



Mary Taylor, CPA
Auditor of State

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets – June 30, 2006	9
Statement of Activities – for the fiscal year ended June 30, 2006.....	10
Fund Financial Statements:	
Balance Sheet - Governmental Funds – June 30, 2006.....	11
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities – June 30, 2006	12
Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds – for the fiscal year ended June 30, 2006.....	13
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to Statement of Activities – For the fiscal year ended June 30, 2006	14
Statement of Revenues, Expenditures, and Change in Fund Balance Budget and Actual – Non GAAP Budget Basis - General Fund – For the fiscal year ended June 30, 2006.....	15
Statement of Fiduciary Net Assets - Fiduciary Funds – June 30, 2006.....	16
Statement of Change in Fiduciary Net Assets - Fiduciary Fund – For the fiscal year ended June 30, 2006.....	17
Notes to the Basic Financial Statements	19
Schedule of Federal Awards Expenditures.....	42
Notes to the Schedule of Federal Awards Expenditures	43
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	45
Independent Accountants' Report on Compliance with Requirements Applicable to Major Federal Programs and on Internal Control over Compliance in Accordance with OMB Circular A-133.....	47
Schedule of Findings.....	49

This page intentionally left blank.



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Delphos City School District, Allen County, (the School District), as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Delphos City School District, Allen County, as of June 30, 2006, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2007, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402
Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688
www.auditor.state.oh.us

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, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Mary Taylor, CPA
Auditor of State

April 19, 2007

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED**

The discussion and analysis of Delphos City School District's (the School District) financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the School District's financial performance as a whole.

HIGHLIGHTS

Highlights for fiscal year 2006 are as follows:

- The School District received the first full fiscal year's collection of the recently passed 5.5 mill levy. In November 2004, the voters approved a 5.5 mill five-year operating levy. Collections began January 1, 2005. The tax generates approximately \$910,000 annually.
- The negotiations with the certified employees in the summer of 2005 provided for a salary increase of 3 percent for fiscal year 2006.
- In January 2006, the employees adopted a change to their health care plan from a "first care plus" to "network plus" policy. The change in the plan has saved the School District \$600 per family monthly premium and eliminated the employee share of medical insurance premiums.

USING THIS ANNUAL REPORT

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

The statement of net assets and the statement of activities provide information about the activities of the School District as a whole, presenting both an aggregate and a longer-term view of the School District. Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term and what remains for future spending. Fund financial statements report the School District's most significant funds individually and the School District's non-major funds in a single column. The School District's major fund is the General Fund.

REPORTING THE SCHOOL DISTRICT AS A WHOLE

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2006. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

REPORTING THE SCHOOL DISTRICT'S MOST SIGNIFICANT FUNDS

Fund financial statements provide detailed information about the School District's major funds. The School District's major governmental fund is the General Fund. While the School District uses many funds to account for its financial transactions, this is the most significant.

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1 provides a summary of the School District's net assets for fiscal year 2006 and fiscal year 2005.

Assets	Governmental Activities	
	2006	2005
Current and Other Assets	\$6,268,836	\$5,936,950
Capital Assets, Net	4,440,840	4,338,024
Total Assets	10,709,676	10,274,974
Liabilities		
Current and Other Liabilities	6,124,395	6,138,903
Long-Term Liabilities	694,487	645,188
Total Liabilities	6,818,882	6,784,091
Net Assets		
Invested in Capital Assets, Net of Related Debt	4,440,840	4,290,024
Restricted	312,500	227,040
Unrestricted (Deficit)	(862,546)	(1,026,181)
Total Net Assets	\$3,890,794	\$3,490,883

Net assets did not change significantly from fiscal year 2005.

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

Table 2 reflects the change in net assets for fiscal year 2006 and fiscal year 2005.

**Table 2
Change in Net Assets**

	Governmental Activities	
	2006	2005
Revenues		
Program Revenues		
Charges for Services	\$1,048,785	\$1,007,136
Operating Grants, Contributions, and Interest	1,719,403	1,747,663
Capital Grants and Contributions	37,370	74,295
Total Program Revenues	<u>2,805,558</u>	<u>2,829,094</u>
General Revenues		
Property Taxes	5,139,435	4,797,299
Payment in Lieu of Taxes	41,959	41,959
Grants and Entitlements not Restricted to Specific Programs	2,902,104	2,840,780
Interest	32,110	23,294
Miscellaneous	15,349	13,104
Total General Revenues	<u>8,130,957</u>	<u>7,716,436</u>
Total Revenues	<u>10,936,515</u>	<u>10,545,530</u>
Expenses		
Instruction:		
Regular	4,311,522	4,212,823
Special	841,205	831,831
Vocational	547,503	576,600
Support Services:		
Pupils	493,953	427,494
Instructional Staff	511,913	386,785
Board of Education	16,917	20,149
Administration	807,008	840,109
Fiscal	300,484	291,209
Operation and Maintenance of Plant	722,247	621,126
Pupil Transportation	451,094	416,217
Central	11,274	11,576
Noninstructional Services	1,125,587	1,237,941
Extracurricular Activities	395,475	435,224
Intergovernmental	422	3,280
Interest and Fiscal Charges		2,519
Total Expenses	<u>10,536,604</u>	<u>10,314,883</u>
Increase in Net Assets	399,911	230,647
Net Assets at Beginning of Year	<u>3,490,883</u>	<u>3,260,236</u>
Net Assets at End of Year	<u><u>\$3,890,794</u></u>	<u><u>\$3,490,883</u></u>

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

Program revenues stayed relatively the same between fiscal year 2005 and fiscal year 2006. The School District's program revenues consisted of tuition and fees, charges for providing lunches to students, transportation services to other school districts, and grants for specified purposes. The majority of general revenues consisted of property taxes and unrestricted grants and entitlements. These amounts increased over fiscal year 2005 because property tax revenues from the November 2004 levy were collected for a full fiscal year.

