



**Auditor of State  
Betty Montgomery**



**DELAWARE CITY SCHOOL DISTRICT  
DELAWARE COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Delaware City School District, Delaware County, Ohio, (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Delaware City School District, Delaware County, Ohio, as of June 30, 2004, 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 January 13, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

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

**Betty Montgomery**  
Auditor of State

January 13, 2005

# DELAWARE CITY SCHOOL DISTRICT

Delaware County, Ohio

## Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2004 Unaudited

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The discussion and analysis of the Delaware City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the School District's financial performance.

### **Financial Highlights**

Key financial highlights for fiscal year 2004 are as follows:

*Overall:*

- Total net assets decreased \$587,000, which represents a 6.9 percent decrease from fiscal year 2003.
- Total assets of governmental activities increased \$948,000, attributed to the improvements to the heating, ventilation and air condition systems throughout the School District which were capitalized.
- General revenues accounted for \$34.5 million or 87.0 percent of total revenue. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions account for \$5.2 million or 13.0 percent of total revenues of \$39.7 million.
- Of the School District's \$40.3 million in expenses, only \$5.2 million were offset by program specific charges for services, grants or contributions. General revenues (primarily grants and entitlements, and property taxes) were used to cover the net expense of \$35.1 million.
- The General Fund, the School District's most significant fund, had an ending fund balance of \$4.3 million or 55.8 percent of the total ending fund balance for governmental funds. The other two major funds, the Debt Service and Permanent Improvement Funds, had \$1.7 million or 21.6 percent and \$859,493 or 11.2 percent of the total ending fund balance for government funds, respectively.

### **Using the Basic Financial Statements**

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

# DELAWARE CITY SCHOOL DISTRICT

Delaware County, Ohio

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
Unaudited

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

## **Reporting the School District as a Whole**

### *Statement of Net Assets and the Statement of Activities*

While this document contains a large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answers this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account, all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

## **Reporting the School District's Most Significant Funds**

### *Fund Financial Statements*

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



# DELAWARE CITY SCHOOL DISTRICT

Delaware County, Ohio

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
Unaudited

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## Governmental Funds

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

## **The School District as a Whole**

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

Table 1 provides a summary of the School District's net assets for 2004 compared to 2003:

TABLE 1  
NET ASSETS (000's)

	<u>2004</u>	<u>2003</u>
<i>Assets</i>		
Current and Other Assets	\$ 35,589	\$ 35,452
Capital Assets	<u>45,175</u>	<u>44,364</u>
Total Assets	<u>80,764</u>	<u>79,816</u>
<i>Liabilities</i>		
Long-Term Liabilities	46,171	47,932
Other Liabilities	<u>26,692</u>	<u>23,396</u>
Total Liabilities	<u>72,863</u>	<u>71,328</u>
<i>Net Assets</i>		
Invested in Capital Assets, Net of Debt	1,307	447
Restricted	3,179	2,521
Unrestricted	<u>3,415</u>	<u>5,520</u>
Total Net Assets	\$ <u>7,901</u>	\$ <u>8,488</u>

The amount by which the School District's assets exceeded its liabilities is called net assets. As of June 30, 2004, the School District's net assets were \$7.9 million. Of that amount, approximately \$1.3 million was invested in capital assets, net of debt related to those assets. Another \$3.2 million was subject to external restrictions upon its use. The remaining \$3.4 million was unrestricted and available for future use as directed by the Board of Education and the School District's Administration. The decrease in unrestricted net assets resulted from current year expenses exceeding revenues as well as unrestricted net assets needed to cover capital project issues.

