



**Auditor of State
Betty Montgomery**

**DELAWARE CITY SCHOOL DISTRICT
DELAWARE COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Delaware City School District
Delaware County
248 North Washington Street
Delaware, Ohio 43015

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Delaware City School District, Delaware County, Ohio, (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 Delaware City School District, Delaware County, Ohio, as of June 30, 2003, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 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 January 9, 2004, 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 have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

Betty Montgomery
Auditor of State

January 9, 2004

DELAWARE CITY SCHOOL DISTRICT

Delaware County, Ohio

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

The discussion and analysis of the Delaware City School District's financial performance provides an overall review 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; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2003 are as follows:

Overall:

- Total net assets decreased \$2.6 million, which represents a 23.7 percent decrease from fiscal year 2002.
- Total assets of governmental activities increased \$553,000, attributed to the increase in property and other local taxes receivables that was significantly offset by the reduction in capital assets due to current year depreciation.
- General revenues accounted for \$36.6 million or 89.6 percent of total revenue. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions account for \$4.2 million or 10.4 percent of total revenues of \$40.8 million.
- Of the School District's \$43.5 million in expenses, only \$4.2 million were offset by program specific charges for services, grants or contributions. General revenues (primarily grants and entitlements, and property taxes) were used to cover the net expense of \$39.2 million.
- The General Fund, the School District's most significant fund, had an ending fund balance of \$6.6 million or 59.9 percent of the total ending fund balance for governmental funds. The other two major funds, the Debt Service and Permanent Improvement Funds, had \$1.8 million or 16.5 percent and \$683,046 or 6.1 percent of the total ending fund balance for government funds, respectively. Of the three major funds, only the General Fund realized a decrease in fund balance during fiscal year 2003 due significantly to increasing operational costs realized during the year.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Delaware City School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

DELAWARE CITY SCHOOL DISTRICT

Delaware County, Ohio

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

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole School District, presenting both an aggregated view of the School District's finances and a longer-term view of those statements. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column. While the General Fund is by far the most significant fund at Delaware City School District, individual fund statements are also presented for the Debt Service and Permanent Improvement Funds since local property and other taxes are paid into these funds.

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains a large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2003?" The Statement of Net Assets and the Statement of Activities answers this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account, all of the current year's revenues and expenses regardless of when cash is received or paid.

These two 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 that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the School District reports governmental activities. Governmental activities are the activities where most of the School District's programs and services are including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. The School District does not have any business-type activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 14. Fund financial reports provide detailed information about the General, Debt Service and Permanent Improvement Funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds, and therefore only the major funds are presented separate from the other governmental funds.

DELAWARE CITY SCHOOL DISTRICT

Delaware County, Ohio

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

Governmental Funds

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

The School District as a Whole

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

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

TABLE 1
NET ASSETS (000's)

	<u>2003</u>	<u>2002</u>
<i>Assets</i>		
Current and Other Assets	\$ 35,452	\$ 34,394
Capital Assets	<u>44,364</u>	<u>44,869</u>
Total Assets	<u>79,816</u>	<u>79,263</u>
<i>Liabilities</i>		
Long-Term Liabilities	47,932	47,177
Other Liabilities	<u>23,396</u>	<u>20,955</u>
Total Liabilities	<u>71,328</u>	<u>68,132</u>
<i>Net Assets</i>		
Invested in Capital Assets, Net of Debt	447	(319)
Restricted	2,521	4,739
Unrestricted	<u>5,520</u>	<u>6,711</u>
Total Net Assets	\$ <u>8,488</u>	\$ <u>11,131</u>

The amount by which the School District's assets exceeded its liabilities is called net assets. As of June 30, 2003, the School District's net assets were \$8.5 million. Of that amount, approximately \$447,404 was invested in capital assets, net of debt related to those assets. Another \$2.5 million was subject to external restrictions upon its use. The remaining \$5.5 million was unrestricted and available for future use as directed by the Board of Education and the School District's Administration.

Table 2 shows the changes in net assets for fiscal year 2003. Since this is the first year the School District has prepared financial statements following 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 district-wide data will be presented.

DELAWARE CITY SCHOOL DISTRICT

Delaware County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
UnauditedTABLE 2
CHANGE IN NET ASSETS

	<u>2003</u>
Revenues	
Program Revenues:	
Charges for Services	\$ 1,862,265
Operating Grants and Contributions	2,312,075
Capital Grants and Contributions	69,022
General Revenues:	
Property Taxes	22,684,754
Grants and Entitlements	13,101,225
Other	<u>799,585</u>
Total Revenues	<u>40,828,926</u>
Program Expenses	
Instruction	21,565,326
Support Services:	
Pupils and Instructional Staff	4,190,399
Board of Education, Administration, Fiscal and Business	3,864,021
Plant Operation and Maintenance	5,554,510
Pupil Transportation	2,160,437
Central	143,754
Operation of Non-Instructional Services	1,194,627
Extracurricular Activities	1,208,973
Unallocated Depreciation	1,092,241
Interest and Fiscal Charges	<u>2,498,090</u>
Total Expenses	<u>43,472,378</u>
Decrease in Net Assets	\$ <u>(2,643,452)</u>

Governmental Activities

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a voted levy does not increase solely as a result of inflation. Property taxes made up 55.6 percent of revenues for governmental activities for the Delaware City School District for fiscal year 2003. In addition to property taxes, the School District relies on the intergovernmental revenues provided by the State of Ohio and the federal government to fund its operations; approximately 37.8 percent of the School District's total revenue was received from intergovernmental sources during fiscal year 2003.

Despite the decrease in net assets realized by the School District during fiscal year 2003, sufficient cash reserves were accumulated over the past few years to more than cover this decrease for the current year. The current ending governmental net assets not invested in capital assets of \$8.0 million represents approximately 18.5 percent of the School District governmental expenses. It is anticipated that as operating costs continue to increase and growth in revenue is limited, the cash reserves will be utilized to cover future decreases in net assets as well.

DELAWARE CITY SCHOOL DISTRICT

Delaware County, Ohio

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

Instruction comprises 49.6 percent of the School District's expenses for fiscal year 2003. Support services expenses make up 36.6 percent of the expenses.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted state entitlements. Comparisons to 2002 have not been made because they are not available.

Table 3
Total and Cost of Program Services
Governmental Activities
For Fiscal Year 2003

	Total Cost of Service	Net Cost of Service
Instruction	\$ 21,565,326	\$ 19,296,524
Support Services:		
Pupils and Instructional Staff	4,190,399	3,605,562
Board of Education, Administration, Fiscal and Business	3,864,021	3,864,021
Plant Operation and Maintenance	5,554,510	5,530,010
Pupil Transportation	2,160,437	2,094,095
Central	143,754	127,497
Operation of Non-Instructional Services	1,194,627	109,088
Extracurricular Activities	1,208,973	1,011,888
Unallocated Depreciation	1,092,241	1,092,241
Interest and Fiscal Charges	<u>2,498,090</u>	<u>2,498,090</u>
Total Expenses	\$ <u>43,472,378</u>	\$ <u>39,229,016</u>

Instructional expenses include activities directly dealing with the teaching of pupils and the interaction between teacher and pupil.

Pupils and instructional staff include the activities involved with assisting the staff with the contents and process of teaching to pupils.

Board of education, administration, fiscal and business includes expenses associated with administrative and financial supervision of the District.

Plant operation and maintenance activities involve keeping the school grounds, buildings, and equipment in an effective working condition, including normal repair and maintenance.

Pupil transportation includes activities involved with the conveyance of students to and from school, as well as to and from school activities, as provided by state law.

Central includes expenses related to planning, research, development and evaluation of support services, as well as the reporting of this information internally and to the public.