Costs for providing instruction continued to be 54 percent of total expenses for the School District. The percentage of total expenses for support services, non-instructional, and extracurricular activities also stayed relatively constant. Support services includes costs associated with providing support to pupils and teachers, along with expenses relating to the administration, maintenance of buildings, and transportation of students. Non-instructional expenses consist of food services and of costs associated with Delphos St. Johns parochial school.

Governmental Activities

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements.

**Table 3
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2006	2005	2006	2005
Instruction:				
Regular	\$4,311,522	\$4,212,823	\$3,636,777	\$3,594,303
Special	841,205	831,831	144,100	161,721
Vocational	547,503	576,600	467,635	508,022
Support Services:				
Pupils	493,953	427,494	390,656	325,504
Instructional Staff	511,913	386,785	511,913	386,785
Board of Education	16,917	20,149	16,917	20,149
Administration	807,008	840,109	807,008	840,109
Fiscal	300,484	291,209	300,484	291,209
Operation and Maintenance of Plant	722,247	621,126	619,949	523,946
Pupil Transportation	451,094	416,217	427,009	398,812
Central	11,274	11,576	11,274	11,576
Noninstructional Services	1,125,587	1,237,941	92,242	160,444
Extracurricular Activities	395,475	435,224	304,660	257,410
Intergovernmental	422	3,280	422	3,280
Interest and Fiscal Charges		2,519		2,519
Total Expenses	\$10,536,604	\$10,314,883	\$7,731,046	\$7,485,789

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

The School District funds 75 percent of total instruction costs, 93 percent of support services costs, and 77 percent of extracurricular activities costs with property taxes and unrestricted grants and entitlements, which is comparable to fiscal year 2005. Program revenues for extracurricular activities consist primarily of music and athletic fees, ticket sales, and gate receipts.

Several of the School District's programs receive substantial support through program revenues. For instance, special instruction received 83 percent of its funding through operating grants restricted to special education purposes. Noninstructional services received 92 percent of its resources through user charges from cafeteria sales, state and federal subsidies, and donated commodities for food services. The School District also receives a large amount of operating grants for the number of students receiving their education through the parochial school which is reported within noninstructional services.

GOVERNMENTAL FUNDS FINANCIAL ANALYSIS

The School District's governmental funds are accounted for using the modified accrual basis of accounting. The School District's major governmental fund is the General Fund. Revenues increased in the General Fund in fiscal year 2006 principally from receiving a full year's collection of the 5.5 mill operating levy that was approved in November 2004. Expenditures did not increase significantly from fiscal year 2005.

BUDGETARY HIGHLIGHTS

The School District prepares an annual budget of revenues and expenditures for all funds of the School District for use by School District officials and department heads and prepares such other budgetary documents as are required by State statute. The School District's most significant budgeted fund is the General Fund. During fiscal year 2006, the School District amended its General Fund budget as needed.

Estimated revenues were not modified during the fiscal year. Actual revenues collected were within one percent of final budgeted revenues. The final appropriations increased insignificantly from the original budget. Actual expenditures were \$106,717 less than final appropriations, or slightly over one percent.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The primary increase in capital assets was from the replacement of two school buses, new radios, and a fire alarm system. Note 10 provides additional details regarding capital assets.

Debt - The School District's long-term obligations include compensated absences. Note 16 provides additional details regarding these obligations.

CURRENT ISSUES

For fiscal year 2007, the School District has experienced decreases in approved federal grants except for IDEA-B. The Board of Education has adopted appropriations slightly higher than those in fiscal year 2006 due to increases in salaries as approved through union negotiations.

The School District is unique in that the public school has a population of approximately 1,100 students and the parochial school within the School District has a population of approximately 1,000 students, also made up of resident students. The significant number of students attending the parochial school reduces the School District's basic aid funding and other funding, such as parity aid and building funds. Therefore, the School District receives less State aid than other school districts of similar size.

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

REQUEST FOR INFORMATION

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

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2006**

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$627,756
Accounts Receivable	8,185
Intergovernmental Receivable	39,896
Prepaid Items	5,036
Inventory Held for Resale	14,171
Materials and Supplies Inventory	20,047
Property Taxes Receivable	5,553,745
Nondepreciable Capital Assets	197,035
Depreciable Capital Assets, Net	4,243,805
Total Assets	10,709,676
Liabilities	
Accrued Wages and Benefits Payable	817,268
Accounts Payable	115,115
Matured Compensated Absences Payable	61,374
Special Termination Benefits Payable	45,453
Intergovernmental Payable	208,586
Deferred Revenue	4,876,599
Long-Term Liabilities	
Due Within One Year	18,593
Due in More Than One Year	675,894
Total Liabilities	6,818,882
Net Assets	
Invested in Capital Assets	4,440,840
Restricted for:	
Capital Projects	125,186
Other Purposes	187,314
Unrestricted (Deficit)	(862,546)
Total Net Assets	\$3,890,794

See accompanying notes to the basic financial statements.