**DELAWARE CITY SCHOOL DISTRICT**  
Delaware County, Ohio

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
Unaudited

Table 2 shows the changes in net assets for fiscal year 2004 as compared to those for fiscal year 2003

TABLE 2  
CHANGE IN NET ASSETS (000's)

	2004	2003
<b>Revenues</b>		
Program Revenues:		
Charges for Services	\$ 2,720	\$ 1,862
Operating Grants and Contributions	2,435	2,312
Capital Grants and Contributions	24	69
General Revenues:		
Property Taxes	21,022	22,684
Grants and Entitlements	13,259	13,101
Other	<u>265</u>	<u>800</u>
Total Revenues	<u>39,725</u>	<u>40,829</u>
<b>Program Expenses</b>		
Instruction	22,080	21,565
Support Services:		
Pupils and Instructional Staff	4,350	4,190
Board of Education, Administration, Fiscal and Business	3,956	3,864
Plant Operation and Maintenance	2,689	5,555
Pupil Transportation	1,946	2,160
Central	154	144
Operation of Non-Instructional Services	1,063	1,195
Extracurricular Activities	1,035	1,209
Unallocated Depreciation	1,119	1,092
Interest and Fiscal Charges	<u>1,920</u>	<u>2,498</u>
Total Expenses	<u>40,312</u>	<u>43,472</u>
 Decrease in Net Assets	 <u>\$ (587)</u>	 <u>\$ (2,643)</u>

**Governmental Activities**

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a voted levy does not increase solely as a result of inflation. Property taxes made up 52.9 percent of revenues for governmental activities for the Delaware City School District for fiscal year 2004. In addition to property taxes, the School District relies on the intergovernmental revenues provided by the State of Ohio and the federal government to fund its operations; approximately 39.5 percent of the School District's total revenue was received from intergovernmental sources during fiscal year 2004.

Despite the decrease in net assets realized by the School District during fiscal year 2004, sufficient cash reserves were accumulated over the past few years to more than cover this decrease for the current year. The current ending governmental net assets not invested in capital assets of \$6.5 million represents approximately 16.0 percent of the School District governmental expenses. It is anticipated that as operating costs continue to increase and growth in revenue is limited, the cash reserves will be utilized to cover future decreases in net assets as well. Additional revenue sources will be sought when deemed necessary by the School Board.

# DELAWARE CITY SCHOOL DISTRICT

Delaware County, Ohio

## Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2004 Unaudited

Instruction comprises 54.7 percent of the School District's expenses for fiscal year 2004. Support services expenses make up 32.5 percent of the expenses.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the total cost of services for each function for fiscal year 2004 as compared with fiscal year 2003.

Table 3  
Total Cost of Program Services  
Governmental Activities (000's)

	<u>2004</u>	<u>2003</u>
Instruction	\$ 19,449	\$ 19,297
Support Services:		
Pupils and Instructional Staff	3,520	3,606
Board of Education, Administration, Fiscal and Business	3,956	3,864
Plant Operation and Maintenance	2,478	5,530
Pupil Transportation	1,834	2,094
Central	138	127
Operation of Non-Instructional Services	(42)	109
Extracurricular Activities	761	1,012
Unallocated Depreciation	1,119	1,092
Interest and Fiscal Charges	<u>1,920</u>	<u>2,498</u>
Total Expenses	\$ <u>35,133</u>	\$ <u>39,229</u>

The large difference between the expenses in the operation and maintenance of plant between the two years, was that in fiscal year 2003, a large number of projects were completed at buildings throughout the School District, but these were deemed routine and normal maintenance and therefore the costs were not capitalized and these projects were expensed in that year.

The program revenue generated by the operation of non-instructional services, primarily food service operations, was enough to recognize a net program revenue for that particular function area. Interest and fiscal costs will decrease over the next few years due to the refunding of higher rate debt issued in the mid 1990's with lower rate debt during the fiscal year. This is anticipated to save the School District over \$1.6 million over the next 17 years.

While the functional areas noted above did differ from year to year, the majority of the School Districts functional areas are driven by the cost of personnel (wages and fringe benefits). The steady increase in expense of the School District can be attributed to wage adjustments and the ever increasing cost of providing employees the necessary fringe benefits. While management is attempting to maintain fringe benefit costs in every manner possible, the increasing cost of healthcare insurance coverage makes cost containment difficult at best.