DELAWARE CITY SCHOOL DISTRICT

Delaware County, Ohio

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

Operation of non-instructional services includes the preparation, delivery and servicing of lunches, snacks and other incidental meals to students and school staff in connection with school activities, as well as services provided to the community at-large.

Extracurricular activities includes expenses related to student activities provided by the School District which are designed to provide opportunities for pupils to participate in school events, public events, or a combination of these for the purposes of motivation, enjoyment and skill improvement.

Unallocated depreciation represents current period depreciation charges associated with capital assets that are utilized by several different functions, typically school buildings throughout the District.

Interest and fiscal charges involves the transaction associated with the payment of interest and other related charges to debt of the School District.

The School District's Funds

Information about the School District's major funds begins on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$42.8 million and expenditures of \$44.2 million. The net change in fund balance was most significant in the General Fund, a decrease of \$1.2 million. Unreserved fund balance went from \$3.3 million in 2002 to \$3.9 million. Use of previously designated resources to finance certain expenditures as well as the inception of the capital lease more than offset the increase in operating costs, which resulted in the increase of unreserved fund balance for the governmental funds as of June 30, 2003. The other two major funds, the Bond Retirement and Permanent Improvement Funds, both experienced slight increases in fund balance during fiscal year 2003.

General Fund Budgeting Highlights

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

For the General Fund, budget basis revenue was \$31.7 million as compared to the original budget estimates of \$30.6 million. The vast majority of the unexpected revenues were realized as higher than expected levels of property and other local taxes were collected during the fiscal year.

Total actual expenditures on the budget basis (cash outlays plus encumbrances) were \$32.8 million, less than \$0.5 million higher than what was originally budgeted.

As the budget for the General Fund is amended throughout the fiscal year for unanticipated revenues and expenditures, the final amended budget amounts approximate the actual budgetary results realized by the School District.

DELAWARE CITY SCHOOL DISTRICT

Delaware County, Ohio

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

Capital Assets

At the end of fiscal year 2003, the School District had \$44.4 million invested in land, buildings, furniture and equipment, vehicles, and textbooks and library books in governmental activities. Table 4 shows fiscal year 2003 balances compared to 2002, however for greater detail readers should review the notes to the basic financial statements.

Table 4
Capital Assets at June 30 (in 000's)

	<u>2003</u>	<u>2002</u>
Land	2,453	2,050
Building and Improvements	49,492	49,160
Equipment	4,232	4,109
Vehicles	2,037	1,763
Textbooks & Library Books	2,546	2,546
Less: Accumulated Depreciation	<u>(16,397)</u>	<u>(14,759)</u>
Totals	<u>44,363</u>	<u>44,869</u>

Overall capital assets decreased approximately \$0.5 million from fiscal year 2002. This decrease in capital assets results from the current depreciation being charged against the assets being a greater amount than the amount of capital assets purchased by the School District during the year.

Since fiscal year 2000, Ohio law requires school districts to set aside three percent of certain revenues for capital improvements and an additional three percent for textbooks and instructional supplies. For fiscal year 2003, this amounts to approximately \$800,000 for each set aside requirement. Conversely, the School District spent approximately \$1.0 million in each of these areas during fiscal year 2003, which is significantly more than the amounts required.

Significant capital asset acquired during fiscal year 2003 consisted primarily of several parcels of land, construction of new bleachers and press box facility, and four new school buses. The School District acquired the land for the potential construction of additional instructional facilities at a cost of approximately \$400,000. The bleachers and press box at Gauthier Field were replaced at a total cost of slightly more than \$0.5 million. The four new school buses had a purchase price of approximately \$275,000.

Cost associated with repair and maintenance of the School District's facilities and other assets that do not extend the useful life of the capitalized item, is including within the plant operation and maintenance function.

DELAWARE CITY SCHOOL DISTRICT

Delaware County, Ohio

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

Debt Administration

At June 30, 2003, the School District had only three general obligation bonds outstanding with a combined outstanding principal of \$43.7 million, of which \$1.9 million is due within one year. All three of the bond issues were issued for the purpose of school building construction or improvements. Additional debt issues include capital leases and long-term notes payable. As of June 30, 2003 the School District had approximately \$2.1 million of capital lease principal payments due. The majority of this obligation is related to the renovation of the heating and air condition systems at school buildings throughout the District. The long-term notes were issued to facilitate energy conservation projects at the school buildings with the anticipated outcome being the savings realized from these projects would be sufficient to repay the debt. These notes are scheduled to be paid off over the next two fiscal years.

At June 30, 2003, the School District's overall legal debt margin was \$12.8 million and the unvoted debt margin was \$616,740.

For more detailed disclosures regarding the School District's debt obligations the reader should refer to the notes to the basic financial statements.

For the Future

Delaware City School District continues to struggle with increasing enrollment and the erosion of operating revenue brought on by a flawed state funding system. Recent legislative decisions continue to reduce operating funds through the planned phase out of the inventory tax base.

In order to address current and projected shortfalls, the Board of Education and administration implemented \$1.2 million in general fund budget cuts for the 2003-2004 school year. Due to the failure of the District's recent request for additional operating funds in November 2003, additional budget cuts will be forthcoming. In addition, the Delaware City Board of Education will place a new operating levy before the voters of the District in March 2004.

Despite the School District's uncertain financial picture, the Delaware City School system is in the process of writing its second Continuous Improvement Plan (CIP). The District's first CIP resulted in steady, if gradual, progress on all sub-test areas of the Ohio Proficiency Tests. The School District was rated as a "Continuous Improvement" district on the 2003 Local Report Card issued by the Ohio Department of Education.

The new CIP document will focus on the School District's improvement efforts for the next five years. Immediate needs include eliminating gaps in achievement among student groups while at the same time raising expectations and achievement of all students; aligning program efforts to state and federal accountability measurers; and, identifying ways to allocate School District resources to best support ever higher levels of student achievement. The CIP will clearly define the expectations the School District holds for staff regarding their professional development. It will also create strategies for improving the delivery of services to students and their families.

DELAWARE CITY SCHOOL DISTRICT

Delaware County, Ohio

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

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the Treasurer's Office at Delaware City School District, 248 North Washington Street, Delaware, OH 43015 or call (740) 833-1100.

**DELAWARE CITY SCHOOL DISTRICT
DELAWARE COUNTY, OHIO**

**STATEMENT OF NET ASSETS
JUNE 30, 2003**

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents	\$ 8,993,154
Investments	2,004,221
Materials and supplies inventory	116,195
Accrued interest receivable	17,149
Accounts receivable	43,898
Intergovernmental receivable	128,599
Prepaid items	140,594
Property and other local taxes receivables	24,007,916
Capital assets, net of accumulated depreciation	41,910,886
Land	2,453,020
Total Assets	79,815,632
Liabilities:	
Accounts payable	1,144,773
Accrued wages and benefits payable	3,153,053
Intergovernmental payable	656,809
Accrued interest payable	165,409
Matured compensated absences payable	78,817
Deferred revenue	18,197,676
Long Term Liabilities:	
Due within one year	2,813,808
Due in more than one year	45,117,817
Total Liabilities	71,328,162
Net Assets:	
Invested in capital assets, net of related debt	447,404
Restricted for:	
Debt service	1,825,645
Capital projects	310,370
Perpetual care:	
Expendable	248
Nonexpendable	4,200
Other purposes	380,099
Unrestricted	5,519,504
Total Net Assets	\$ 8,487,470

See accompanying notes to the basic financial statements.