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Program Revenues			Net (Expense) Revenue and Change in Net Assets	
Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants and Contributions	Governmental Activities	
Governmental Activities					
Instruction:					
Regular	\$4,311,522	\$594,627	\$66,818	\$13,300	(\$3,636,777)
Special	841,205	31,323	665,782		(144,100)
Vocational	547,503		67,008	12,860	(467,635)
Support Services:					
Pupils	493,953	85,547	17,750		(390,656)
Instructional Staff	511,913				(511,913)
Board of Education	16,917				(16,917)
Administration	807,008				(807,008)
Fiscal	300,484				(300,484)
Operation and Maintenance					
of Plant	722,247	1,298	101,000		(619,949)
Pupil Transportation	451,094		12,875	11,210	(427,009)
Central	11,274				(11,274)
Noninstructional Services	1,125,587	258,741	774,604		(92,242)
Extracurricular Activities	395,475	77,249	13,566		(304,660)
Intergovernmental	422				(422)
Total Governmental Activities	\$10,536,604	\$1,048,785	\$1,719,403	\$37,370	(7,731,046)
General Revenues					
Property Taxes Levied for:					
					4,842,003
					297,432
					41,959
					2,902,104
					32,110
					15,349
					8,130,957
					399,911
					3,490,883
					\$3,890,794

See accompanying notes to the basic financial statements.

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006**

	General	Other Governmental	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$170,614	\$445,932	\$616,546
Accounts Receivable	7,805	380	8,185
Intergovernmental Receivable	13,441	26,455	39,896
Interfund Receivable	7,591		7,591
Prepaid Items	5,036		5,036
Inventory Held for Resale	2,747	11,424	14,171
Materials and Supplies Inventory	14,700	5,347	20,047
Restricted Assets			
Equity in Pooled Cash and Cash Equivalents	11,210		11,210
Property Taxes Receivable	5,261,028	292,717	5,553,745
Total Assets	5,494,172	782,255	6,276,427
Liabilities and Fund Balances			
Liabilities			
Accrued Wages and Benefits Payable	721,751	95,517	817,268
Accounts Payable	36,929	78,186	115,115
Matured Compensated Absences Payable	61,374		61,374
Intergovernmental Payable	177,087	31,499	208,586
Interfund Payable		7,591	7,591
Deferred Revenue	4,648,134	255,458	4,903,592
Total Liabilities	5,645,275	468,251	6,113,526
Fund Balances			
Reserved for Property Taxes	611,405	38,040	649,445
Reserved for Bus Purchases	11,210		11,210
Reserved for Encumbrances	23,809	92,132	115,941
Unreserved, Reported in			
General Fund (Deficit)	(797,527)		(797,527)
Special Revenue Funds		149,308	149,308
Capital Projects Funds		34,524	34,524
Total Fund Balances (Deficit)	(151,103)	314,004	162,901
Total Liabilities and Fund Balances	\$5,494,172	\$782,255	\$6,276,427

See accompanying notes to the basic financial statements.

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2006**

Total Governmental Fund Balances		\$162,901
Amounts reported for governmental activities on the statement of net assets are different because of the following:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		4,440,840
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:		
Intergovernmental Receivable	\$861	
Property Taxes Receivable	26,132	
	<u>26,993</u>	26,993
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
Compensated Absences Payable	(694,487)	
Special Termination Benefits Payable	(45,453)	
	<u>(739,940)</u>	(739,940)
Net Assets of Governmental Activities		<u><u>\$3,890,794</u></u>

See accompanying notes to the basic financial statements.

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>General</u>	<u>Other Governmental</u>	<u>Total</u>
Revenues			
Property Taxes	\$4,841,809	\$297,425	\$5,139,234
Payment in Lieu of Taxes	41,959		41,959
Intergovernmental	3,159,877	1,359,795	4,519,672
Interest	32,110	9,664	41,774
Tuition and Fees	625,950		625,950
Charges for Services		260,039	260,039
Extracurricular Activities		162,796	162,796
Gifts and Donations	2,358	134,807	137,165
Miscellaneous	11,391	3,958	15,349
Total Revenues	<u>8,715,454</u>	<u>2,228,484</u>	<u>10,943,938</u>
Expenditures			
Current:			
Instruction:			
Regular	4,174,560	81,550	4,256,110
Special	451,231	381,790	833,021
Vocational	529,189	12,876	542,065
Support Services:			
Pupils	379,876	100,719	480,595
Instructional Staff	500,328	4,914	505,242
Board of Education	16,917		16,917
Administration	776,356	3,231	779,587
Fiscal	285,478	13,050	298,528
Operation and Maintenance of Plant	652,489	46,774	699,263
Pupil Transportation	408,159		408,159
Central	974	10,300	11,274
Noninstructional Services		1,105,333	1,105,333
Extracurricular Activities	278,326	106,230	384,556
Capital Outlay		250,941	250,941
Intergovernmental		422	422
Debt Service:			
Principal Retirement	48,000		48,000
Total Expenditures	<u>8,501,883</u>	<u>2,118,130</u>	<u>10,620,013</u>
Excess of Revenues Over Expenditures	213,571	110,354	323,925
Other Financing Sources (Uses)			
Sale of Capital Assets		3,000	3,000
Transfers In		14,000	14,000
Transfers Out	(14,000)		(14,000)
Total Other Financing Sources (Uses)	<u>(14,000)</u>	<u>17,000</u>	<u>3,000</u>
Changes in Fund Balances	199,571	127,354	326,925
Fund Balances (Deficit) at Beginning of Year	<u>(350,674)</u>	<u>186,650</u>	<u>(164,024)</u>
Fund Balances (Deficit) at End of Year	<u><u>(\$151,103)</u></u>	<u><u>\$314,004</u></u>	<u><u>\$162,901</u></u>

