. By doing so, readers may better understand the long-term impact of the School District's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to help make this comparison between governmental funds and governmental activities.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the School District's programs. These funds use the accrual basis of accounting.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided on the government-wide and fund financial statements.

**Delphos City School District
Allen County**

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1 provides a summary of the School District's net assets for fiscal year 2003 compared to fiscal year 2002.

Table 1
Net Assets

	Governmental Activities	
	2003	2002
<u>Assets</u>		
Current and Other Assets	\$5,451,785	\$5,342,631
Capital Assets, Net	2,988,524	2,808,954
Total Assets	8,440,309	8,151,585
 <u>Liabilities</u>		
Current and Other Liabilities	4,756,356	4,678,063
Long-Term Liabilities	1,057,679	900,576
Total Liabilities	5,814,035	5,578,639
 <u>Net Assets</u>		
Invested in Capital Assets, Net of Related Debt	2,651,788	2,579,254
Restricted	223,764	130,573
Unrestricted (Deficit)	(249,278)	(136,881)
Total Net Assets	\$2,626,274	\$2,572,946

Current and other assets increased slightly due to an increase in property taxes receivable and prepaid items. Allen County is currently reappraising the property within the County which will increase the amount of taxes received on the inside millage by the School District in the February 2004 real estate property tax collection. The School District pays the July premiums for health care costs during June. These premiums were higher during fiscal year 2003 compared to 2002. Equity in pooled cash and cash equivalents decreased from the School District spending their cash carryover balances for basic operations. Overall total assets increased 3.5 percent.

Current and other liabilities increased 1.7 percent. Long-term liabilities increased from the inception of a capital lease for physical education equipment during fiscal year 2003. The final principal payment was paid on December 1, 2002, on the energy conservation improvement bonds. Overall total liabilities increased 4.2 percent.

The majority of the increase in invested in capital assets, net of related debt, resulted from acquiring physical education equipment by a capital lease, making improvements to the bus garage, and beginning construction on a fitness building to house the physical education equipment. Restricted net assets increased from unspent grant dollars and funds being held to pay for the remaining construction costs of the fitness building. Unrestricted net assets decreased due to spending more than the revenues received during the fiscal year for basic operations.

**Delphos City School District
Allen County**

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Table 2 reflects the change in net assets for fiscal year 2003. Since this is the first year the School District has prepared financial statements according to GASB Statement No. 34, revenue and expense comparisons to fiscal year 2002 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Table 2
Change in Net Assets
Governmental Activities

	2003
<u>Revenues</u>	
Program Revenues	
Charges for Services	\$843,222
Operating Grants, Contributions, and Interest	1,557,749
Capital Grants and Contributions	137,709
Total Program Revenues	2,538,680
General Revenues	
Property Taxes	4,136,947
Grants and Entitlements not Restricted to Specific Programs	2,619,013
Interest	20,143
Miscellaneous	29,719
Total General Revenues	6,805,822
Total Revenues	9,344,502
<u>Expenses</u>	
Instruction	5,105,294
Support Services	
Pupils	338,748
Instructional Staff	332,403
Board of Education	18,792
Administration	736,858
Fiscal	262,972
Operation and Maintenance Of Plant	659,180
Pupil Transportation	392,923
Central	3,363
Noninstructional Services	1,035,888
Extracurricular Activities	392,217
Interest and Fiscal Charges	12,536
Total Expenses	9,291,174
Increase in Net Assets	\$53,328

**Delphos City School District
Allen County**

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Program revenues accounted for 27 percent of total revenues received in fiscal year 2003. These revenues consisted of tuition and fees, charges for providing lunches to students, transportation services to other school districts, grants for specified purposes, and gifts and donations. Tuition and fees increased significantly from recording open enrollment tuition as revenue and expenditures rather than recording the tuition costs relating to open enrollment at net. The majority of general revenues consisted of property taxes and unrestricted grants and entitlements.

Costs for providing instruction were 55 percent of total expenses for the School District. The School District contracts with the Allen County Educational Service Center for some educational services. These costs increased by 51.7 percent in fiscal year 2003. Administrative and operation and maintenance of plant expenses comprised 8 percent and 7.1 percent, respectively, of total expenses. Administrative support services expenses were high in fiscal year 2003 from the cost of final preparations associated with the new administrative building. The costs associated with noninstructional services expenses were 11.1 percent of total expenses. These services consist of food services to students and of costs associated with Delphos St. Johns parochial school.

Governmental Activities

Table 3, indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements. Comparisons to fiscal year 2002 have not been made since they are not available for this year.

Table 3
Governmental Activities

	Total Cost of Services	Net Cost of Services
	2003	2003
Instruction	\$5,105,294	\$4,019,178
Support Services:		
Pupils	338,748	240,897
Instructional Staff	332,403	332,403
Board of Education	18,792	18,792
Administration	736,858	736,858
Fiscal	262,972	262,972
Operation and Maintenance of Plant	659,180	601,722
Pupil Transportation	392,923	169,106
Central	3,363	(10,637)
Noninstructional Services	1,035,888	92,199
Extracurricular Activities	392,217	276,468
Interest and Fiscal Charges	12,536	12,536
Total Expenses	\$9,291,174	\$6,752,494

**Delphos City School District
Allen County**

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

The School District funds 79 percent of their total instruction costs, 86 percent of support services costs, and 70 percent of extracurricular expenses with property taxes and unrestricted grants and entitlements. A State grant for internet connections was not spent during fiscal year 2003 creating the \$10,637 of program revenues over expenses for central support services. The majority of non-instructional services are funded by a State grant and revenues for providing student lunches.

GOVERNMENTAL ACTIVITIES FINANCIAL ANALYSIS

The School District's governmental funds are accounted for using the modified accrual basis of accounting. The School District's major governmental funds are the General Fund and Permanent Improvement Capital Projects Fund. Interest revenue decreased from a drop in interest rates. All other revenues stayed relatively stable.

Costs increased by 3.5 percent during fiscal year 2003 for negotiated salaries increases and step increases of 3.5 percent. Additional costs were incurred for special education instruction through the Allen County Educational Service Center. Medical insurance premiums increased significantly on January 1, 2003.

BUDGETARY HIGHLIGHTS

The School District prepares an annual budget of revenues and expenditures for all funds of the School District for use by School District officials and department heads and prepares such other budgetary documents as are required by State statute, including the annual appropriations ordinance which is effective the first day of July. The School District's most significant budgeted fund is the General Fund. During the course of fiscal year 2003, the School District amended its General Fund budget as needed.

For the General Fund, final budgeted revenues increased 13.7 percent from the original budget amounts. Allen County had not included the estimated property taxes that would be collected from a company that had closed on the amended certificate of estimated resources. Although the operation was closed, the property taxes were still due. Also, the School District was notified that open enrollment tuition through State foundation was to be recorded at gross revenues and expenditures rather than as a net expenditure. The final appropriations increased 12.6 percent from the original budget. The majority of this increase was from recording open enrollment, the increased costs through the Allen County Educational Service Center, and medical insurance premiums. Principal and interest estimates for the energy conservation bonds and capital leases were also included in the final budget.