**DELAWARE CITY SCHOOL DISTRICT
DELAWARE COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for services & sales	Operating grants and contributions	Capital grants and contributions	Total Governmental Activities
Governmental Activities:					
Instruction:					
Regular	\$ 16,014,002	\$ 888,802	\$ 404,328	\$ -	\$ (14,720,872)
Special	4,845,868	-	904,490	-	(3,941,378)
Vocational	306,698	-	-	-	(306,698)
Other	398,758	-	71,182	-	(327,576)
Support Services:					
Pupils	1,968,630	123,036	42,133	-	(1,803,461)
Instructional staff	2,221,769	-	419,668	-	(1,802,101)
Board of education	195,288	-	-	-	(195,288)
Administration	2,363,312	-	-	-	(2,363,312)
Fiscal	920,590	-	-	-	(920,590)
Business	384,831	-	-	-	(384,831)
Operation and maintenance of plant	5,554,510	-	-	24,500	(5,530,010)
Pupil transportation	2,160,437	21,820	-	44,522	(2,094,095)
Central	143,754	-	16,257	-	(127,497)
Operation of non-instructional services	1,194,627	727,204	358,335	-	(109,088)
Extracurricular activities	1,208,973	101,403	95,682	-	(1,011,888)
Interest and fiscal charges	2,498,090	-	-	-	(2,498,090)
Unallocated depreciation *	1,092,241	-	-	-	(1,092,241)
	\$ 43,472,378	\$ 1,862,265	\$ 2,312,075	\$ 69,022	(39,229,016)
General Revenues:					
Property taxes and other local taxes:					
					18,078,741
					972,654
					3,633,359
Grants and entitlements not restricted to specific programs					
					13,101,225
					177,652
					621,933
					36,585,564
					(2,643,452)
					11,130,922
					\$ 8,487,470

* - This amount excludes the depreciation that is included in the direct expense of the various functions.

**DELAWARE CITY SCHOOL DISTRICT
DELAWARE COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003

	General Fund	Debt Service Fund	Permanent Improvement Fund	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>					
Equity in pooled cash and cash equivalents	\$ 4,440,003	\$ 950,512	\$ 625,080	\$ 2,977,559	\$ 8,993,154
Investments	2,000,000	-	-	4,221	2,004,221
Materials and supplies inventory	92,624	-	-	23,571	116,195
Accrued interest receivable	14,876	-	319	1,954	17,149
Accounts receivable	22,978	-	-	20,920	43,898
Intergovernmental receivable	9,268	-	-	119,331	128,599
Prepaid items	140,594	-	-	-	140,594
Property and other local taxes receivable	19,154,236	3,824,134	1,029,546	-	24,007,916
Total Assets	<u>\$ 25,874,579</u>	<u>\$ 4,774,646</u>	<u>\$ 1,654,945</u>	<u>\$ 3,147,556</u>	<u>\$ 35,451,726</u>
<u>Liabilities and Fund Balances:</u>					
<u>Liabilities:</u>					
Accounts payable	\$ 219,336	\$ -	\$ 136,008	\$ 789,429	\$ 1,144,773
Accrued wages and benefits	2,935,807	-	-	217,246	3,153,053
Intergovernmental payable	513,132	-	-	143,677	656,809
Matured compensated absences payable	74,660	-	-	4,157	78,817
Deferred revenue	15,506,705	2,945,600	835,891	74,850	19,363,046
Total Liabilities	<u>19,249,640</u>	<u>2,945,600</u>	<u>971,899</u>	<u>1,229,359</u>	<u>24,396,498</u>
<u>Fund Balances:</u>					
<u>Reserved for:</u>					
Encumbrances	391,769	-	231,784	1,209,461	1,833,014
Property taxes	3,659,542	878,534	193,655	-	4,731,731
<u>Unreserved, designated:</u>					
Designated for budget stabilization	557,277	-	-	-	557,277
<u>Unreserved, undesignated, reported in:</u>					
General fund	2,016,351	-	-	-	2,016,351
Special revenue funds	-	-	-	383,812	383,812
Debt service fund	-	950,512	-	-	950,512
Capital projects funds	-	-	257,607	320,891	578,498
Permanent fund	-	-	-	4,033	4,033
Total Fund Balances	<u>6,624,939</u>	<u>1,829,046</u>	<u>683,046</u>	<u>1,918,197</u>	<u>11,055,228</u>
Total Liabilities and Fund Balances	<u>\$ 25,874,579</u>	<u>\$ 4,774,646</u>	<u>\$ 1,654,945</u>	<u>\$ 3,147,556</u>	<u>\$ 35,451,726</u>

See accompanying notes to the basic financial statements

**DELAWARE CITY SCHOOL DISTRICT
DELAWARE COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2003

Total Governmental Fund Balances:		\$ 11,055,228
 <u>Amounts reported for governmental activities in the statement of net assets are different because:</u>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		44,363,906
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		1,165,370
Long-term liabilities which are not due and payable in the current period and therefore not reported in the funds.		
Intergovernmental payable	(329,709)	
Compensated absences	(1,695,188)	
Accrued interest payable	(165,409)	
General obligation bonds payable	(43,662,840)	
Capital leases payable	(2,133,888)	
Long-term notes payable	<u>(110,000)</u>	
		<u>(48,097,034)</u>
 Net Assets of Governmental Activities		 <u><u>\$ 8,487,470</u></u>

**DELAWARE CITY SCHOOL DISTRICT
DELAWARE COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	General Fund	Debt Service Fund	Permanent Improvement Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Property and other local taxes	\$ 17,788,312	\$ 3,571,797	\$ 958,264	\$ -	\$ 22,318,373
Intergovernmental	12,851,257	386,020	105,124	2,173,587	15,515,988
Interest	225,671	5,844	5,541	19,223	256,279
Tuition and fees	279,355	-	-	545,604	824,959
Rentals	19,278	-	-	-	19,278
Extracurricular activities	-	-	-	349,976	349,976
Gifts and donations	-	-	-	124,951	124,951
Customer sales and services	11,040	-	-	792,807	803,847
Miscellaneous	152,519	-	13,742	179,119	345,380
Total Revenues	31,327,432	3,963,661	1,082,671	4,185,267	40,559,031
Expenditures:					
Current:					
Instruction:					
Regular	14,251,353	-	361,338	1,108,303	15,720,994
Special	3,869,803	-	-	910,369	4,780,172
Vocational	306,351	-	-	-	306,351
Other instruction	398,758	-	-	-	398,758
Support Services:					
Pupils	1,890,620	-	-	49,996	1,940,616
Instructional staff	1,590,050	-	-	509,410	2,099,460
Board of education	195,288	-	-	-	195,288
Administration	2,188,856	-	-	170,059	2,358,915
Fiscal	730,953	65,091	18,438	105,274	919,756
Business	226,106	-	162,167	-	388,273
Operation and maintenance of plant	3,567,497	-	1,887	121,008	3,690,392
Pupil transportation	1,747,749	-	235,857	10,780	1,994,386
Central	121,147	-	-	21,227	142,374
Non-instructional services	-	-	-	1,160,681	1,160,681
Extracurricular activities	675,990	-	-	301,049	977,039
Capital outlay	560,714	-	225,071	2,413,889	3,199,674
Debt Service:					
Principal retirement	50,000	1,725,000	26,868	-	1,801,868
Interest and fiscal charges	13,841	2,016,741	6,691	-	2,037,273
Total Expenditures	32,385,076	3,806,832	1,038,317	6,882,045	44,112,270
Excess of Revenues Over(Under) Expenditures	(1,057,644)	156,829	44,354	(2,696,778)	(3,553,239)
Other Financing Sources (Uses):					
Inception of Capital Lease	-	-	-	2,065,000	2,065,000
Operating Transfers-In	-	-	-	126,916	126,916
Operating Transfers-Out	(111,240)	-	-	(15,676)	(126,916)
Total Other Financing Sources (Uses)	(111,240)	-	-	2,176,240	2,065,000
Excess of Revenues and Other Financing Sources Over(Under) Expenditures and Other Financing Uses	(1,168,884)	156,829	44,354	(520,538)	(1,488,239)
Fund Balance at Beginning of Year - Restated	7,793,823	1,672,217	638,692	2,438,735	12,543,467
Fund Balance at End of Year	\$ 6,624,939	\$ 1,829,046	\$ 683,046	\$ 1,918,197	\$ 11,055,228