See accompanying notes to the basic financial statements.

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR FISCAL YEAR ENDED JUNE 30, 2006**

Changes in Fund Balances - Total Governmental Funds \$326,925

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

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

Nondepreciable Capital Assets	\$70,350	
Depreciable Capital Assets	246,429	
Depreciation	<u>(206,024)</u>	110,755

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

Proceeds from Sale of Capital Assets	(3,000)	
Loss from Disposal of Capital Assets	<u>(4,939)</u>	(7,939)

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

Property Taxes	201	
Intergovernmental	<u>(7,624)</u>	(7,423)

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

48,000

Some expenses reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Compensated Absences Payable	(97,299)	
Separation Benefits Payable	<u>26,892</u>	<u>(70,407)</u>

Change in Net Assets of Governmental Activities \$399,911

See accompanying notes to the basic financial statements.

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL - NON GAAP BUDGET BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property Taxes	\$4,960,751	\$4,960,751	\$4,708,841	(\$251,910)
Payment in Lieu of Taxes	42,000	42,000	41,959	(41)
Intergovernmental	3,003,000	3,003,000	3,158,345	155,345
Interest	25,000	25,000	31,118	6,118
Tuition and Fees	571,000	571,000	625,868	54,868
Gifts and Donations	16,000	16,000	1,358	(14,642)
Miscellaneous	10,000	10,000	4,050	(5,950)
Total Revenues	8,627,751	8,627,751	8,571,539	(56,212)
Expenditures				
Current:				
Instruction:				
Regular	3,872,245	3,999,224	3,898,666	100,558
Special	390,236	425,757	451,951	(26,194)
Vocational	257,648	260,361	279,488	(19,127)
Other	438,369	438,369	496,958	(58,589)
Support Services:				
Pupils	390,159	390,309	355,620	34,689
Instructional Staff	435,616	468,616	493,755	(25,139)
Board of Education	30,820	30,820	14,586	16,234
Administration	808,858	799,858	774,432	25,426
Fiscal	283,298	283,298	283,352	(54)
Operation and Maintenance of Plant	660,316	735,316	630,886	104,430
Pupil Transportation	357,105	390,759	405,780	(15,021)
Central	1,275	1,275	1,209	66
Extracurricular Activities	241,986	241,986	272,548	(30,562)
Capital Outlay	20,000	20,000	20,000	
Debt Service:				
Principal Retirement	48,000	48,000	48,000	
Total Expenditures	8,235,931	8,533,948	8,427,231	106,717
Excess of Revenues Over Expenditures	391,820	93,803	144,308	50,505
Other Financing Sources (Uses)				
Advances In	30,000	30,000	35,000	5,000
Advances Out	(60,000)	(76,000)	(35,000)	41,000
Transfers Out	(20,000)	(20,000)	(14,000)	6,000
Total Other Financing Sources (Uses)	(50,000)	(66,000)	(14,000)	52,000
Changes in Fund Balance	341,820	27,803	130,308	102,505
Fund Balance at Beginning of Year	9,840	9,840	9,840	
Prior Year Encumbrances Appropriated	12,251	12,251	12,251	
Fund Balance at End of Year	\$363,911	\$49,894	\$152,399	\$102,505

See accompanying notes to the basic financial statements.

DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

	<u>Private Purpose Trust</u>	<u>Agency</u>
Assets		
Equity in Pooled Cash and Cash Equivalents	\$7,258	<u><u>\$88,647</u></u>
Liabilities		
Due to Students		<u><u>\$88,647</u></u>
Net Assets		
Held in Trust for Scholarships	<u><u>\$7,258</u></u>	

See accompanying notes to the basic financial statements.

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**STATEMENT OF CHANGE IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Private Purpose Trust
Additions	
Gifts and Donations	\$5,700
Deductions	
Noninstructional Services	<u>6,565</u>
Change in Net Assets	(865)
Net Assets at Beginning of Year	<u>8,123</u>
Net Assets at End of Year	<u><u>\$7,258</u></u>

See accompanying notes to the basic financial statements.

This page intentionally left blank.