Actual expenditures were 3 percent less than the final appropriations. The School District budgets salaries at the current annual salary for employees rather than splitting the costs between the prior year and current year salaries. The School District had also locked in the natural gas rates that significantly helped during the cold winter season.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The primary increase in capital assets for governmental activities is from acquiring physical education equipment through a capital lease, making improvements to the bus garage, and beginning construction on a fitness building to house the physical education equipment. Note 9 provides additional details regarding capital assets.

**Delphos City School District
Allen County**

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Debt

The School District paid the final payment on the energy conservation bonds during fiscal year 2003. These bonds were paid from transfers from the General Fund. The School District has two capital leases for the acquisition of an administration building and physical education equipment, in the amount of \$144,000 and \$192,736, respectively. Both of these capital leases are paid from the General Fund.

In addition to the debt outlined above, the School District's long-term debt also includes compensated absences. Note 16 provides additional details regarding debt.

CURRENT ISSUES

The Delphos City School District's future finances are not without challenges as our community changes and State funding is revised. Some of those challenges are in the future of State funding for schools in light of the twelve year old DeRolph court case and the long-term effects of public utility deregulation, as well as the reduction of personal property for business inventory.

The School District finalized negotiations with their certified employees during the summer of 2003. Salary rates were increased by 3 percent and the employees with the First Care + Plan agreed to increase their portion of medical insurance premiums from \$45 to \$65 for family plans and \$22.50 to \$35 for single plans.

The new formula for basic aid will decrease the School District's funding by \$130,000 as compared to the formula used in fiscal year 2003. The School District does not have any alternate funding source to absorb this loss.

The School District is unique in that the public school has a population of approximately 1,100 students and the parochial school within the School District has a population of approximately 1,000 students, which is made up from resident students. This almost 50-50 split of total student population affects the School District's per pupil valuation used in computing the basic aid funding as well as other funding, such as parity aid and building funds. Therefore, the School District receives less State aid than other school districts of similar size.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the School District's finances for all those interested in our School District's financial well being. Questions concerning any of the information provided in this report or requests for additional information should be directed to Brad Rosterfer, Treasurer, 234 North Jefferson Street, Delphos, Ohio 45833.

Delphos City School District
Allen County

Statement of Net Assets
June 30, 2003

	<u>Governmental Activities</u>
<u>Assets</u>	
Equity in Pooled Cash and Cash Equivalents	\$1,138,623
Accounts Receivable	14,858
Intergovernmental Receivable	1,194
Prepaid Items	132,676
Inventory Held for Resale	25,534
Materials and Supplies Inventory	9,630
Property Taxes Receivable	4,129,270
Nondepreciable Capital Assets	191,527
Depreciable Capital Assets, Net	<u>2,796,997</u>
<i>Total Assets</i>	<u>8,440,309</u>
<u>Liabilities</u>	
Accrued Wages and Benefits Payable	660,549
Accounts Payable	26,995
Contracts Payable	151,873
Matured Compensated Absences Payable	17,929
Special Termination Benefits Payable	17,929
Intergovernmental Payable	195,010
Deferred Revenue	3,686,071
Long-Term Liabilities	
Due Within One Year	240,688
Due in More Than One Year	<u>816,991</u>
<i>Total Liabilities</i>	<u>5,814,035</u>
<u>Net Assets</u>	
Invested in Capital Assets, Net of Related Debt	2,651,788
Restricted for:	
Capital Projects	138,022
Other Purposes	85,742
Unrestricted (Deficit)	<u>(249,278)</u>
<i>Total Net Assets</i>	<u>\$2,626,274</u>

See accompanying notes to the basic financial statements

**Delphos City School District
Allen County**

*Statement of Activities
For the Fiscal Year Ended June 30, 2003*

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest		Capital Grants and Contributions
<u>Governmental Activities</u>				Governmental Activities	
Instruction:					
Regular	\$3,749,972	\$395,037	\$65,635	\$129,526	(\$3,159,774)
Special	599,755	8,026	410,416		(181,313)
Vocational	755,567		77,476		(678,091)
Support Services:					
Pupils	338,748	83,245	14,606		(240,897)
Instructional Staff	332,403				(332,403)
Board of Education	18,792				(18,792)
Administration	736,858				(736,858)
Fiscal	262,972				(262,972)
Operation and Maintenance of Plant	659,180	158	57,300		(601,722)
Pupil Transportation	392,923		215,634	8,183	(169,106)
Central	3,363		14,000		10,637
Noninstructional Services	1,035,888	242,231	701,458		(92,199)
Extracurricular Activities	392,217	114,525	1,224		(276,468)
Interest and Fiscal Charges	12,536				(12,536)
<i>Total Governmental Activities</i>	<u>\$9,291,174</u>	<u>\$843,222</u>	<u>\$1,557,749</u>	<u>\$137,709</u>	<u>(6,752,494)</u>

General Revenues

Property Taxes Levied for:	
General Purposes	3,837,769
Permanent Improvements	299,178
Grants and Entitlements Not Restricted to Specific Programs	2,619,013
Interest	20,143
Miscellaneous	29,719
<i>Total General Revenues</i>	<u>6,805,822</u>
<i>Change in Net Assets</i>	53,328
<i>Net Assets Beginning of Year - See Note 3</i>	<u>2,572,946</u>
<i>Net Assets End of Year</i>	<u>\$2,626,274</u>

See accompanying notes to the basic financial statements

**Delphos City School District
Allen County**

*Balance Sheet
Governmental Funds
June 30, 2003*

	General	Permanent Improvement	Other Governmental	Total
<u>Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$589,161	\$264,998	\$284,464	\$1,138,623
Accounts Receivable	9,647		5,211	14,858
Intergovernmental Receivable	41		1,153	1,194
Prepaid Items	127,587		5,089	132,676
Inventory Held for Resale	6,022		19,512	25,534
Materials and Supplies Inventory	9,370		260	9,630
Interfund Receivable	95,000			95,000
Property Taxes Receivable	3,831,349	297,921		4,129,270
<i>Total Assets</i>	<u>4,668,177</u>	<u>562,919</u>	<u>315,689</u>	<u>5,546,785</u>
<u>Liabilities and Fund Balances</u>				
<u>Liabilities</u>				
Accrued Wages and Benefits Payable	573,681		86,868	660,549
Accounts Payable	23,703		3,292	26,995
Contracts Payable	84,640	52,322	14,911	151,873
Matured Compensated Absences Payable	17,058		871	17,929
Intergovernmental Payable	107,639		15,761	123,400
Interfund Payable		95,000		95,000
Deferred Revenue	3,424,069	285,503		3,709,572
<i>Total Liabilities</i>	<u>4,230,790</u>	<u>432,825</u>	<u>121,703</u>	<u>4,785,318</u>
<u>Fund Balances</u>				
Reserved for Property Taxes	407,280	12,418		419,698
Reserved for Encumbrances	89,888	207,621	57,046	354,555
Unreserved, Reported in				
General Fund (Deficit)	(59,781)			(59,781)
Special Revenue Funds			130,855	130,855
Capital Projects Funds (Deficit)		(89,945)	6,085	(83,860)
<i>Total Fund Balances</i>	<u>437,387</u>	<u>130,094</u>	<u>193,986</u>	<u>761,467</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$4,668,177</u>	<u>\$562,919</u>	<u>\$315,689</u>	<u>\$5,546,785</u>