See accompanying notes to the basic financial statements

**DELAWARE CITY SCHOOL DISTRICT
DELAWARE COUNTY, OHIO**

RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Net Change in Fund Balances - Total Governmental Funds		\$ (1,488,239)
<u>Amounts reported for governmental activities in the statement of activities are different because:</u>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.		
Fixed asset additions	1,374,589	
Current year depreciation	<u>(1,657,295)</u>	
Total		(282,706)
Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the loss on the disposal of fixed assets.		
Loss on disposal of capital assets		(222,810)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	366,381	
Intergovernmental	(17,951)	
Interest	<u>(78,535)</u>	
Total		269,895
Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability.		
		(2,065,000)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
General obligation bonds	1,725,000	
Capital leases	26,868	
Long-term notes	<u>50,000</u>	
Total		1,801,868
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, and interest expenditure is reported when due.		
		(460,817)
Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represents contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Intergovernmental payable	(20,922)	
Compensated absences payable	<u>(174,721)</u>	
Total		<u>(195,643)</u>
Change in Net Assets of Governmental Activities		<u><u>\$ (2,643,452)</u></u>

See accompanying notes to the basic financial statements

**DELAWARE CITY SCHOOL DISTRICT
DELAWARE COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GENERAL FUND - BUDGET (NON-GAAP) AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final Revised		
Revenues:				
Taxes	\$ 17,587,905	\$ 18,137,258	\$ 18,137,258	\$ -
Intergovernmental	12,395,859	12,858,293	12,858,293	-
Interest	300,000	227,860	228,004	144
Tuition and Fees	157,520	285,380	285,727	347
Rentals	16,000	18,078	19,278	1,200
Extracurricular Activities	16,000	-	-	-
Customer Sales and Service	-	11,040	11,040	-
Miscellaneous	77,000	145,251	150,966	5,715
Total Revenues	30,550,284	31,683,160	31,690,566	7,406
Expenditures:				
Current:				
Instruction:				
Regular	14,559,412	14,355,559	14,355,019	540
Special	3,886,318	3,844,246	3,844,246	-
Vocational	294,823	307,192	307,192	-
Other Instruction	280,000	403,858	403,858	-
Support Services:				
Pupils	1,950,941	1,904,598	1,904,598	-
Instructional Staff	1,615,708	1,631,241	1,631,178	63
Board of Education	243,035	199,361	199,360	1
Administration	2,143,050	2,164,219	2,164,218	1
Fiscal	700,928	735,404	735,404	-
Business	232,487	230,019	230,019	-
Operation and Maintenance of Plant	3,684,935	3,805,444	3,805,447	(3)
Pupil Transportation	1,837,000	1,758,242	1,758,242	-
Central	153,654	128,175	128,175	-
Extracurricular Activities	747,169	694,575	694,575	-
Capital Outlay	1,000	598,715	598,715	-
Debt Service:				
Principal Retirement	50,000	50,000	50,000	-
Interest and Fiscal Charges	11,545	13,841	13,841	-
Total Expenditures	32,392,005	32,824,689	32,824,087	602
Excess of Revenues Over(Under) Expenditures	(1,841,721)	(1,141,529)	(1,133,521)	8,008
Other Financing Sources (Uses):				
Proceeds from Sale of Fixed Assets	-	20	20	-
Transfers-Out	(20,000)	(99,001)	(99,000)	1
Total Other Financing Sources (Uses)	(20,000)	(98,981)	(98,980)	1
Excess of Revenues and Other Financing Sources Over(Under) Expenditures and Other Financing Uses	(1,861,721)	(1,240,510)	(1,232,501)	8,009
Fund Balance at Beginning of Year	6,555,237	6,555,237	6,555,237	-
Prior Year Encumbrances Appropriated	592,970	592,970	592,970	-
Fund Balance at End of Year	\$ 5,286,486	\$ 5,907,697	\$ 5,915,706	\$ 8,009

See accompanying notes to the basic financial statements

**DELAWARE CITY SCHOOL DISTRICT
DELAWARE COUNTY, OHIO**

STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2003

	Private Purpose Trust	Agency Funds
Assets:		
Equity in pooled cash and cash equivalents	\$ 50,863	\$ 141,528
Investments	58,839	-
Accrued interest receivable	399	-
Accounts receivable	-	1,231
Total Assets	110,101	142,759
Liabilities:		
Accounts payable	20	12,153
Due to students	-	130,606
Total Liabilities	20	\$ 142,759
Net Assets:		
Held in trust for scholarships	\$ 110,081	

See accompanying notes to the basic financial statements

**DELAWARE CITY SCHOOL DISTRICT
DELAWARE COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Private Purpose Trust</u>
Additions:	
Investment Earnings	<u>\$ 1,688</u>
Total Additions	<u>1,688</u>
Deductions:	
Payments in accordance with trust agreements	<u>3,392</u>
Total Deductions	<u>3,392</u>
Change in Net Assets	(1,704)
Net Assets Beginning of Year	<u>111,785</u>
Net Assets End of Year	<u><u>\$110,081</u></u>

See accompanying notes to the basic financial statements

DELAWARE CITY SCHOOL DISTRICT

Delaware County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The Delaware City School District (School District) operates under a locally-elected five member board form of government and provides educational services mandated by state and, or federal agencies. This board controls the School District's eight instructional/support facilities staffed by 259 non-certificated employees, 292 certificated employees and 23 administrative employees to provide services to a student enrollment of 4,480 students.

The School District was established in 1871 through the consolidation of existing land areas and school districts and is organized under Section 2 and 3, Article VI of the Constitution of the State of Ohio. Under such laws, there is no authority for a school district to have a charter or adopt local laws. The legislative power of the School District is vested in the Board of Education, consisting of five members elected at large for staggered four-year terms.

The School District serves an area of approximately 41 square miles within Delaware County, including all of the City of Delaware, Ohio and portions of surrounding townships. The School District is the second largest in Delaware County in terms of enrollment. It currently operates five elementary schools, one intermediate school, one middle school and one comprehensive high school.

Reporting Entity

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the School District are not misleading.

The primary government consists of all funds and departments, not legally separate from the School District, which provide various services including instruction, student guidance, extracurricular activities, educational media and care and upkeep of grounds and buildings. The operation of each of these activities is directly controlled by the Board of Education.

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 body 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 for which the School District approves the budget, the issuance of debt or the levying of taxes.

The School District does not have any component units.

The District is associated with two organizations, which are defined as jointly governed. These organizations include the Tri-Rivers Educational Computer Association and the Delaware County Area Career Center. These organizations are presented in Note 17 to the basic financial statements.

DELAWARE CITY SCHOOL DISTRICT

Delaware County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Delaware 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 government-wide activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

A. Basis Of Presentation

The School District's basic financial statements consist of government-wide 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 year-end. The government-wide 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 and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the 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 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 rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into the categories governmental and fiduciary.

DELAWARE CITY SCHOOL DISTRICT

Delaware County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds

Governmental funds focus on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The General, Debt Service and Permanent Improvement Funds are the School District's major funds:

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 is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and the repayment of, the School District's general obligation debt, including the three school improvement bonds previously approved by voters within the School District's boundaries.

Permanent Improvement Fund – The Permanent Improvement Fund is used to account for financial resources, specifically property and other local taxes generated by the District's permanent improvement levy, to be used to maintain the School District's facilities, as well as provide for major equipment and instructional material purchases.