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1862 with the consolidation of existing land areas and school districts. The School District serves an area of approximately fifty-three square miles. It is located in Allen and Van Wert Counties, and includes all of the City of Delphos and portions of Marion and Washington Townships. The School District is the 455TH largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by fifty-two classified employees, eighty-two certified teaching personnel, and ten administrative employees who provide services to 1,104 students and other community members. The School District currently operates four instructional buildings, two bus garages, and one administrative building.

A. Reporting Entity

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. As of June 30, 2006, there were no component units of the School District.

The following activity is included within the reporting entity:

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

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

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

1. 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. These statements usually distinguish between those activities of the School District that are governmental activities (primarily supported by taxes and intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges). However, the School District has no business type activities.

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

2. Fund Financial Statements

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

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting

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

1. Governmental Funds

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

The School District's only major fund is the General Fund.

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

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

2. Fiduciary Funds

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

C. Measurement Focus

1. Government-Wide Financial Statements

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

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Fund Financial Statements

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

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

D. Basis of Accounting

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

1. Revenues - Exchange and Nonexchange Transactions

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

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

Under the modified accrual basis, the following revenue sources are considered both measurable and available at fiscal year end: property taxes available as an advance, grants, interest, tuition, student fees, and charges for services.

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Deferred Revenues

Deferred revenues arise when assets are recognized before revenue recognition criteria has been satisfied. Property taxes for which there was an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, are recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

3. Expenses/Expenditures

On the accrual basis, expenses are recognized at the time they are incurred.

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

E. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the revised tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The revised tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of control selected by the Board is the object level for the General Fund and Permanent Improvement capital projects fund and the fund level for all other funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education. Budgetary allocations at the function level within the General Fund and Permanent Improvement capital projects fund and the function and object level in all other funds are made by the Treasurer.

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

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

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Investments

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

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2006 was \$32,110, which includes \$10,837 assigned from other School District funds.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Inventory

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

I. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions or enabling legislation.

Restricted assets in the General Fund represent unexpended revenues restricted for bus purchases.

J. Capital Assets

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

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

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

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

<u>Description</u>	<u>Useful Lives</u>
Land Improvements	10 - 20 years
Buildings and Building Improvements	30 - 100 years
Furniture, Fixtures, and Equipment	5 - 20 years
Vehicles	15 years

K. Interfund Assets/Liabilities

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

L. Compensated Absences

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

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

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

M. Accrued Liabilities and Long-Term Obligations

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

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

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants. The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The School District did not have any net assets restricted by enabling legislation at June 30, 2006.

O. Fund Balance Reserves

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

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

P. Interfund Transactions

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

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

Q. Extraordinary and Special Items

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

R. Estimates

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

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

3. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2006, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets". GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets and insurance recoveries. The implementation of this statement did not result in any change to the School District's financial statements.

4. ACCOUNTABILITY

Accountability

At June 30, 2006, the General Fund and the Title V and Title IIA special revenue funds had deficit fund balances of \$151,103, \$91, and \$48, respectively, resulting from adjustments for accrued liabilities.

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 Change in Fund Balance - Budget and Actual (Non-GAAP Budget Basis) for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are as follows:

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

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

5. BUDGETARY BASIS OF ACCOUNTING (Continued)

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

Change in Fund Balance

GAAP Basis	\$199,571
Increase (Decrease) Due To:	
Revenue Accruals:	
Accrued FY 2005, Received in Cash FY 2006	479,075
Accrued FY 2006, Not Yet Received in Cash	(621,998)
Expenditure Accruals:	
Accrued FY 2005, Paid in Cash FY 2006	(1,010,713)
Accrued FY 2006, Not Yet Paid in Cash	984,999
Cash on Hand at Beginning of Year	692
Cash on Hand at End of Year	(1,684)
Prepaid Items	131,382
Inventory Held for Resale	2,626
Materials and Supplies Inventory	1,690
Encumbrances Outstanding at Fiscal Year End	<u>(35,332)</u>
Budget Basis	<u>\$130,308</u>

6. DEPOSITS AND INVESTMENTS

Monies held by the School District are classified by State statute into three categories.

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

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

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

Interim monies held by the School District may be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

6. DEPOSITS AND INVESTMENTS (Continued)

2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time; and
9. Under limited circumstances, corporate debt interests rated in either of the two highest rated classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the 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.

Deposits - Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At June 30, 2006, the carrying amount of deposits was \$723,661 and the bank balance was \$907,470 of which \$807,470 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

The School District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

7. RECEIVABLES

Receivables at June 30, 2006, consisted of accounts (student fees and billings for user charged services), intergovernmental, interfund, and property taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

Governmental Activities	Amount
General Fund	\$13,441
Other Governmental Funds	
Permanent Improvement Fund	77
Secondary Vocational Education	861
Title I	16,546
Drug Free	218
Title II A	1,553
Vocational Enhancements	7,200
Total Other Governmental Funds	26,455
Total Intergovernmental Receivables	\$39,896

8. PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2006 represent the collection of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed values as of January 1, 2005, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. For fiscal year 2006, the manufactured home settlement from Allen County was delayed beyond fiscal year end.