See accompanying notes to the basic financial statements

Delphos City School District
Allen County

*Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2003*

<i>Total Governmental Fund Balances</i>	\$761,467
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***Amounts reported for governmental activities on the
statement of net assets are different because of the following:***

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,988,524
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Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds: Property Taxes Receivable	23,501
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Intergovernmental payable includes contractually required pension contributions not expected to be paid with available expendable resources and, therefore, are not reported in the funds.	(71,610)
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Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:	
Special Termination Benefits Payable	(17,929)
Capital Leases Payable	(336,736)
Compensated Absences Payable	(720,943)
	(1,075,608)

<i>Net Assets of Governmental Activities</i>	<u><u>\$2,626,274</u></u>
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See accompanying notes to the basic financial statements

Delphos City School District
Allen County

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2003

	General	Permanent Improvement	Other Governmental	Total
Revenues				
Property Taxes	\$3,838,049	\$299,216		\$4,137,265
Intergovernmental	3,040,878	33,064	1,059,857	4,133,799
Interest	20,143		3,319	23,462
Tuition and Fees	366,324			366,324
Charges for Services	36,739		242,231	278,970
Extracurricular Activities			197,928	197,928
Gifts and Donations	112,039		65,314	177,353
Miscellaneous	29,117		602	29,719
<i>Total Revenues</i>	<u>7,443,289</u>	<u>332,280</u>	<u>1,569,251</u>	<u>9,344,820</u>
Expenditures				
Current:				
Instruction:				
Regular	3,737,350		43,460	3,780,810
Special	396,505		201,658	598,163
Vocational	744,141		2,650	746,791
Support Services:				
Pupils	238,670		94,077	332,747
Instructional Staff	304,731		11,982	316,713
Board of Education	19,023			19,023
Administration	686,477		4,372	690,849
Fiscal	246,038	6,852	9,300	262,190
Operation and Maintenance of Plant	585,577		50,325	635,902
Pupil Transportation	326,610			326,610
Central	1,736		602	2,338
Noninstructional Services			1,021,403	1,021,403
Extracurricular Activities	258,804		119,692	378,496
Capital Outlay	20,224	230,066	42,041	292,331
Debt Service:				
Principal Retirement	137,728		37,700	175,428
Interest and Fiscal Charges	11,480		1,056	12,536
<i>Total Expenditures</i>	<u>7,715,094</u>	<u>236,918</u>	<u>1,640,318</u>	<u>9,592,330</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(271,805)</u>	<u>95,362</u>	<u>(71,067)</u>	<u>(247,510)</u>
Other Financing Sources (Uses)				
Sale of Capital Assets	250			250
Inception of Capital Lease	282,464			282,464
Transfers In			75,796	75,796
Transfers Out	(75,796)			(75,796)
<i>Total Other Financing Sources (Uses)</i>	<u>206,918</u>		<u>75,796</u>	<u>282,714</u>
<i>Net Change in Fund Balances</i>	(64,887)	95,362	4,729	35,204
<i>Fund Balances at Beginning of Year - See Note 3</i>	<u>502,274</u>	<u>34,732</u>	<u>189,257</u>	<u>726,263</u>
<i>Fund Balances at End of Year</i>	<u>\$437,387</u>	<u>\$130,094</u>	<u>\$193,986</u>	<u>\$761,467</u>

See accompanying notes to the basic financial statements

**Delphos City School District
Allen County**

*Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to Statement of Activities
For the Fiscal Year Ended June 30, 2003*

Net Change in Fund Balances - Total Governmental Funds \$35,204

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

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

Capital Outlay - Nondepreciable Capital Assets	64,842	
Capital Outlay - Depreciable Capital Assets	381,064	
Depreciation	<u>(257,989)</u>	187,917

The proceeds from the sale of capital assets are reported as other financing sources in the governmental funds. However, the cost of the capital assets is removed from the capital asset account on the statement of net assets and is offset against the proceeds from the sale of capital assets resulting in a loss on disposal of capital assets on the statement of activities.

Sale of Capital Assets	(250)	
Loss on Disposal of Capital Assets	<u>(8,097)</u>	(8,347)

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

Property Taxes		(318)
----------------	--	-------

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.

175,428

The inception of a capital lease is an other financing source in the governmental funds, but increases long-term liabilities on the statement of net assets.

(282,464)

Some expenses reported on the statement of activities, such as compensated absences and intergovernmental payables representing contractually required pension contributions, do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:

Intergovernmental Payable	(8,159)	
Special Termination Benefits Payable	4,134	
Compensated Absences Payable	<u>(50,067)</u>	<u>(54,092)</u>

Change in Net Assets of Governmental Activities

\$53,328

See accompanying notes to the basic financial statements

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Delphos City School District
Allen County

Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2003

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues</u>				
Property Taxes	\$3,535,700	\$3,835,700	\$3,795,216	(\$40,484)
Intergovernmental	3,017,501	3,023,653	3,040,931	17,278
Interest	45,000	45,000	20,798	(24,202)
Tuition and Fees	35,000	335,000	366,187	31,187
Charges for Services	50,000	50,000	36,739	(13,261)
Gifts and Donations			102,736	102,736
Miscellaneous		311,574	315,581	4,007
<i>Total Revenues</i>	<u>6,683,201</u>	<u>7,600,927</u>	<u>7,678,188</u>	<u>77,261</u>
<u>Expenditures</u>				
Current:				
Instruction:				
Regular	3,606,783	3,791,350	3,706,341	85,009
Special	320,235	344,547	341,651	2,896
Vocational	397,644	413,165	411,064	2,101
Other	206,392	452,892	440,602	12,290
Support Services:				
Pupils	297,659	310,156	266,961	43,195
Instructional Staff	231,854	324,654	317,942	6,712
Board of Education	23,245	27,745	20,424	7,321
Administration	621,588	691,640	686,328	5,312
Fiscal	234,399	252,199	246,133	6,066
Operation and Maintenance of Plant	665,754	676,254	621,711	54,543
Pupil Transportation	323,903	379,343	361,785	17,558
Central	1,167	2,227	1,643	584
Extracurricular Activities	240,026	264,156	262,522	1,634
Capital Outlay	20,000	20,260	20,224	36
Debt Service:				
Principal Retirement		137,753	137,728	25
Interest and Fiscal Charges		11,817	11,480	337
<i>Total Expenditures</i>	<u>7,190,649</u>	<u>8,100,158</u>	<u>7,854,539</u>	<u>245,619</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(507,448)</u>	<u>(499,231)</u>	<u>(176,351)</u>	<u>322,880</u>
<u>Other Financing Sources (Uses)</u>				
Sale of Capital Assets			250	250
Advances In	200,000	200,000	175,000	(25,000)
Advances Out	(150,000)	(270,000)	(270,000)	
Transfers Out	(68,500)	(75,796)	(75,796)	
<i>Total Other Financing Sources (Uses)</i>	<u>(18,500)</u>	<u>(145,796)</u>	<u>(170,546)</u>	<u>(24,750)</u>
<i>Net Change in Fund Balance</i>	<u>(525,948)</u>	<u>(645,027)</u>	<u>(346,897)</u>	<u>298,130</u>
<i>Fund Balance at Beginning of Year</i>	800,254	800,254	800,254	
<i>Prior Year Encumbrances Appropriated</i>	40,995	40,995	40,995	
<i>Fund Balance at End of Year</i>	<u>\$315,301</u>	<u>\$196,222</u>	<u>\$494,352</u>	<u>\$298,130</u>

See accompanying notes to the basic financial statements

Delphos City School District
Allen County

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2003

	Private Purpose Trust	Agency
<u>Assets</u>		
Equity in Pooled Cash and Cash Equivalents	\$9,727	\$58,230
Accounts Receivable		70
	9,727	58,300
<i>Total Assets</i>	9,727	\$58,300
<u>Liabilities</u>		
Accounts Payable		\$1,839
Intergovernmental Payable	500	2,748
Due to Students		53,713
	500	58,300
<i>Total Liabilities</i>	500	\$58,300
<u>Net Assets</u>		
Held in Trust for Students	\$9,227	

See accompanying notes to the basic financial statements

Delphos City School District
Allen County

Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2003

	<u>Private Purpose Trust</u>
<u>Additions</u>	
Gifts and Donations	\$6,298
<u>Deductions</u>	
Noninstructional Services	<u>6,273</u>
<i>Change in Net Assets</i>	25
<i>Net Assets Beginning of Year</i>	<u>9,202</u>
<i>Net Assets End of Year</i>	<u><u>\$9,227</u></u>

See accompanying notes to the basic financial statements

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**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003**

Note 1 - Description of the School District and Reporting Entity

Delphos City School District (School District) is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by state and federal guidelines.

The School District was established in 1862 with the consolidation of existing land areas and school districts. The School District serves an area of approximately seventy-six square miles. It is located in Allen and Van Wert Counties, and includes all of the City of Delphos and portions of Marion and Washington Townships. The School District is the 444th largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by fifty-four classified employees, seventy-four certified teaching personnel, and six administrative employees who provide services to 1,196 students and other community members. The School District currently operates four instructional buildings, two bus garages, and one administrative building.

Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Delphos City School District, this includes general operations, food service, and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. As of June 30, 2003, there are no component units of the Delphos City School District.

The following activities are included within the reporting entity:

Parochial School - Within the School District boundaries, Delphos St. Johns School is operated through the Toledo Catholic Diocese. Current State legislation provides funding to the parochial school. The money is received and disbursed on behalf of the parochial school by the Treasurer of the School District, as directed by the parochial school. The activity is reflected in a special revenue fund of the School District for financial reporting purposes.

The School District participates in four jointly governed organizations, three insurance pools, and is associated with a related organization. These organizations are the West Central Ohio Regional Professional Development Center, West Central Ohio Special Education Regional Resource Center, Northwest Ohio Area Computer Services Cooperative, Vantage Joint Vocational School, Allen County Schools Health Benefit Plan, NOACSC Workers' Compensation Group Rating Plan, Ohio School Plan, and the Delphos Community Public Library. These organizations are presented in Notes 20, 21, and 22 to the basic financial statements.

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

Note 2 - Summary of Significant Accounting Policies

The basic financial statements of Delphos City School District have been prepared in conformity with generally accepted accounting principles (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 School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the School District's accounting policies.

A. Basis of Presentation

The School District's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental activities of the School District at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. 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 charges paid by the recipient of the goods or services offered by the program and grants, contributions, and interest that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements

During the fiscal year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the School District are divided into two categories, governmental and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions of the School District 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.

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

The School District's major funds are the General Fund and Permanent Improvement capital projects 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 to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Permanent Improvement Fund - The Permanent Improvement capital projects fund accounts for the acquisition, construction, or improvement of capital facilities.

The other governmental funds of the School District account for grants and other resources whose uses are restricted to a particular purpose.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. The School District's private purpose trust fund accounts for programs that provide college scholarships to students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds account for various student-managed activities.

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

Fund Financial Statements

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 are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reflects 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 fund financial statements for governmental funds.

The private purpose trust fund is accounted for using a flow of economic resources measurement focus.

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting; fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Nonexchange 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 the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On the 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 both measurable and available at fiscal year end: property taxes available as an advance, grants, interest, tuition, student fees, and charges for services.

Deferred Revenues

Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there was an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, are recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

On the accrual basis, 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.

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

E. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of control selected by the Board is the function and object level for all funds.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

F. Cash and Investments

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

During fiscal year 2003, the School District invested in repurchase agreements, which are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2003 was \$20,143, which includes \$4,214 assigned from other School District funds.

Investments of the School District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Inventory

Inventory is presented at cost on a first-in, first-out basis and is expensed/expensed when used. Inventory consists of administrative supplies and donated and purchased food.

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

I. Capital Assets

All of the School District's capital assets are general capital assets resulting from expenditures in the governmental funds. These assets are reported in the governmental activities column on the government-wide statement of net assets but are not reported on the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. The School District maintains a capitalization threshold of one thousand five hundred dollars. The School District does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All capital assets, except land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Useful Lives
Land Improvements	5 - 30 years
Building and Building Improvements	10 - 50 years
Improvements Other Than Buildings	30 years
Furniture, Fixtures, and Equipment	6 - 30 years
Vehicles	3 - 10 years

J. Interfund Assets/Liabilities

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "Interfund Receivables/Payables". Interfund balances within governmental activities are eliminated on the statement of net assets.

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable the School District will compensate the employees for the benefits through time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for all employees after fifteen years of service with the School District.

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

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

On governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid.

L. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, contractually required pension contributions, compensated absences, and special termination benefits that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current year.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include activities for food service operations, music and athletic programs, and federal and state grants restricted to expenditure for specified purposes. The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

N. Fund Balance Reserves

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

O. Interfund Transactions

Transfers within governmental activities are eliminated on the government-wide financial statements.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence.