The other governmental funds of the School District account for grants and other resources, and capital projects of the School District 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 therefore not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District has various funds established to provide scholarships to its students that are classified as private-purpose trust funds. Funds used to account for the activity of the numerous student managed activities within the School District are classified as agency funds.

C. Measurement Focus

Government-wide Financial Statements

The government-wide financial statements are prepared using the 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.

DELAWARE CITY SCHOOL DISTRICT

Delaware County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Fiduciary funds are reported using the economic resources measurement focus.

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. Private purpose trust funds use the accrual basis of accounting. Differences in the accrual and modified accrual bases of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Revenues – Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. “Measurable” means the amount of the transaction can be determined, and “available” means collectible within the current fiscal year or 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.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an 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 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 a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed to be both measurable and available: property taxes available as an advance, grants, investment earnings, tuition, and student fees.

DELAWARE CITY SCHOOL DISTRICT

Delaware County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, have been 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 have also been reported as deferred revenue.

Expenditures/Expenses

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are recorded when the related liability is incurred, if measurable. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. The costs of accumulated unpaid vacation and sick leave are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by the employee. Allocation of costs, such as depreciation and amortization, are not recognized in governmental funds.

The accrual basis of accounting utilized on the government-wide financial statements and by private purpose trust funds recognizes revenues when they are earned, and expenses are recognized at the time they are incurred.

E. Budget Data

All funds, other than 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 appropriation 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 appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The Board has established the legal level of control at the fund, function, and object level within the individual funds.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue, are identified by the School District. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2003.

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

DELAWARE CITY SCHOOL DISTRICT

Delaware County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled in a central bank account. Monies for all funds are pooled in this account or temporarily used to purchase short-term investments. Individual fund integrity is maintained through the School District's records. Each fund's interest in the pool is presented on the balance sheet as "Equity in Pooled Cash and Cash Equivalents".

During fiscal year 2003, investments were limited to various government securities, certificates of deposit, repurchase agreements and STAR Ohio.

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

The School District has invested funds in the State Treasury Assets Reserves of Ohio (STAR Ohio) during fiscal year 2003. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2003.

For presentation purposes on the balance sheet, investments of the 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 considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

The School District has allocated interest according to Ohio statutes. Interest revenue credited to the General Fund during fiscal year 2003 amounted to \$225,671, which includes \$24,803 assigned from other funds. Interest was also recorded in the debt service, permanent improvement, non-major and private purpose trust funds in the amounts of \$5,844, \$5,541, \$19,223 and \$1,688, respectively.

G. Inventory

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

On fund financial statements, inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. The cost of inventory items is recorded as an expenditure in the governmental fund types when consumed rather than when purchased.

H. 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 and recording a current asset for the prepaid amount and reflecting the expenditure in the year in which services are consumed.

DELAWARE CITY SCHOOL DISTRICT

Delaware County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United State of America 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.

K. Fixed Assets and Depreciation

General capital assets generally result from expenditures in the governmental funds. These assets are reported within the governmental activities on the government-wide statement of net assets but are not reported in the fund statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements throughout the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also not capitalized.

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	50 years
Furniture and Equipment	3 – 10 years
Vehicles	10 years
Library and Text Books	5 – 10 years

L. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures or 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 and uses in governmental funds. Repayments from funds responsible for particular expenditures or expenses to the funds that initially paid for them are not presented on the financial statements.

M. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned when both of these conditions are met:

1. The employees' rights to receive compensation are attributable to services already rendered.
2. It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

DELAWARE CITY SCHOOL DISTRICT

Delaware County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A liability for sick leave is accrued using the vesting method which states that the District will estimate its liability based on sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments as specified by the retirement system as well as other employees who are expected to become eligible in the future to receive such payments. The amount is based on accumulated sick 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 sick leave for all employees after fifteen years of current service with the School District.

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

N. Accrued Liabilities and Long-Term Obligations

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

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

O. 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 balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

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

P. Reservations and Designations of Fund Balance

Reservations of fund balances are established to identify the existence of assets that, because of their non-monetary nature or lack of liquidity, represent financial resources not available for current appropriation or expenditure or the portion of fund balance that is legally segregated for a specific future use. Fund balances have been reserved for encumbrances and property taxes.

In addition, the School District has determined to maintain a budget stabilization account, and therefore, this account is shown on the fund financial statements as designated fund balance instead of reserved fund balance to indicate that the School District made the determination to set these funds aside.

DELAWARE CITY SCHOOL DISTRICT

Delaware County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES/RESTATEMENT OF FUND BALANCE

A. Changes 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 – and Management’s Discussion and Analysis - for State and Local Governments: Omnibus”, GASB Statement No. 38, “Certain Financial Statement Note Disclosures” 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 now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column. Fiduciary funds are reported by type.

The government-wide financial statements combine the governmental activities into one column. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2002, caused by the conversion to the new reporting model.

B. Restatement of Fund Balances

The School District reclassified certain funds due to the implementation of GASB 34. Enterprise funds were reclassified as special revenue, as were certain trust funds that provide support to school activities that were previously reported as expendable funds. Trust funds that are permanent in nature and provide support to school activities were reclassified as permanent funds from the non-expendable trust fund type previously used. GASB Interpretation No. 6 redefined how liabilities should be recognized in governmental funds that resulted in certain liabilities to be reported as long-term instead as an actual fund liability.

These restatements had the following effect on fund balance of major and nonmajor funds of the School District as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	<u>General</u>	<u>Debt Service</u>	<u>Permanent Improvement</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balance June 30, 2002	\$ 7,751,793	1,672,217	638,692	2,312,905	12,375,607
GASB 6 Interpretation	42,030	-	-	-	42,030
Reclassification of funds	-	-	-	125,830	125,830
Adjusted fund balance – June 30, 2002	<u>7,793,823</u>	<u>1,672,217</u>	<u>638,692</u>	<u>2,438,735</u>	12,543,467
GASB 34 Adjustments:					
Capital assets, net					44,869,422
Long-term liabilities					(308,787)
Long-term compensated absences					(1,520,467)
Long-term notes payable					(160,000)
Capital leases payable					(95,756)
General obligation bonds payable					(45,092,432)
Long-term (deferred) assets					895,475
Governmental Activities Net Assets – June 30, 2002					<u>\$ 11,130,922</u>

DELAWARE CITY SCHOOL DISTRICT

Delaware County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 4 - ACCOUNTABILITY

The following funds have fund equity deficits as of June 30, 2003:

	<u>Deficit Equity</u>
<u>Special Revenue Funds:</u>	
Food Services	\$ 6,493
Title VI(B)	11,655
Drug Free School	300
EHA Preschool	123

The deficits in the special revenue funds resulted from adjustments for accrued liabilities. Management expects the deficits in these funds to be corrected in early fiscal year 2004. The general fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur.

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 - 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 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 fund liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

<u>Net Change in Fund Balance</u>	
<u>General Fund</u>	
GAAP Basis	\$ (1,168,884)
Revenue Accruals	363,154
Expenditure Accruals	85,287
Transfers	12,240
Encumbrances	<u>(524,298)</u>
Budget Basis	<u>\$ (1,232,501)</u>

DELAWARE CITY SCHOOL DISTRICT

Delaware County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 6 - DEPOSITS AND INVESTMENTS

State statutes require the classification of monies held by the School District into three categories.

Category 1 consists of "active" monies, those monies required to be kept in a "cash" or "near-cash" status for immediate use by the District. Such monies must be maintained either as cash in the School Treasury, in depository accounts payable, withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Category 2 consists of "inactive" monies, those monies not required for use within the current five-year period of designation of depositories. Inactive monies may be deposited or invested as certificates of deposit maturing not later than the end of the current period of designation of depositories, or as savings or deposit accounts including, but not limited to, passbook accounts.

Category 3 consists of "interim" monies, 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 the 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 money deposited with the institution.