# DELAWARE CITY SCHOOL DISTRICT

Delaware County, Ohio

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
Unaudited

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

## **The School District's Funds**

Information about the School District's major funds begins on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$39.6 million and expenditures of \$43.3 million. The net change in fund balance was most significant in the General Fund, a decrease of \$2.3 million. Unreserved fund balance in the general fund went from \$2.6 million in 2003 to \$1.7 million. Increased cost of operating, mostly personnel costs, are responsible for the excess of expenditures over revenues in most of the governmental funds. Of the major funds reported by the School District, only the permanent improvement fund reported a positive change in fund balance for the year, albeit a slight increase. The refunding bonds issued by the School District are reported in the debt service fund as other financing sources and uses.

## **General Fund Budgeting Highlights**

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

For the General Fund, budget basis revenue was \$31.9 million as compared to the original budget estimates of \$32.0 million. Total actual expenditures on the budget basis (cash outlays plus encumbrances) were \$32.6 million, nearly \$1 million less than what was originally budgeted. As the School District reserves are being consumed, management is attempting to control spending in all areas possible.

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

## **Capital Assets**

At the end of fiscal year 2004, the School District had \$45.2 million invested in land, buildings, furniture and equipment, vehicles, and textbooks and library books in governmental activities. Table 4 shows fiscal year 2004 balances compared to 2003, however for greater detail readers should review the notes to the basic financial statements.

**DELAWARE CITY SCHOOL DISTRICT**

Delaware County, Ohio

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
Unaudited

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

	<u>2004</u>	<u>2003</u>
Land	\$ 2,629	\$ 2,453
Building and Improvements	51,557	49,492
Equipment	4,253	4,232
Vehicles	2,259	2,037
Textbooks & Library Books	2,546	2,546
Less: Accumulated Depreciation	<u>(18,069)</u>	<u>(16,397)</u>
Totals	\$ <u>45,175</u>	\$ <u>44,363</u>

Overall capital assets increased approximately \$0.8 million from fiscal year 2003. This increase in capital assets results from the current year acquisition of capital assets being a greater amount than current year depreciation being reported by the School District.

Since fiscal year 2000, Ohio law requires school districts to set aside three percent of certain revenues for capital improvements and an additional three percent for textbooks and instructional supplies. For fiscal year 2004, this amounts to approximately \$610,000 for each set aside requirement. Conversely, the School District spent significantly more than the amounts required, \$840,000 for textbooks and instructional supplies and \$1.2 million for capital improvements.

Significant capital assets acquired during fiscal year 2004 consisted primarily of \$175,000 for several parcels of land, over \$2.0 million worth of improvements to the heating, ventilation and air conditioning systems of the various buildings throughout the School District, \$161,000 for three new school buses and \$61,000 for three utility/maintenance vehicles.

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

# DELAWARE CITY SCHOOL DISTRICT

Delaware County, Ohio

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
Unaudited

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## Debt Administration

At June 30, 2004, the School District had four general obligation bonds outstanding with a combined outstanding principal of \$42.4 million, of which \$2.0 million is due within one year. Three of the bond issues were issued in prior year to provide financing for school building construction or improvement projects. The other bond was issued in 2004 for the purpose of advance refunding a portion of two school construction bonds. Management determined to utilize the low interest rates currently available to reduce the overall debt service payments by \$1.6 million over the next 17 years.

Other significant obligations include \$1.7 million of capital lease obligations, primarily associated with the HVAC projects throughout the School District, and \$1.6 million of long-term compensated absences for employees who are likely to receive their leave balance as severance payment when they retire, but are not expect to retire in the near future.

Total long-term obligations of the School District were \$46.2 million at June 30, 2004 with just under \$3.0 million being due within one year.

At June 30, 2004, the School District's overall legal debt margin was \$16.4 million and the unvoted debt margin was \$639,516.