Q. Estimates

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

Note 3 - Change in Accounting Principles, Correction of an Error, and Restatement of Fund Balance

A. Change in Accounting Principles

For fiscal year 2003, the School District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedules - Perspective Differences", and GASB Interpretation No. 6 "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements".

GASB Statement No. 34 creates new basic financial statements for reporting on the School District's financial activities. The financial statements include government-wide financial statements prepared on the accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

On the government-wide financial statements, the beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2002, caused by the conversion to the full accrual basis of accounting.

GASB Statement No. 37 makes certain clarifications regarding escheat property and modifies several provisions of GASB Statement No. 34, including Management's Discussion and Analysis. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

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

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

B. Correction of an Error

Capital assets were improperly recorded in prior years. As a result, capital assets were restated at June 30, 2002, in the amount of \$55,415, from \$6,884,440 to \$6,939,855.

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

**Note 3 - Change in Accounting Principles, Correction of an Error, and Restatement of Fund Balance
(Continued)**

C. Restatement of Fund Balance

The restatement due to the implementation of the above statements and interpretation had the following effect on fund balance of the major and nonmajor funds of the School District as they were previously reported. The transition from governmental fund balance to net assets of governmental activities is also presented.

	General	Permanent Improvement	Other Governmental	Total
Fund Balance June 30, 2002	\$465,128	\$34,732	\$199,618	\$699,478
GASB Statement No. 34 Adjustment:				
Change in Fund Structure	7,359	0	(10,361)	(3,002)
GASB Interpretation No. 6 Adjustment:				
Compensated Absences	29,787	0	0	29,787
Adjusted Fund Balance	\$502,274	\$34,732	\$189,257	726,263
GASB Statement No. 34 Adjustments:				
Long-Term (Deferred) Assets:				
Property Taxes Receivable				23,819
Capital Assets				2,808,954
Long-Term Liabilities:				
Intergovernmental Payable				(63,451)
Special Termination Benefits Payable				(22,063)
Energy Conservation Bonds Payable				(37,700)
Capital Leases Payable				(192,000)
Compensated Absences Payable				(670,876)
Governmental Activities Net Assets at June 30, 2002				\$2,572,946

Note 4 - Accountability and Compliance

A. Accountability

At June 30, 2003, the Food Service special revenue fund had a deficit fund balance of \$13,849 resulting from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

B. Compliance

For the fiscal year ended June 30, 2003, the Auxiliary Services special revenue fund had appropriations in excess of estimated resources plus available balances, in the amount of \$21,173. The School District will monitor budgetary transactions to avoid this situation in the future.

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

Note 5 - Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations, and changes in fund balances 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, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

The adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund are as follows:

Net Change in Fund Balance	
GAAP Basis	(\$64,887)
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2002, Received in Cash FY 2003	364,611
Accrued FY 2003, Not Yet Received in Cash	(412,831)
Expenditure Accruals:	
Accrued FY 2002, Paid in Cash FY 2003	(813,995)
Accrued FY 2003, Not Yet Paid in Cash	802,584
Cash on Hand at Beginning of Year	1,736
Cash on Hand at End of Year	(1,081)
Prepaid Items	(34,210)
Materials and Supplies Inventory	(1,167)
Inventory Held for Resale	1,071
Advances In	175,000
Advances Out	(270,000)
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(93,728)
Budget Basis	(\$346,897)

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

Note 6 - Deposits and Investments

State statutes classify monies held by the School District into three categories.

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

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

Interim deposits are deposits of interim monies. Interim 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.

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

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

1. United States Treasury bills, bonds, notes, 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 obligation or security 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 the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

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 School District, and must be purchased with the expectation that it will be held to maturity.

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

Note 6 - Deposits and Investments (Continued)

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

At fiscal year end, the carrying amount of the School District's deposits was (\$69,560) and the bank balance was \$50,000. The entire bank balance was covered by federal depository insurance.

The School District's investments are categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The carrying value of the School District's investment in repurchase agreements was \$1,276,140, with a fair value of \$1,287,783 at June 30, 2003. The investment in repurchase agreements is a Category 3 investment.

The classification of cash and cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting". A reconciliation between the classification of cash and cash equivalents and investments on the financial statements and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$1,206,580	\$0
Investments:		
Repurchase Agreements	(1,276,140)	1,276,140
GASB Statement No. 3	(\$69,560)	\$1,276,140

Note 7 - Receivables

Receivables at June 30, 2003, consisted of accounts (student fees and billings for user charged services), intergovernmental, interfund, and property taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year.

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

Note 7 – Receivables (Continued)

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
General Fund	\$41
Other Governmental Funds	
Athletics	191
Drug Free	962
Total Other Governmental Funds	1,153
Total Intergovernmental Receivables	\$1,194

Note 8 - Property Taxes

Property taxes are levied and assessed on a calendar year basis, while the School District’s fiscal year runs from July through June. First-half tax distributions are received by the School District in the second half of the fiscal year. Second-half tax distributions are received in the first half of the following fiscal year.

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2003 represent the collection of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed values as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2003 represent the collection of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien on December 31, 2001, were levied after April 1, 2002, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2003 (other than public utility property) represent the collection of calendar year 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 24 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Allen and Van Wert Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

Note 8 - Property Taxes (Continued)

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2003, and for which there was an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reflected as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2003, was \$407,280 in the General Fund and \$12,418 in the Permanent Improvement capital projects fund. The amount available as an advance at June 30, 2002, was \$364,447 in the General Fund and \$8,703 in the Permanent Improvement capital projects fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue. On a modified accrual basis, the revenue has been deferred.

The assessed values upon which fiscal year 2003 taxes were collected are:

	2002 Second- Half Collections		2003 First- Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$115,937,750	80.87%	\$122,394,810	80.57%
Public Utility	4,773,170	3.33	4,165,950	2.74
Tangible Personal	22,654,852	15.80	25,357,919	16.69
Total Assessed Value	<u>\$143,365,772</u>	<u>100.00%</u>	<u>\$151,918,679</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$42.15		\$42.15	

Note 9 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Balance at 6/30/02	Additions	Reductions	Balance at 6/30/03
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$126,685	\$0	\$0	\$126,685
Construction in Progress	36,892	64,842	(36,892)	64,842
Total Nondepreciable Capital Assets	<u>163,577</u>	<u>64,842</u>	<u>(36,892)</u>	<u>191,527</u>
Depreciable Capital Assets				
Land Improvements	1,123,316	14,074	0	1,137,390
Buildings and Building Improvements	3,653,288	35,972	0	3,689,260
Improvements Other Than Buildings	0	20,930	0	20,930
Furniture, Fixtures, and Equipment	1,251,810	334,960	(4,298)	1,582,472
Vehicles	747,864	12,020	(15,980)	743,904
Total Depreciable Capital Assets	<u>6,776,278</u>	<u>417,956</u>	<u>(20,278)</u>	<u>7,173,956</u>

continued

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

Note 9 - Capital Assets (Continued)