Public utility property tax revenues received in calendar year 2006 represent the collection of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien on December 31, 2004, were levied after April 1, 2005, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

8. PROPERTY TAXES (Continued)

Tangible personal property tax revenues received in calendar year 2006 (other than public utility property) represent the collection of calendar year 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2006, on the value as of December 31, 2005. In prior years, tangible personal property was assessed at 25 percent of true value for capital assets and 23 percent for inventory. The tangible personal property tax is being phased out. The assessment percentage for all property, including inventory, for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008, and zero for 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30. For fiscal year 2006, the settlement from Allen County was delayed beyond fiscal year end.

The School District receives property taxes from Allen and Van Wert Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2006, and for which there was an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 and the late personal property tax settlement were levied to finance current fiscal year operations and are reflected as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2006, was \$611,405 in the General Fund and \$38,040 in the Permanent Improvement capital projects fund. The amount available as an advance at June 30, 2005, was \$479,926 in the General Fund and \$11,933 in the Permanent Improvement capital projects fund.

The late settlement made by the County for fiscal year 2006 was \$1,489 in the General Fund and \$80 in the Permanent Improvement capital projects fund.

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

The assessed values upon which fiscal year 2006 taxes were collected are:

	2005 Second- Half Collections		2006 First- Half Collections	
	Amount	Percent	Amount	Percent
Real Property	\$135,809,560	80.11%	\$141,426,940	84.83%
Public Utility	4,930,200	2.91%	4,737,060	2.84%
Tangible Personal	28,791,380	16.98%	20,553,751	12.33%
Total Assessed Value	<u>\$169,531,140</u>	<u>100.00%</u>	<u>\$166,717,751</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$47.40		\$47.40	

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

9. PAYMENT IN LIEU OF TAXES

According to State law, the School District has entered into agreements with two property owners under which the School District has granted property tax abatements to those property owners. The property owners have agreed to make payments to the School District which reflect all or a portion of the property taxes which the property owners would have paid if their taxes had not been abated. The agreements are for a ten year period. The property owners' contractually promise to make these payments in lieu of taxes until the agreement expires.

10. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

Governmental Activities	Balance at 6/30/05	Additions	Reductions	Balance at 6/30/06
Non-depreciable Capital Assets				
Land	\$126,685			\$126,685
Construction in Progress		\$70,350		70,350
Total Non-depreciable Capital Assets	<u>126,685</u>	<u>70,350</u>		<u>197,035</u>
Depreciable Capital Assets				
Land Improvements	1,368,321	14,707		1,383,028
Buildings and Building Improvements	3,946,336			3,946,336
Improvements Other Than Buildings	20,930			20,930
Furniture, Fixtures, and Equipment	1,564,584	107,744	(\$36,104)	1,636,224
Vehicles	760,926	123,978	(68,640)	816,264
Total Depreciable Capital Assets	<u>7,661,097</u>	<u>246,429</u>	<u>(104,744)</u>	<u>7,802,782</u>
Less Accumulated Depreciation				
Land Improvements	(907,945)	(27,858)		(935,803)
Buildings and Building Improvements	(1,370,676)	(47,027)		(1,417,703)
Improvements Other Than Buildings	(2,094)	(697)		(2,791)
Furniture, Fixtures, and Equipment	(812,141)	(84,237)	35,029	(861,349)
Vehicles	(356,902)	(46,205)	61,776	(341,331)
Total Accumulated Depreciation	<u>(3,449,758)</u>	<u>(206,024)</u>	<u>96,805</u>	<u>(3,558,977)</u>
Depreciable Capital Assets, Net	<u>4,211,339</u>	<u>40,405</u>	<u>(7,939)</u>	<u>4,243,805</u>
Governmental Activities Capital Assets, Net	<u>\$4,338,024</u>	<u>\$110,755</u>	<u>(\$7,939)</u>	<u>\$4,440,840</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$62,482
Special	3,419
Vocational	2,905
Support Services:	
Pupils	3,420
Instructional Staff	10,231
Administration	13,082
Fiscal	2,167
Operation and Maintenance of Plant	15,819
Pupil Transportation	46,704
Noninstructional Services	5,920
Extracurricular Activities	39,875
Total Depreciation Expense	<u>\$206,024</u>

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

11. INTERFUND ASSETS/LIABILITIES

At June 30, 2006, the General Fund had an interfund receivable, in the amount of \$7,591, from other governmental funds to provide cash flow resources until the receipt of grant monies.

12. RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006, the School District contracted for the following insurance coverage.

Coverage provided by Schools of Ohio Risk Sharing Authority is as follows:

General Liability	
Per Occurrence	\$2,000,000
Aggregate	4,000,000
Excess Liability	3,000,000
Building and Contents	26,417,284
Automobile Liability	2,000,000

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

During fiscal year 2006, the School District participated in the Schools of Ohio Risk Sharing Authority, an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant.

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

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The intent of the Plan is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the Plan.

Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to participants that can meet the Plan's selection criteria.

The firm of Gates McDonald & Co., provides administrative, cost control, and actuarial services to the Plan.

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

13. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

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

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all of their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age fifty and termination of employment.

The CP offers features of both the DBP and DCP. In the CP, member contributions are invested by the member and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The School District's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2006, 2005, and 2004 was \$588,931, \$564,600 and \$541,179, respectively; 83 percent has been contributed for fiscal year 2006 and 100 percent has been contributed for fiscal years 2005 and 2004. Contributions for the DCP and CP for the fiscal year ended June 30, 2006, were \$814 made by the School District and \$4,589 made by plan members.