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

## For the Future

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

The Delaware City Schools passed a 4-mill 3-year emergency operating levy in March 2004. The additional revenue allows the district to continue the current level of programs and services to our students and families without interruptions or reductions. In November 2004 the community approved the replacement of a 3-mill 5-year permanent improvement levy. The funds will be used for three primary purposes: 1) to purchase and upgrade technology and textbooks; 2) to purchase school buses and other vehicles; 3) and, to maintain grounds and facilities in a safe and healthy condition.

The Delaware City Schools continues to be identified as a continuous improvement district on the Ohio local report card having met 9 of the state indicators. In addition, the district met the requirements for Adequate Yearly Progress and earned a performance index score of 89.2%. Recently the State Board of Education and Ohio Department of Education recognized three Delaware City Schools, Conger Elementary, Smith Elementary, and Woodward Elementary, for increasing their building performance indexes by at least ten percentage points in the last two years. Schultz Elementary and Smith Elementary were honored for earning "excellent" ratings on the 2003-04 report card.

# **DELAWARE CITY SCHOOL DISTRICT**

Delaware County, Ohio

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
Unaudited

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In June 2004 the Board of Education adopted a second five-year Continuous Improvement Plan. The new document focuses on four goals. Immediate needs include eliminating gaps in achievement among student groups while at the same time raising expectations and achievement for all students; aligning program efforts to state and federal accountability measures; and, creating and maintaining a safe, positive learning environment for all students and staff in which all can reach their potential as learners.

## **Contacting the School District's Financial Management**

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

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

STATEMENT OF NET ASSETS  
JUNE 30, 2004

	Governmental Activities
<b>Assets:</b>	
Equity in pooled cash and cash equivalents	\$ 9,366,950
Investments	4,400
Materials and supplies inventory	110,057
Accrued interest receivable	3,489
Accounts receivable	18,690
Intergovernmental receivable	147,376
Prepaid items	128,383
Property and other local taxes receivables	25,597,511
Unamortized bond issuance costs	211,710
Capital assets, net of accumulated depreciation	42,545,901
Land	2,629,513
Total Assets	80,763,980
<b>Liabilities:</b>	
Accounts payable	321,539
Accrued wages and benefits payable	3,861,358
Intergovernmental payable	646,085
Accrued interest payable	199,037
Matured compensated absences payable	106,425
Deferred revenue	21,557,086
<b>Long Term Liabilities:</b>	
Due within one year	2,979,933
Due in more than one year	43,191,572
Total Liabilities	72,863,035
<b>Net Assets:</b>	
Invested in capital assets, net of related debt	1,307,225
<b>Restricted for:</b>	
Debt service	1,611,263
Capital projects	1,210,487
<b>Perpetual care:</b>	
Expendable	679
Nonexpendable	4,200
Other purposes	351,916
Unrestricted	3,415,175
Total Net Assets	\$ 7,900,945

See accompanying notes to the basic financial statements.



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

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for services & sales	Operating grants and contributions	Capital grants and contributions	Total Governmental Activities
<b>Governmental Activities:</b>					
<b>Instruction:</b>					
Regular	\$ 16,488,374	\$ 1,101,913	\$ 423,275	\$ -	\$ (14,963,186)
Special	4,690,287	-	1,030,222	-	(3,660,065)
Vocational	308,641	-	-	-	(308,641)
Other	592,328	-	75,249	-	(517,079)
<b>Support Services:</b>					
Pupils	1,984,527	137,796	62,239	-	(1,784,492)
Instructional staff	2,364,997	158,757	470,288	-	(1,735,952)
Board of education	206,062	-	-	-	(206,062)
Administration	2,542,302	-	-	-	(2,542,302)
Fiscal	829,023	-	-	-	(829,023)
Business	378,518	-	-	-	(378,518)
Operation and maintenance of plant	2,689,534	154,872	56,718	-	(2,477,944)
Pupil transportation	1,945,533	82,312	5,943	23,662	(1,833,616)
Central	153,965	-	15,637	-	(138,328)
Operation of non-instructional services	1,063,239	853,904	251,467	-	42,132
Extracurricular activities	1,035,194	230,414	44,092	-	(760,688)
Interest and fiscal charges	1,919,756	-	-	-	(1,919,756)
Unallocated depreciation *	1,119,747	-	-	-	(1,119,747)
<b>Total Governmental Activities</b>	<b>\$ 40,312,027</b>	<b>\$ 2,719,968</b>	<b>\$ 2,435,130</b>	<b>\$ 23,662</b>	<b>(35,133,267)</b>