	Balance at 6/30/02	Additions	Reductions	Balance at 6/30/03
Less Accumulated Depreciation				
Land Improvements	(\$875,133)	(\$20,107)	\$0	(\$895,240)
Buildings and Building Improvements	(2,056,373)	(65,218)	0	(2,121,591)
Improvements Other Than Buildings	0	(698)	0	(698)
Furniture, Fixtures, and Equipment	(771,646)	(115,047)	4,298	(882,395)
Vehicles	(427,749)	(56,919)	7,633	(477,035)
Total Accumulated Depreciation	<u>(4,130,901)</u>	<u>(257,989)</u>	<u>11,931</u>	<u>(4,376,959)</u>
Depreciable Capital Assets, Net	<u>2,645,377</u>	<u>159,967</u>	<u>(8,347)</u>	<u>2,796,997</u>
Governmental Activities Capital Assets, Net	<u>\$2,808,954</u>	<u>\$224,809</u>	<u>(\$45,239)</u>	<u>\$2,988,524</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$74,234
Special	5,562
Vocational	4,527
Support Services:	
Pupils	5,164
Instructional Staff	15,386
Administration	34,055
Fiscal	2,333
Operation and Maintenance of Plant	21,533
Pupil Transportation	56,692
Non-Instructional Services	31,925
Extracurricular Activities	6,578
Total Depreciation Expense	<u>\$257,989</u>

Note 10 - Interfund Assets/Liabilities

At June 30, 2003, the General Fund had an interfund receivable and the Permanent Improvement capital projects fund had an interfund payable, in the amount of \$95,000, to provide cash flow resources until the receipt of property taxes.

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

Note 11 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2003, the School District contracted for the following insurance coverage.

Coverage provided by Ohio School Plan is as follows:

General Liability	
Per Occurrence	\$1,000,000
Aggregate	3,000,000
Excess Liability	1,000,000

Coverage provided by Mid-American Fire and Casualty Company is as follows:

Building and Contents	\$24,485,554
Musical Instruments	420,000

Coverage provided by Selective Insurance Company of South Carolina is as follows:

Automobile Liability	\$2,000,000
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Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from the prior fiscal year.

The School District participates in the Allen County Schools Health Benefit Plan (Plan), a public entity shared risk pool consisting of ten school districts and the Allen County Educational Service Center. The School District pays monthly premiums to the Plan for employee medical and dental benefits. The Plan is responsible for the management and operations of the program and the payment of claims. Upon withdrawal from the Plan, a participant is responsible for the payment of all Plan liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

The School District participates in the Northwest Ohio Area Computer Services Cooperative Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A 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 participants that can meet the GRP's selection criteria. The firm of Accordia Workers' Compensation Services provides administrative, cost control, and actuarial services to the GRP.

For fiscal year 2003, the School District participated in the Ohio School Plan (Plan), an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant.

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

Note 12 - Contractual Commitments

As of June 30, 2003, the School District had contractual commitments as follows:

Company	Project	Amount Remaining on Contract
Cardinal Bus Sales	Two Buses	\$105,410
M & W Constuction	Fitness Building	60,993
Hesseling Electric	Fitness Building	22,751
All Temp Refrigeration	Fitness Building	21,982

Note 13 - Defined Benefit Pension Plans

A. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all of 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 fifty and termination of employment. The CP offers features of both the DBP and DCP. In the CP, 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 DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

A DBP or CP member with five or more years of 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 DCP who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

Note 13 - Defined Benefit Pension Plans (Continued)

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salary and the School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The School District's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2003, 2002, and 2001 was \$528,524, \$366,064, and \$352,619, respectively; 84 percent has been contributed for fiscal year 2003 and 100 percent has been contributed for fiscal years 2002 and 2001. Contributions for the DCP and CP for the fiscal year ended June 30, 2003, were \$420 made by the School District and \$3,590 made by plan members.

B. School Employees Retirement System

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9 percent of their annual covered salary and the School District was required to contribute an actuarially determined rate. The rate for fiscal year 2003 was 14 percent of annual covered payroll; 8.17 percent was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001, were \$66,694, \$41,732, and \$29,795, respectively; 43 percent has been contributed for fiscal year 2003 and 100 percent has been contributed for fiscal years 2002 and 2001.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2003, one of the Board of Education members has elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 14 - Postemployment Benefits

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

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

Note 14 - Postemployment Benefits (Continued)

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2003, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount was \$40,688.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3,011 million at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000, and STRS had 105,300 eligible benefit recipients.

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

For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$14,500. For the School District, the amount to fund health care benefits, including the surcharge, was \$76,768 for fiscal year 2003.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2002 (the latest information available), were \$182,946,777, and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

Note 15 - Other Employee Benefits

A. Compensated Absences

The criteria for determining vacation and sick leave benefits is derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. All two hundred sixty day administrative personnel earn twenty days of vacation per contract period. Accumulated unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred thirty-five days for all personnel. Upon retirement, payment is made for 25 percent of their accrued, but unused sick leave credit to a maximum of forty-eight days for all employees.

B. Health Care Benefits

The School District offers employee medical and dental benefits through the Allen County Schools Health Benefit Plan. The employees share the cost of the monthly premium with the Board. The premium varies with each employee depending on the terms of the union contract. The School District provides life insurance and accidental death and dismemberment insurance to most employees through CoreSource.

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

Note 15 - Other Employee Benefits (Continued)

C. Special Termination Benefit

The School District provides a special termination benefit to eligible certified and classified employees. A full-time employee with ten years of service with the School District and with less than 30.99 years of experience who elects to retire after the close of the school year in which they initially became eligible for retirement under the pension eligibility criteria will be paid an amount equal to the sick leave severance.

Note 16 - Long-Term Obligations

Changes in the School District's long-term obligations during fiscal year 2003 were as follows:

	Balance at 6/30/02	Additions	Reductions	Balance at 6/30/03	Amounts Due Within One Year
Governmental Activities					
General Long-Term Obligations					
1992 Energy Conservation Bonds 5.6%	\$37,700	\$0	\$37,700	\$0	\$0
Capital Leases 0 - 4.75%	192,000	282,464	137,728	336,736	142,084
Compensated Absences Payable	670,876	105,811	55,744	720,943	98,604
Total Governmental Activities Long-Term Obligations	<u>\$900,576</u>	<u>\$388,275</u>	<u>\$231,172</u>	<u>\$1,057,679</u>	<u>\$240,688</u>

Energy Conservation Bonds - On August 5, 1992, the School District issued \$377,224 in energy conservation general obligation bonds for energy conservation measures. The bonds were issued for a ten year period, with final maturity on December 1, 2003. The bonds were fully retired during fiscal year 2003.