Interim monies may be invested in the following obligations:

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

Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal governmental agencies or instrumentalities;

Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

Bonds and other obligations of the State of Ohio;

No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

The State Treasurer's investment pool (STAR Ohio);

DELAWARE CITY SCHOOL DISTRICT

Delaware County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time;

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

Deposits

At fiscal year end, the carrying amount of the School District deposits was \$2,154,700 and the bank balance was \$2,181,347. Of the bank balance \$260,860 was covered by federal deposit insurance and the remaining amounts are collateralized with securities held by the pledging financial institution's trust department or agent in the School District's name.

Investments

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 or 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 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 District's name. The School District's investment in STAR Ohio, an investment pool operated by the Ohio State Treasurer, is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	Category 3	Carrying Amount
Repurchase Agreements	\$ 6,120,000	6,120,000
STAR Ohio	-	2,973,905
Total	\$ 6,120,000	9,093,905

The classification of cash and cash equivalents, and investments on the financial statements is based on criteria set forth in GASB Statement No. 9, "Reported Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting." Cash equivalents are defined to include investments with original maturities of three months or less.

A reconciliation between classifications of cash and cash equivalents and investments on the financial statements and the classification of deposits and investments presented above per GASB Statement No. 3 is as follows:

DELAWARE CITY SCHOOL DISTRICT

Delaware County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

	Cash and Cash Equivalents	
	<u>Deposits</u>	<u>Investments</u>
GASB Statement 9	\$ 9,185,545	\$ 2,063,060
Investments of the Cash Management Pool:		
Repurchase agreements	(6,120,000)	6,120,000
STAR Ohio	(2,973,905)	2,973,905
Certificates of Deposit	<u>2,063,060</u>	<u>(2,063,060)</u>
GASB Statement 3	<u>\$ 2,154,700</u>	<u>\$ 9,093,905</u>

NOTE 7 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility and tangible personal property located in the School District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State Law at 35 percent of appraised market value. All property is required to be reevaluated every six years. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are 25 percent of true value.

Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by July 20.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30 with the remainder payable by September 20.

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the Delaware City School District. The County Auditor periodically remits to the District its portion of the taxes collected. The full tax rate for all District operations for the year ended June 30, 2003 was \$68.17 per \$1,000 of assessed value. The assessed values upon which the fiscal year 2003 taxes were collected are as follows:

	<u>2003 First Half Collections</u>	<u>2002 Second Half Collections</u>
Agricultural/residential		
And other real estate	\$ 518,079,750	\$ 450,379,600
Public utility personal	20,505,600	18,871,680
Tangible personal property	<u>78,154,374</u>	<u>74,360,526</u>
Total	<u>\$ 616,739,724</u>	<u>\$ 543,611,806</u>

DELAWARE CITY SCHOOL DISTRICT

Delaware County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 7 - PROPERTY TAXES (Continued)

Property taxes receivable represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies that are measurable as of June 30, 2003. Although total property tax collections for the next year are measurable, only the amount available as an advance at June 30 is intended to finance current year operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2003 was recognized as revenue.

The amount available as an advance at June 30 was \$3,659,542 in the General Fund, \$878,534 in the Bond Retirement Debt Service Fund and \$193,655 in the Permanent Improvement Capital Projects Fund. These amounts have been set aside as a reservation of fund balance.

NOTE 8 - RECEIVABLES

Receivables at June 30, 2003, consisted of current and delinquent property taxes, accounts (rent and student fees), and intergovernmental grants. 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 fiscal year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
<u>Governmental Activities:</u>	
General Fund	\$ 9,268
Title VI-R Grant	73,820
Food Service Subsidy	44,697
Other Non-major Funds	814
Total Intergovernmental Receivables	<u>\$ 128,599</u>

NOTE 9 - CAPITAL ASSETS

	Balance 6/30/02	Additions	Deductions	Balance 6/30/03
<u>Capital Assets, not being depreciated</u>				
Land	\$ 2,049,657	\$ 403,363	\$ -	\$ 2,453,020
<u>Capital Assets, being depreciated</u>				
Buildings and Improvements	49,160,471	573,638	(242,058)	49,492,051
Furniture and Equipment	4,109,063	123,203	-	4,232,266
Vehicles	1,763,012	274,385	-	2,037,397
Library and Textbooks	2,546,227	-	-	2,546,227
	<u>57,578,773</u>	<u>971,226</u>	<u>(242,058)</u>	<u>58,307,941</u>
<u>Less: Accumulated Depreciation</u>				
Buildings and Improvements	(9,697,277)	(1,118,642)	19,248	(10,796,671)
Furniture and Equipment	(2,092,544)	(242,477)	-	(2,335,021)
Vehicles	(1,046,289)	(136,491)	-	(1,182,780)
Library and Textbooks	(1,922,898)	(159,685)	-	(2,082,583)
	<u>(14,759,008)</u>	<u>(1,657,295)</u>	<u>* 19,248</u>	<u>(16,397,055)</u>
Governmental Activities Capital Assets, Net	<u>\$ 44,869,422</u>	<u>\$ (282,706)</u>	<u>\$ (222,810)</u>	<u>\$ 44,363,906</u>

DELAWARE CITY SCHOOL DISTRICT

Delaware County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 9 - CAPITAL ASSETS (Continued)

* - Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$	203,199
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Support Services:

Instructional Staff		120,694
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Administration		6,406
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Operation and Maintenance of Plant		43,945
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Pupil Transportation		154,143
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Operation of Non-Instructional Services		28,946
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Extracurricular Activities		7,721
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565,054

Unallocated Depreciation		1,092,241
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Total Depreciation Expense	\$	<u>1,657,295</u>
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Unallocated depreciation is depreciation of the individual school buildings throughout the District, which essentially serve all functions/programs, and therefore is not included as a direct expense of any function or program but disclosed as a separate expense.

NOTE 10 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts, thefts-of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2003, the School District contracted with the Ohio School Plan for general liability insurance with a \$1 million single occurrence and a \$3 million aggregate limit. Property is protected by Hartford Insurance and holds a \$1,000 deductible per occurrence. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage for any part of the last three years.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary 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 a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002 and 2001 were \$744,150, \$760,380 and \$686,408 respectively; 30.84 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

DELAWARE CITY SCHOOL DISTRICT

Delaware County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

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

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

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. 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 the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations for the fiscal years ended June 30, 2003, 2002, and 2001 were \$2,369,384, \$2,296,506, and \$2,128,176 respectively; 84.03 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

DELAWARE CITY SCHOOL DISTRICT

Delaware County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 12 – POSTEMPLOYMENT BENEFITS

State Teachers Retirement System of Ohio (STRS Ohio) provides comprehensive healthcare benefits to retirees and their dependents. Coverage includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare part B premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Ohio Revised Code (R.C.), the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. The R.C. grants authority to STRS Ohio to provide health care coverage to benefit recipients, spouses and dependents. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Reserve Fund from which health care benefits are paid. For fiscal year ended June 30, 2003, the Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$169,242 during the 2003 fiscal year. The balance in the Health Care Reserve Fund was \$3.011 billion on June 30, 2002 (latest information available).

For the year ended June 30, 2002, net health care costs paid by STRS Ohio were \$354,697,000. There were 105,300 eligible benefit recipients.

For SERS, the Ohio Revised Code gives the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, 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.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, the allocation rate is 5.83 percent. 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 has been established at \$14,500. For the School, the amount to fund health care benefits, including the surcharge, was \$514,661.

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 (latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, the Retirement System's net assets available for payment of health care benefits of \$335.2 million. The number of benefit recipients currently receiving health care benefits is approximately 50,000.