**General Revenues:**

<b>Property taxes and other local taxes:</b>	
Levied for General Purposes	16,864,964
Levied for Capital Outlay	910,353
Levied for Debt Service	3,246,930
<b>Grants and entitlements not restricted to specific programs</b>	
Investment earnings	64,920
Miscellaneous	200,319
<b>Total General Revenues</b>	<b>34,546,742</b>
<b>Changes in net assets</b>	<b>(586,525)</b>
<b>Net assets at beginning of year</b>	<b>8,487,470</b>
<b>Net assets at end of year</b>	<b>\$ 7,900,945</b>

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

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2004

	General Fund	Debt Service Fund	Permanent Improvement Fund	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>					
Equity in pooled cash and cash equivalents	\$ 6,247,627	\$ 1,158,150	\$ 822,990	\$ 1,138,183	\$ 9,366,950
Investments	-	-	-	4,400	4,400
Materials and supplies inventory	87,492	-	-	22,565	110,057
Accrued interest receivable	2,017	-	710	762	3,489
Accounts receivable	5,367	-	-	13,323	18,690
Intergovernmental receivable	43,486	-	719	103,171	147,376
Prepaid items	128,383	-	-	-	128,383
Property and other local taxes receivable	20,731,373	3,811,838	1,054,300	-	25,597,511
<b>Total Assets</b>	<b>\$ 27,245,745</b>	<b>\$ 4,969,988</b>	<b>\$ 1,878,719</b>	<b>\$ 1,282,404</b>	<b>\$ 35,376,856</b>
<u>Liabilities and Fund Balances:</u>					
<u>Liabilities:</u>					
Accounts payable	\$ 183,955	\$ -	\$ 85,630	\$ 51,954	\$ 321,539
Accrued wages and benefits	3,596,352	-	-	265,006	3,861,358
Intergovernmental payable	593,556	-	-	52,529	646,085
Matured compensated absences payable	100,944	-	-	5,481	106,425
Deferred revenue	18,491,240	3,318,481	933,596	40,846	22,784,163
<b>Total Liabilities</b>	<b>22,966,047</b>	<b>3,318,481</b>	<b>1,019,226</b>	<b>415,816</b>	<b>27,719,570</b>
<u>Fund Balances:</u>					
<u>Reserved for:</u>					
Encumbrances	319,660	-	363,893	303,114	986,667
Property taxes	2,240,133	493,357	120,704	-	2,854,194
<u>Unreserved, designated:</u>					
Designated for budget stabilization	367,699	-	-	-	367,699
<u>Unreserved, undesignated, reported in:</u>					
General fund	1,352,206	-	-	-	1,352,206
Special revenue funds	-	-	-	447,471	447,471
Debt service fund	-	1,158,150	-	-	1,158,150
Capital projects funds	-	-	374,896	111,560	486,456
Permanent fund	-	-	-	4,443	4,443
<b>Total Fund Balances</b>	<b>4,279,698</b>	<b>1,651,507</b>	<b>859,493</b>	<b>866,588</b>	<b>7,657,286</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 27,245,745</b>	<b>\$ 4,969,988</b>	<b>\$ 1,878,719</b>	<b>\$ 1,282,404</b>	<b>\$ 35,376,856</b>