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

13. DEFINED BENEFIT PENSION PLANS (Continued)

B. School Employees Retirement System

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute an actuarially determined rate. The rate for fiscal year 2006 was 14 percent of annual covered payroll; 10.58 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board.

The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 was \$94,906, \$92,336, and \$77,335, respectively; 45 percent has been contributed for fiscal year 2006 and 100 percent has been contributed for fiscal years 2005 and 2004.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2006, all of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

14. POSTEMPLOYMENT BENEFITS

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

STRS retirees who participated in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2006, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount was \$45,365.

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

14. POSTEMPLOYMENT BENEFITS (Continued)

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.5 billion at June 30, 2006. For the fiscal year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000, and STRS had 119,184 eligible benefit recipients.

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

For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. For the School District, the amount to fund health care benefits, including the surcharge, was \$44,313 for fiscal year 2006.

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, 2006, were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants currently receiving health care benefits.

15. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

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

B. Health Care Benefits

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

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

15. OTHER EMPLOYEE BENEFITS (Continued)

C. Special Termination Benefits

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

16. LONG-TERM OBLIGATIONS

Changes in the School District's long-term obligations during fiscal year 2006 were as follows:

<u>Governmental Activities</u>	<u>Balance at 6/30/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/06</u>	<u>Amounts Due Within One Year</u>
General Long-Term Obligations					
Capital Leases - 0 - 4.75%	\$48,000		\$48,000		
Compensated Absences Payable	597,188	\$129,337	32,038	\$694,487	\$18,593
Total Governmental Activities					
Long-Term Obligations	<u>\$645,188</u>	<u>\$129,337</u>	<u>\$80,038</u>	<u>\$694,487</u>	<u>\$18,593</u>

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

The School District's overall debt margin was \$12,730,997 with an unvoted debt margin of \$141,456 at June 30, 2006.

17. CAPITALIZED LEASES – LESSEE DISCLOSURE

The School District had entered into capitalized leases for a parking lot and building. The leases met 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 lease payments are reflected as debt service expenditures on the statement of revenues, expenditures, and changes in fund balances for governmental funds. Assets, consisting of a building and parking lot, have been capitalized in the amount of \$180,000 and \$60,000, respectively. The capital leases were fully retired during fiscal year 2006. Principal payments in fiscal year 2006 were \$48,000.

	<u>Governmental Activities</u>
Depreciable Assets	
Land Improvements	\$60,000
Buildings	180,000
Total Property under Capital Lease	<u>240,000</u>
Accumulated Depreciation	
Land Improvements	(8,667)
Buildings	(18,777)
Total Accumulated Depreciation	<u>(27,444)</u>
Total June 30, 2006	<u>\$212,556</u>

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

18. SET ASIDES

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

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2006.

	Textbooks	Capital Improvements
Balance June 30, 2005	(\$311,704)	\$0
Current Year Set Aside Requirement	163,456	163,456
Qualifying Expenditures	(159,016)	
Current Year Offsets		(163,456)
Balance June 30, 2006	(\$307,264)	\$0

19. INTERFUND TRANSFERS

During fiscal year 2006, the General Fund made transfers to the other governmental funds, in the amount of \$14,000, to subsidize the food service program.

20. JOINTLY GOVERNED ORGANIZATIONS

A. West Central Ohio Regional Professional Development Center

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

The Center is governed by a fifty-two member board made up of representatives from the participating school districts, the business community, and two institutions of higher learning. The degree of control exercised by any participating school district is limited to its representation on the Board.

Financial information can be obtained from Sandy Knudson, Hancock County Educational Service Center, 7746 County Road 140, Findlay, Ohio 45840.

B. West Central Ohio Special Education Regional Resource Center

The West Central Ohio Special Education Regional Resource Center (SERRC) is a jointly governed organization formed to initiate, expand, and improve special education programs and services for children with disabilities and their parents.

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

20. JOINTLY GOVERNED ORGANIZATIONS (Continued)

The SERRC is governed by a fifty-two member board consisting of the superintendent from the fifty participating school districts, one representative from a non-public school, and one representative from Wright State University. The degree of control exercised by any participating school district is limited to its representation on the Board.

Financial information can be obtained from Krista Hart, Hardin County Educational Service Center, 1121 West Lima Street, Suite A, Kenton, Ohio 43326-2385.

C. Northwest Ohio Area Computer Services Cooperative

The School District is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC), which is a computer consortium. NOACSC is an association of educational entities within the boundaries of Allen, Hancock, Mercer, Paulding, Putnam, and Van Wert Counties, and the Cities of St. Marys and Wapakoneta.

The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member educational entities.

The governing board of NOACSC consists of two representatives from each county elected by majority vote of all charter member educational entities within each county. During fiscal year 2006, the School District paid \$15,747 to NOACSC for various services.

Financial information can be obtained from Ray Burden, who serves as Director, 645 South Main Street, Lima, Ohio 45804.

D. Vantage Joint Vocational School

The Vantage Joint Vocational School (JVS) is a distinct political subdivision of the State of Ohio which provides vocational education. The JVS operates under the direction of a Board consisting of one representative from each of the twelve participating school districts' Board of Education. The Board possesses its own budgeting and taxing authority. The degree of control exercised by the School District is limited to its representation on the Board.