DELAWARE CITY SCHOOL DISTRICT

Delaware County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 13 – OTHER EMPLOYEE BENEFITS

Compensated Absences

Accumulated Unpaid Vacation

District classified employees earn vacation leave at varying rates based upon negotiated agreements and State laws. In the case of death or retirement, an employee (or his estate) is paid for his unused vacation leave. The total obligation for vacation leave for the District as a whole amounted to \$135,794 at June 30, 2003.

Accumulated Unpaid Sick Leave

District employees may accumulate sick leave. Upon retirement, payment is made for one-fourth of the total unused sick leave balance up to a maximum of sixty days for certified and classified employees. The total obligation for sick leave accrual for the District as a whole as of June 30, 2003 was \$1,638,211.

NOTE 14 - LONG-TERM OBLIGATIONS

Long- term obligations at June 30, 2003 were as follows:

	Balance June 30, 2002	Increase	Decrease	Balance June 30, 2003	Due within One Year
General Obligation Bonds:					
1994 School Construction:					
Current Interest Serial 2.45-4.5%	\$1,235,000	\$ -	\$390,000	\$ 845,000	\$ 410,000
Capital Appreciation 5-5.35%	1,490,313	79,387	-	1,569,700	
Current Interest Term 5.2%	4,830,000	-	-	4,830,000	
1995 School Construction:					
Current Interest Serial 3.9-5.25%	4,095,000	-	750,000	3,345,000	780,000
Capital Appreciation 5.8-6.1%	2,406,642	145,308	-	2,551,950	
Current Interest Term 5.5-5.75%	11,615,000	-	-	11,615,000	
1998 School Construction					
Current Interest Serial 3.7-4.95%	4,705,000	-	585,000	4,120,000	680,000
Capital Appreciation 4.55-4.7%	1,510,477	70,713	-	1,581,190	
Current Interest Term 5-5.125%	13,205,000	-	-	13,205,000	
Total General Obligation Bonds	45,092,432	295,408	1,725,000	43,662,840	1,870,000
Energy Conservation Note Payable	160,000	-	50,000	110,000	55,000
Compensated Absences	1,442,017	474,400	221,229	1,695,188	145,000
Capital Lease Obligation	95,756	2,065,000	26,868	2,133,888	414,099
Intergovernmental Payable	242,339	329,709	242,339	329,709	329,709
Total General Long-Term Obligations	\$47,032,544	\$3,164,517	\$ 2,265,436	\$ 47,931,625	\$2,813,808

The School District's voted legal debt margin was \$12,794,247 and an unvoted debt margin of \$616,740 at June 30, 2003.

DELAWARE CITY SCHOOL DISTRICT

Delaware County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 14 - LONG-TERM OBLIGATIONS (Continued)

The general obligation bond issues will be paid through the debt service fund from property taxes collected by the County Auditor. The District issued general obligation debt for the following purposes:

- \$9,098,460, issued in fiscal year 1995 and maturing in fiscal year 2017, for the construction of an elementary school. These bonds include current interest serial bonds, capital appreciation bonds and current interest term bonds. The capital appreciation bonds will mature in 2005 through 2008. The maturity amount of the bonds is \$2,005,000. For fiscal year 2003, \$79,387 was accreted for a total bond value of \$1,569,700.
- \$19,899,306, issued in fiscal year 1995 and maturing in fiscal year 2020, for the construction of a new middle and high school. These bonds include current interest serial bonds, capital appreciation bonds and current interest term bonds. The capital appreciation bonds will mature in 2009-2012. The maturity amount of the bonds is \$4,050,000. For fiscal year 2003, \$145,308 was accreted for a total bond value of \$2,551,950.
- \$19,749,968, issued in fiscal year 1999 and maturing in fiscal year 2026, for the construction of a new middle school. These bonds include current interest serial bonds, capital appreciation bonds and current interest term bonds. The capital appreciation bonds will mature in 2005 through 2008. The maturity amount of the bonds is \$1,900,000. For fiscal year 2003, \$70,713 was accreted for a total bond value of \$1,581,190.

Principal and interest requirements to retire the District's long-term general obligation bonds outstanding at June 30, 2003 are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2004	\$1,870,000	\$1,936,123	\$3,806,123
2005	1,600,000	1,857,096	3,457,096
2006	1,610,505	2,354,070	3,964,575
2007	1,318,675	2,415,663	3,734,338
2008	1,352,153	2,398,718	3,750,871
2009 – 13	9,651,507	11,548,316	21,199,823
2014 – 18	12,255,000	5,318,686	17,573,686
2019 – 23	9,740,000	2,166,910	11,906,910
2024 - 26	4,265,000	328,125	4,593,125
Total	<u>\$43,662,840</u>	<u>\$30,323,707</u>	<u>\$73,986,547</u>

During fiscal year 1995, the School District issued \$513,198 in notes to provide funds for energy conservation improvements. Savings realized in the general fund operations due to the energy conservation measures will be used for the retirement of these obligations. Interest is payable in semi-annual installments at a rate of 5.95% a year through fiscal year 2004.

The intergovernmental payable represents the long-term portion of the pension obligation payable to the School Employees Retirement System. Compensated absences represent the long-term portion of the accrued liability associated with sick and vacation leave. These items will be repaid from the funds from which the employees work to whom the liability is associated with or the General Fund if no such funds are available. The capital lease obligations are being repaid with revenues from the permanent improvement capital project fund.

DELAWARE CITY SCHOOL DISTRICT

Delaware County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 15 - CAPITAL LEASES - LESSEE DISCLOSURE

During the year, the School District entered into a capitalized lease for HVAC upgrades at various school facilities. The lease meets 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. Capital outlay expenditures will be made out of the building fund as they are incurred. The issuance of the capital lease was recorded as inception of capital lease proceeds. Capital lease payments will be reflected as debt service expenditures in the basic financial statements for the governmental funds. The terms of the lease includes an option that would allow the School District to satisfy their obligation at any time by paying principal plus accrued interest, otherwise lease payments are renewable every year for the next five years. In prior years, the School District entered into several other leases deemed to be capital leases.

Capital assets acquired by lease have been capitalized in the statement of net assets for governmental activities in the amount of \$137,918, which is equal to the present value of the minimum lease payments at the time of acquisition plus the unspent proceeds of the HVAC capital lease. A corresponding liability was split between long-term liabilities due within a year and long-term liabilities due within more than one year on the statement of net assets for governmental activities. Principal payments in fiscal year 2003 totaled \$26,868.

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>Fiscal Year Ending June 30,</u>	<u>Lease Payments</u>
	2004	\$ 497,286
	2005	497,430
	2006	467,054
	2007	463,078
	2008	<u>456,775</u>
Total Minimum Lease Payments		2,381,623
Less: Amount Representing Interest		<u>(247,735)</u>
Present Value of Minimum Lease Payments		\$ <u>2,133,888</u>

NOTE 16 - INTERFUND ACTIVITY

During the year ended June 30, 2003, the School District forgave the current portion of an interfund loan from the General fund to the Food Service fund. A transfer from the General Fund to the Food Service was made to remove the liability and make the transfer of funds permanent.

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amount</u>
General Fund:	Food Service Fund	\$ 91,240
	District Managed Activities Fund	20,000
Non-Major Funds:		
Title II	Title II-A	<u>15,676</u>
	Total Transfers Out/In	<u>\$ 126,916</u>

DELAWARE CITY SCHOOL DISTRICT

Delaware County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 16 - INTERFUND ACTIVITY (Continued)

The transfers from the General Fund to the special revenues were to provide operating resources for the athletic and food service programs. The transfer from the special revenue to the other special revenue was transfer remaining funds from one grant to another similar grant fund.

NOTE 17 – JOINTLY GOVERNED ORGANIZATIONS

Tri-Rivers Educational Computer Association

The School District is a participant in the Tri-Rivers Educational Computer Association (TRECA), which is a computer consortium. TRECA is an association of public schools within the boundaries of Delaware, Knox, Marion, Morrow, Muskingum, and Wyandot Counties. 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 districts.