See accompanying notes to the basic financial statements

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2004

Total Governmental Fund Balances:		\$ 7,657,286
 <u>Amounts reported for governmental activities in the statement of net assets are different because:</u>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		45,175,414
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		1,227,077
Bond issuance costs associated with bonds payable, are recorded as a deferred charge on the accrual basis but are not reported in the funds		211,710
Long-term liabilities which are not due and payable in the current period and therefore not reported in the funds.		
General obligation bonds payable	(25,659,266)	
Refunding bonds payable	(16,452,906)	
Accrued interest payable	(199,037)	
Premium on refunding bonds	(1,643,363)	
Deferred amount on refunding	1,395,425	
Intergovernmental payable	(383,422)	
Compensated absences	(1,653,184)	
Capital leases payable	(1,719,789)	
Long-term notes payable	<u>(55,000)</u>	
Total		<u>(46,370,542)</u>
Net Assets of Governmental Activities		<u>\$ 7,900,945</u>

See accompanying notes to the basic financial statements

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	General Fund	Debt Service Fund	Permanent Improvement Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Property and other local taxes	\$ 16,760,125	\$ 3,249,873	\$ 904,527	\$ -	\$ 20,914,525
Intergovernmental	12,980,939	405,281	109,743	2,235,227	15,731,190
Interest	52,694	12,407	5,431	6,179	76,711
Tuition and fees	539,597	-	-	559,525	1,099,122
Rentals	14,039	-	-	-	14,039
Extracurricular activities	-	-	-	388,586	388,586
Gifts and donations	-	-	-	118,266	118,266
Customer sales and services	10,973	-	-	928,619	939,592
Miscellaneous	182,075	-	-	199,689	381,764
<b>Total Revenues</b>	<b>30,540,442</b>	<b>3,667,561</b>	<b>1,019,701</b>	<b>4,436,091</b>	<b>39,663,795</b>
<b>Expenditures:</b>					
<b>Current:</b>					
<b>Instruction:</b>					
Regular	14,730,380	-	314,390	1,218,947	16,263,717
Special	3,739,978	-	-	944,726	4,684,704
Vocational	288,655	-	-	-	288,655
Other instruction	592,328	-	-	-	592,328
<b>Support Services:</b>					
Pupils	1,921,388	-	-	77,425	1,998,813
Instructional staff	1,718,726	-	-	499,055	2,217,781
Board of education	206,062	-	-	-	206,062
Administration	2,399,071	-	2,159	161,860	2,563,090
Fiscal	751,012	280,610	19,501	-	1,051,123
Business	234,333	-	155,982	-	390,315
Operation and maintenance of plant	3,408,716	-	90,457	72,390	3,571,563
Pupil transportation	1,745,142	-	160,925	20,884	1,926,951
Central	132,451	-	-	20,171	152,622
Non-instructional services	-	-	-	1,033,658	1,033,658
Extracurricular activities	750,758	-	-	279,672	1,030,430
Capital outlay	191,774	-	66,282	1,173,912	1,431,968
<b>Debt Service:</b>					
Principal retirement	55,000	2,255,000	29,099	-	2,339,099
Interest and fiscal charges	4,909	1,557,382	4,459	-	1,566,750
<b>Total Expenditures</b>	<b>32,870,683</b>	<b>4,092,992</b>	<b>843,254</b>	<b>5,502,700</b>	<b>43,309,629</b>
<b>Excess of Revenues Over(Under) Expenditures</b>	<b>(2,330,241)</b>	<b>(425,431)</b>	<b>176,447</b>	<b>(1,066,609)</b>	<b>(3,645,834)</b>
<b>Other Financing Sources (Uses):</b>					
Proceeds from Sale of Refunding Bonds	-	16,444,954	-	-	16,444,954
Payment to Refunded Bond Escrow Agent	-	(17,840,425)	-	-	(17,840,425)
Premium on Debt Issuance	-	1,643,363	-	-	1,643,363
Transfers-In	-	-	-	15,000	15,000
Transfers-Out	(15,000)	-	-	-	(15,000)
<b>Total Other Financing Sources (Uses)</b>	<b>(15,000)</b>	<b>247,892</b>	<b>-</b>	<b>15,000</b>	<b>247,892</b>
<b>Net Change in Fund Balance</b>	<b>(2,345,241)</b>	<b>(177,539)</b>	<b>176,447</b>	<b>(1,051,609)</b>	<b>(3,397,942)</b>
<b>Fund Balance at Beginning of Year</b>	<b>6,624,939</b>	<b>1,829,046</b>	<b>683,046</b>	<b>1,918,197</b>	<b>11,055,228</b>
<b>Fund Balance at End of Year</b>	<b>\$ 4,279,698</b>	<b>\$ 1,651,507</b>	<b>\$ 859,493</b>	<b>\$ 866,588</b>	<b>\$ 7,657,286</b>