Financial information can be obtained from the Vantage Joint Vocational School, 818 North Franklin Street, Van Wert, Ohio 45891-1304.

21. INSURANCE POOLS

A. Schools of Ohio Risk Sharing Authority

The School District participates in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. SORSA is an incorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services.

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

21. INSURANCE POOLS (Continued)

SORSA's business and affairs are conducted by a board consisting of nine superintendents and treasurers, as well as an attorney, an accountant, and four representatives from the pool's administrator, Willis Pooling. Willis Pooling is responsible for processing claims and established agreements between SORSA and its members.

Financial information can be obtained from Willis Pooling, 655 Metro Place South, Dublin, Ohio 43017.

B. Allen County Schools Health Benefit Plan

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

Each school district decides which plans offered by the Board of Directors will be extended to its employees. Participation in the Plan is by written application subject to acceptance by the Board of Directors and payment of the monthly premiums.

Financial information can be obtained from the Allen County Educational Service Center, 1920 Slabtown Road, Lima, Ohio 45801.

C. Ohio School Boards Association Workers' Compensation Group Rating Plan

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

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

22. RELATED ORGANIZATION

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

Although the School District serves as the taxing authority, its role is limited to a ministerial function. The determination to request approval of a tax, the rate, and the purpose are discretionary decisions made solely by the Board of Trustees. In May, 2003, a five year .6 mill levy was passed for operational purposes. Collection of the property tax began in calendar year 2004. Financial information can be obtained from the Delphos Community Public Library, 309 West Second Street, Delphos, Ohio 45833.

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

23. CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2006.

B. Litigation

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

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR YEAR ENDED JUNE 30, 2006**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
(Passed through Ohio Department of Education)						
Food Distribution Program	N/A	10.550		\$64,846		\$64,846
Nutrition Cluster:						
National School Lunch Program	043885-LLP4-2006	10.555	\$121,800		\$121,800	
Total U.S. Department of Agriculture			121,800	64,846	121,800	64,846
U.S. DEPARTMENT OF EDUCATION						
(Passed through Ohio Department of Education)						
Title I, Part A, IASA	043885-C1S1-2005 043885-C1S1-2006	84.010	(4,367) 103,453		23,819 89,764	
Total Title I			99,086		113,583	
IDEA-B, Special Education Grants to States	043885-6BSF-2005 043885-6BSF-2006	84.027			4,868 348,922	
Total IDEA-B			357,952		353,790	
Drug Free Grant	043885-DR-S1-2004 043885-DR-S1-2005 043885-DR-S1-2006	84.186			50 943 6,718	
Total Drug Free Grant			7,010		7,711	
Title VI, Innovative Education Program Strategies	043885-C2S1-2005 043885-C2S1-2006	84.298			1,238 5,586	
Total Title VI			5,588		6,824	
Technology Literacy	043885-TJS1-2005 043885-TJS1-2006	84.318			448 2,333	
Total Technology Literacy			2,524		2,781	
Improving Teacher Quality	043885-TRS1-2005 043885-TRS1-2006	84.367	1,648 36,382		4,513 37,935	
Total Improving Teacher Quality			38,030		42,448	
Total U.S. Department of Education			510,190		527,137	
Total Federal Assistance			\$631,990	\$64,846	\$648,937	\$64,846

See accompanying notes to the schedule of federal awards expenditures.

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 2006**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FOOD DISTRIBUTION PROGRAM

Program regulations do not require the School 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 - CHILD NUTRITION CLUSTER

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

NOTE D - PROGRAM YEAR TRANSFERS

The negative receipt recorded on the schedule for CFDA #84.010 represents a transfer between the 2005 and 2006 program years within the same CFDA #. These transfers are recorded as a negative receipt in the transferring fund/special cost center and a positive receipt in the receiving fund/special cost center.

NOTE E - MATCHING REQUIREMENTS

Certain Federal programs require that the School District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The School District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

This page intentionally left blank.



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Delphos City School District, Allen County, (the School District), as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements and have issued our report thereon dated April 19, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School District's management dated April 19, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the School District's management dated April 19, 2007, we reported other matters related to noncompliance we deemed immaterial.

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402
Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688
www.auditor.state.oh.us

Delphos City School District
Allen County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required By *Government Auditing Standards*
Page 2

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

A handwritten signature in black ink that reads "Mary Taylor". The script is cursive and fluid.

Mary Taylor, CPA
Auditor of State

April 19, 2007



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

Compliance

We have audited the compliance of Delphos City School District, Allen County, (the School District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the School District's major federal program. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its major federal program. Our responsibility is to express an opinion on the School 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District's compliance with those requirements.

In our opinion, the School District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

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

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402
Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688
www.auditor.state.oh.us

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

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

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

Mary Taylor, CPA
Auditor of State

April 19, 2007

**DELPHOS CITY SCHOOL DISTRICT
ALLEN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 .505
JUNE 30, 2006**

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):	CFDA #84.027: IDEA B, Special Education
<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



Mary Taylor, CPA
Auditor of State

DELPHOS CITY SCHOOL DISTRICT

ALLEN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 15, 2007**