Capital leases will be paid from the General Fund.

Compensated absences will be paid from the General Fund and the Food Service and Auxiliary Services special revenue funds.

The School District's overall debt margin was \$13,672,681 with an unvoted debt margin of \$151,919 at June 30, 2003.

Note 17 - Capitalized Leases - Lessee Disclosure

The School District has entered into capitalized leases for a building and physical education equipment. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. New capital leases are reflected in the accounts "Regular Instruction" and "Inception of Capital Lease" in the funds which will be making the lease payments. Capital lease payments are reflected as debt service expenditures on the statement of revenues, expenditures, and changes in fund balances for governmental funds. These expenditures are reported as function expenditures on the budgetary statements. Assets, consisting of a building and physical education equipment, have been capitalized in the amount of \$240,000 and \$282,465, respectively. Principal payments in fiscal year 2003 were \$137,728.

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

Note 17 - Capitalized Leases - Lessee Disclosure (Continued)

	<u>Governmental Activities</u>
Property under Capital Lease	\$522,465
Less Accumulated Depreciation	<u>(45,759)</u>
Present Value of Net Minimum Lease Payments	<u>\$476,706</u>

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2003.

	<u>Governmental Activities</u>
<u>Fiscal Year Ending June 30,</u>	
2004	\$149,591
2005	149,591
2006	<u>48,000</u>
Total	347,182
Less Amount Representing Interest	<u>(10,446)</u>
Present Value of Net Minimum Lease Payments	<u>\$336,736</u>

Note 18 - Set Asides

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end. These amounts must be carried forward and used for the same purposes in future years.

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2003.

	<u>Textbooks</u>	<u>Capital Improvements</u>
Balance June 30, 2002	(\$262,362)	\$0
Current Year Set Aside Requirement	157,210	157,210
Qualifying Expenditures	(180,794)	0
Current Year Offsets	0	<u>(157,210)</u>
Balance June 30, 2003	<u>(\$285,946)</u>	<u>\$0</u>

The School District had qualifying expenditures during the fiscal year that reduced the textbook setaside amount below zero. This amount may be used to reduce the set aside requirement of future fiscal years.

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

Note 19 - Interfund Transfers

During fiscal year 2003, the General Fund made transfers to the other governmental funds, in the amount of \$75,796, to pay on the energy conservation bonds and to help fund the food service and summer intervention programs.

Note 20 - Jointly Governed Organizations

A. West Central Ohio Regional Professional Development Center

The West Central Ohio Regional Professional Development Center (Center) is a jointly governed organization among the school districts located in Allen, Auglaize, Hancock, Hardin, Mercer, Paulding, Putnam, and Van Wert Counties. The organization was formed to establish an articulated regional structure for professional development in which school districts, the business community, higher education, and other groups cooperatively plan and implement effective professional development activities that are tied directly to school improvement, and in particular, to improvements in instructional programs.

The Center is governed by a fifty-two member board made up of representatives from the participating school districts, the business community, and two institutions of higher learning. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from Sandy Knudson, Hancock County Educational Service Center, 7746 County Road 140, Findlay, Ohio 45840.

B. West Central Ohio Special Education Regional Resource Center

The West Central Ohio Special Education Regional Resource Center (SERRC) is a jointly governed organization formed to initiate, expand, and improve special education programs and services for children with disabilities and their parents. The SERRC is governed by a fifty-two member board consisting of the superintendent from the fifty participating school districts, one representative from a non-public school, and one representative from Wright State University. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from Krista Hart, Hardin County Educational Service Center, 1 Court House Square, Suite 50, Kenton, Ohio 43326-2385.

C. Northwest Ohio Area Computer Services Cooperative

The School District is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC), which is a computer consortium. NOACSC is an association of educational entities within the boundaries of Allen, Hancock, Mercer, Paulding, Putnam, and Van Wert Counties, and the Cities of St. Marys and Wapakoneta. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member educational entities. The governing board of NOACSC consists of two representatives from each county elected by majority vote of all charter member educational entities within each county. During fiscal year 2003, the School District paid \$31,159 to NOACSC for various services. Financial information can be obtained from Michael Wildermuth, who serves as Director, 645 South Main Street, Lima, Ohio 45804.

D. Vantage Joint Vocational School

The Vantage Joint Vocational School (JVS) is a distinct political subdivision of the State of Ohio which provides vocational education. The JVS operates under the direction of a Board consisting of one representative from each of the twelve participating school districts' Board of Education. The Board possesses its own budgeting and taxing authority. The degree of control exercised by the School District is limited to its representation on the Board. Financial information can be obtained from Lori Davis, who serves as Treasurer, 818 North Franklin Street, Van Wert, Ohio 45891-1304.

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

Note 21 - Insurance Pools

A. Allen County Schools Health Benefit Plan

The School District participates in the Allen County Schools Health Benefit Plan (Plan), a public entity shared risk pool consisting of the school districts within Allen County and the Allen County Educational Service Center. The Plan is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical and dental benefits to the employees of the participating school districts. Each participating school district's superintendent is appointed to a Board of Directors which advises the Trustee, Allen County Educational Service Center, concerning aspects of the administration of the Plan.

Each school district decides which plans offered by the Board of Directors will be extended to its employees. Participation in the Plan is by written application subject to acceptance by the Board of Directors and payment of the monthly premiums. Financial information can be obtained from Don Smith, who serves as Chairman, 204 North Main Street, Lima, Ohio 45801.

B. NOACSC Workers' Compensation Group Rating Plan

The School District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The NOACSC Workers' Compensation Group Rating Plan (GRP) was established through the Northwest Ohio Area Computer Services Cooperative (NOACSC) as an insurance purchasing pool.

The Safety Coordinator of NOACSC or his designee serves as coordinator of the GRP. Each year, the participating members pay an enrollment fee to the GRP to cover the costs of administering the program.

C. Ohio School Plan

The School District participates in the Ohio School Plan (Plan), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The Plan's business and affairs are conducted by a fifteen member board consisting of superintendents, treasurers, the president of Harcum-Hyre Insurance Agency, Inc., and a member of the Hylant Group, Inc. The Hylant Group, Inc. is the Plan's administrator and is responsible for processing claims. Harcum-Hyre Insurance Agency serves as the sales and marketing representative which establishes agreements between the Plan and its members. Financial information can be obtained from Harcum-Hyre Insurance Agency, 246 East Sycamore Street, Columbus, Ohio 43206.

Note 22 - Related Organization

The Delphos Community Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Delphos City School District Board of Education. The Board of trustees possesses its own contracting and budgeting authority, hires and fires personnel, and does not depend on the School District for operational subsidies. Although the School District serves as the taxing authority, its role is limited to a ministerial function.