The governing board of TRECA consists of one representative from each county elected by a majority vote of all charter member school districts within each county, one representative from the city school districts and the superintendent from Tri-Rivers Joint Vocational School. Financial information can be obtained from Mike Carder, who serves as Director, at 2222 Marion Mt. Gilead Road, Marion, Ohio 43302.

Delaware Area Career Center

The Delaware Joint Area Career Center (Career Center) is a distinct political subdivision of the State of Ohio, which provides vocational education. The Career Center operates under the direction of a Board consisting of one representative from each of the ten participating school district's Board of Education. The degree of control exercised by the School District is limited to its representation on the Board. The Board possesses its own budgeting and taxing authority. Financial information can be obtained from the Treasurer's Office at 4565 Columbus Pike Road, Delaware, Ohio 43015.

NOTE 18 - CONTINGENCIES

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.

Litigation

The School District is party to legal proceedings. The School District is of the opinion that the ultimate disposition of claims will not have a material effect, if any, on the financial condition of the School District.

DELAWARE CITY SCHOOL DISTRICT

Delaware County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 19 - 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 decision 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 20 - SET-ASIDE CALCULATIONS AND FUND RESERVES

The School District is required by State statute to annually set aside monies for the purchase of textbooks and other instructional materials, and for capital improvements. Amounts not spent by year-end or reduced by offsetting credits must be held in cash at year-end and carried forward to be used for the same purpose in future years. Excess of offsets and qualifying disbursements over the set-aside requirement during the year for textbooks and other instructional materials may carry forward to the next year to reduce the set-aside requirement of future years.

	<u>Textbooks</u>	<u>Capital Spending</u>	<u>Totals</u>
Set-aside Reserve Balance as of June 30, 2002	\$ (381,047)	\$ -	\$ (381,047)
Current Year Set-aside Requirement	803,599	803,599	1,607,198
Qualifying Disbursements	(984,109)	(1,080,846)	(2,064,955)
Total	<u>\$ (561,557)</u>	<u>\$ (277,247)</u>	<u>\$(838,804)</u>
Balance Carried forward to FY 2004	<u><u>\$(561,557)</u></u>	<u><u>\$ -</u></u>	

Although the School District had qualifying disbursements during the year that reduced the set-aside below zero for capital acquisition, the extra amounts may not be used to reduce the set-aside requirements of future years.

In previous years, the Board of Education determined to maintain the budget stabilization account, which previously was required by State Legislation. During the fiscal year, the School District had expenditures totaling \$564,236 that were paid out of the budget stabilization account. Funds remaining in the budget stabilization account totaled \$557,277 at June 30, 2003 and are shown as designated fund balance on the governmental funds' balance sheet.

DELAWARE CITY SCHOOL DISTRICT

Delaware County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

NOTE 21 – CONTRACTUAL COMMITMENTS

As of June 30, 2003 the School District had outstanding contracts for goods and professional services as follows:

<u>Company</u>	<u>Amount Remaining On Contract</u>
Dorsey Construction	\$356,447
Dynaelectric Company of Ohio	119,124
Gateway Mechanical	117,419
J.A. Guy, Inc.	289,973
OBS, Inc.	204,741
Vaughn Industries	656,306

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**DELAWARE CITY SCHOOL DISTRICT
DELAWARE COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<u>United States Department of Agriculture</u>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Donation	NA	10.550	\$ -	\$ 66,616	\$ -	\$ 66,616
School Breakfast Program	043877-05PU-2002/2003	10.553	13,366	-	13,366	-
National School Lunch Program	043877-LLP4-2003	10.555	258,056	-	258,056	-
Total Nutrition Cluster/Total United States Department of Agriculture			271,422	66,616	271,422	66,616
<u>Unites States Department of Education</u>						
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	043877-C1S1-2002/2003	84.010	443,025	-	431,235	-
Special Education Cluster:						
Special Education_Grants to States	043877-6BSF-2002P/2003P	84.027	577,099	-	536,843	-
Special Education_Preschool Grant	043877-PGS1-2003P	84.173	27,724	-	39,909	-
Total Special Education Cluster			604,823	-	576,752	-
Safe and Drug-Free Schools and Communities_State Grants	043877-DRS1-2002/2003	84.186	35,307	-	19,077	-
Goals 2000_State and Local Education Systematic Improvement Grants	043877-G2SP-2001	84.276	-	-	726	-
Eisenhower Professional Development State Grants	043877-MSS1-2001/2002	84.281	(15,785)	-	9,630	-
Innovative Educational Program Strategies	043877-C2S1-2001/2002/2003	84.298	27,480	-	31,641	-
Technology Literacy Challenge Fund Grants	043877-TJS1-2003	84.318	11,297	-	11,297	-
Comprehensive School Reform Demonstration	043877-RFS1-2001/2002	84.332	60,174	-	57,910	-
Class Size Reduction	043877-CRS1-2000/2002	84.340	(40,896)	-	5,000	-
School Renovation Grants	043877-ATS2/S3-2002	84.352	9,109	-	9,109	-
Improving Teacher Quality State Grants	043877-TRS1-2003	84.367	247,248	-	152,279	-
Total United States Department of Education			1,381,782	-	1,304,656	-
<u>United States Department of Health and Human Services</u>						
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medical Assistance Program	043877	93.778	123,036	-	123,036	-
<u>Corporation for National and Community Service</u>						
<i>Passed Through Ohio Department of Education:</i>						
Learn and Serve America_School and Community Based Programs	043877-SVS1-2003/SVS2-2002	94.004	14,930	-	642	-
Totals			\$ 1,791,170	\$ 66,616	\$ 1,699,756	\$ 66,616

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

**DELAWARE CITY SCHOOL DISTRICT
DELAWARE COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2003**

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and 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 non-monetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

NOTE C--TRANSFERABILITY

During Fiscal Year 2003, the Ohio Department of Education eliminated the Eisenhower Professional Development Grant and the Class Size Reduction Grant. The negative receipts associated with the elimination of those grants have been reported as receipts of the Improving Teacher Quality Grant program.



Auditor of State Betty Montgomery

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

Delaware City School District
Delaware County
248 North Washington Street
Delaware, Ohio 43015

To the Board of Education:

We have audited the financial statements of Delaware City School District, Delaware County, Ohio (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated January 9, 2004, wherein we noted the District adopted Governmental Accounting Standards Board Statement No. 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instance of noncompliance that we have reported to management of the District in a separate letter date January 9, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the District in a separate letter dated January 9, 2003.

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Delaware City School District
Delaware 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 audit committee, 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.

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

Betty Montgomery
Auditor of State

January 9, 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

Delaware City School District
Delaware County
248 North Washington Street
Delaware, Ohio 43015

To the Board of Education:

Compliance

We have audited the compliance of Delaware City School District, Delaware County, Ohio, (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. The 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 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. We noted certain instances of noncompliance that do not require inclusion in this report that we have reported to the management of the District in a separate letter dated January 9, 2004.

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.

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**Internal Control Over Compliance
(Continued)**

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. We noted other matters involving the internal control over federal compliance that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated January 9, 2004.

This report is intended for the information and use of the audit committee, 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

January 9, 2004

**DELAWARE CITY SCHOOL DISTRICT
DELAWARE COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Title I Grants to Local Educational Agencies, CFDA #84.010: Medical Assistance Program, CFDA #93.778: Child Nutrition Cluster – Food Distribution, School Breakfast Program, National School Lunch Program CFDA #s 10.550, 10.553, 10.555
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



**Auditor of State
Betty Montgomery**

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DELAWARE CITY SCHOOL DISTRICT

DELAWARE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 10, 2004**