The determination to request approval of a tax, the rate, and the purpose are discretionary decisions made solely by the Board of Trustees. During May, 2003, a five year .6 mill levy was passed for operational purposes. Collection of the property tax will begin in calendar year 2004. Financial information can be obtained from the Delphos Community Public Library, James Weger, Clerk/Treasurer, 309 West Second Street, Delphos, Ohio 45833.

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

Note 23 - State School Funding Decision

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient..."

The School District is currently unable to determine what effect, if any, this decision will have its future State funding and on its financial operations.

Note 24 - Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2003.

B. Litigation

There are currently no matters in litigation with the School District as defendant.

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR YEAR ENDED JUNE 30, 2003

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
(Passed through Ohio Department of Education)						
Nutrition Cluster:						
Food Distribution Program	N/A	10.550		\$54,270		\$54,270
National School Lunch Program	043885-LLP4-2002	10.555	11,428		11,428	
National School Lunch Program	043885-LLP4-2003	10.555	85,873		85,873	
Total National School Lunch			97,301		97,301	
Total U.S. Department of Agriculture - Nutrition Cluster			97,301	54,270	97,301	54,270
U.S. DEPARTMENT OF EDUCATION						
(Passed through Ohio Department of Education)						
Title I, Part A, IASA	043885-C1-S1 2002	84.010	2,048		15,421	
Title I, Part A, IASA	043885-C1-S1 2002	84.010	85,477		71,352	
Total Title I			87,525		86,773	
Title VI-B, Special Education Grants to States	043885 6B-SF 2002P	84.027			7,786	
Title VI-B, Special Education Grants to States	043885 6B-SF 2003P	84.027	153,932		149,767	
Total Title VI-B			153,932		157,553	
Title VI, Innovative Education Program Strategies	043885 C2-S1 2002	84.298			3,324	
Title VI, Innovative Education Program Strategies	043885 C2-S1 2003	84.298	10,601		8,432	
Total Title VI			10,601		11,756	
Drug Free Grant	043885 DR-S1 2002	84.186			1,641	
Drug Free Grant	043885 DR-S1 2003	84.186	7,001		5,168	
Total Drug Free Grant			7,001		6,809	
Eisenhower Professional Development State Grant	043885 MS-S1 2002	84.281	107		751	
Assistive Technology Infusion Project	043885 ATS2 2002	84.352A	11,337		11,337	
Assistive Technology Infusion Project	043885 ATS3 2002	84.352A	2,808		2,808	
Total Assistive Technology Infusion Project			14,145		14,145	
Technology Literacy	043885-TJS12003	84.318	2,340		2,015	
Improving Teacher Quality	043885 TRS1 2003	84.367	36,395		31,013	
Total U.S. Department of Education			312,046		310,815	
Total Federal Assistance			\$409,347	\$54,270	\$408,116	\$54,270

See accompanying notes to the schedule of federal awards expenditures.

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 2003**

NOTE A -- SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B -- CHILD NUTRITION CLUSTER

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



Auditor of State Betty Montgomery

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

Delphos City School District
Allen County
234 North Jefferson Street
Delphos, Ohio 45833

To the Board of Education:

We have audited the financial statements of Delphos City School District, Allen County (the District), as of and for the year ended June 30, 2003, and have issued our report thereon dated November 19, 2003, wherein we noted that the District implemented a new financial reporting model as required by the provisions of Governmental Accounting Standards Board Statement No. 34. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2003-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated November 19, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted others matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated November 19, 2003.

Delphos City School District
Allen County
Independent Accountants' Report on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

November 19, 2003



Auditor of State Betty Montgomery

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

Delphos City School District
Allen County
234 North Jefferson Street
Delphos, Ohio 45833

To the Board of Education:

Compliance

We have audited the compliance of Delphos City School District, Allen County, (the District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. Delphos City School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003. However, the result of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings as item 2003-002. We also noted an instance of noncompliance that does not require inclusion in this report that we have reported to management of the District in a separate letter dated November 19, 2003.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over federal compliance that does not require inclusion in this report that we have reported to management of the District in a separate letter dated November 19, 2003.

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



Betty Montgomery
Auditor of State

November 19, 2003

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2003**

1. SUMMARY OF AUDITOR'S RESULTS
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(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	Nutrition Cluster: CFDA #'s 10.550 & 10.555 Title VI-B: CFDA # 84.027
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2003
(Continued)**

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

Finding Number	2003-001
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Ohio Rev. Code Section 5705.41(D) states that no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditures lacking prior certificate should be considered null and void. If no certificate is issued at the time the contract or order is entered into, the fiscal officer may later certify that there were funds properly appropriated and in the treasury or in the process of collection and such funds are free from previous encumbrance both at the time the contract or order was entered into and at the time of payment. After certifying this, the fiscal officer may proceed to pay for such order or contract. If the amount involved is over \$1,000 (\$3,000 after April 7, 2003), the taxing authority must approve of such payment with 30 days of the date of the fiscal officer's certification.

Eighteen percent (18%) transactions tested were not properly certified during the audit period.

The District should review Ohio Rev. Code Section 5705.41(D) and implement procedures for certification of funds.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	2003-002
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CFDA Title and Number: National School Lunch Program/Nutrition Cluster – CFDA #10.550
Federal Award Number/Year: 2003
Federal Agency: United States Department of Agriculture
Pass-Through Agency: Ohio Department of Education

Non-Compliance - Eligibility

7 CFR 245.6(c) states the School Food Authorities verifying applications shall maintain on file for review a description of the verification to be accomplished. The description shall include:

- (1) A summary of the verification efforts including the techniques to be used;
- (2) the total number of applications on file by October 31;
- (3) the percentage or number of applications verified;
- (4) all verified applications must be readily retrievable by school and include all documents submitted by the household in an effort to confirm eligibility, reproductions of those documents, or annotations made by the determining official which indicate which documents were submitted by the household and the date of submission;
- (5) documentation of any changes in eligibility and the reasons for the changes; and
- (6) all relevant correspondences between the household selected for verification and the school food authority/school.

The District could not present for audit documentation of the verification for fiscal year 2003.

The District should maintain all their applicable verification documentation.

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY
JUNE 30, 2003**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 §.315 (b)**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer Valid</u> ; <i>Explain:</i>
2002-10202-001	Ohio Rev. Code Section 5705.41 (D) – Prior certification	No	Not Corrected, See Finding #2003-001

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY
JUNE 30, 2003**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 §.315 (c)**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2003-001	We plan to utilize "super blankets" to reduce these incidents. Also an increased awareness of regular purchase order dates and monthly Board approval of purchases that exceed \$3,000.	Immediately	School Treasurer
2003-002	The verification was done and lost due to either the move of our records to the new office facility, or the fact that there were none to take action on this year and so it was mis-filed. Special attention will be paid to the current verification being done and will be filed with the Superintendent's secretary in the new facility.	Immediately	School Treasurer



**Auditor of State
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

DELPHOS CITY SCHOOL DISTRICT

ALLEN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 6, 2004**