See accompanying notes to the basic financial statements

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

RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Net Change in Fund Balances - Total Governmental Funds		\$ (3,397,942)
<u>Amounts reported for governmental activities in the statement of activities are different because:</u>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.		
Fixed asset additions	2,492,590	
Current year depreciation	<u>(1,677,078)</u>	
Total		815,512
Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		
Loss on disposal of capital assets		(4,004)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	107,722	
Intergovernmental	(34,224)	
Interest	<u>(11,791)</u>	
Total		61,707
In governmental funds, proceeds from sale of debt is considered a source of financing, but in the statement of net assets, the debt obligations are reported as a liability.		
		(16,444,954)
In the statement of activities, certain costs and proceeds associated with long-term debt issued during the year are accrued and amortized over the life of the debt. In governmental funds these costs and proceeds are recognized as other financing sources and uses.		
Bond issuance costs	211,710	
Premium on bonds issued	(1,643,363)	
Deferred charge on refunding	<u>1,395,425</u>	
Total		(36,228)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
General obligation bonds	1,870,000	
Capital leases	414,099	
Long-term notes	55,000	
G.O. bonds defeased through payment to escrow agent	<u>16,445,000</u>	
Total		18,784,099
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		
		(535,842)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Intergovernmental payable	129,123	
Compensated absences	<u>42,004</u>	
Total		<u>171,127</u>
Change in Net Assets of Governmental Activities		<u>\$ (586,525)</u>

See accompanying notes to the basic financial statements

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GENERAL FUND - BUDGET (NON-GAAP) AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final Revised		
<b>Revenues:</b>				
Taxes	\$ 18,532,873	\$ 18,179,534	\$ 18,179,534	\$ -
Intergovernmental	12,927,582	12,946,721	12,946,721	-
Interest	225,000	74,437	74,437	-
Tuition and Fees	212,000	547,797	548,994	1,197
Rentals	17,000	13,979	14,039	60
Customer Sales and Service	10,000	10,973	10,973	-
Miscellaneous	74,000	190,083	190,289	206
<b>Total Revenues</b>	<b>31,998,455</b>	<b>31,963,524</b>	<b>31,964,987</b>	<b>1,463</b>
<b>Expenditures:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	15,081,295	14,247,890	14,247,889	1
Special	3,865,677	3,702,324	3,702,323	1
Vocational	295,775	281,387	281,387	-
Other Instruction	407,101	628,136	628,136	-
<b>Support Services:</b>				
Pupils	2,024,923	1,912,249	1,912,250	(1)
Instructional Staff	1,641,514	1,662,756	1,662,754	2
Board of Education	201,005	244,746	244,746	-
Administration	2,314,050	2,378,686	2,378,686	-
Fiscal	713,867	739,795	739,795	-
Business	247,262	232,747	232,747	-
Operation and Maintenance of Plant	3,883,510	3,634,608	3,634,610	(2)
Pupil Transportation	1,788,827	1,779,598	1,779,598	-
Central	163,124	138,898	138,899	(1)
Extracurricular Activities	792,543	745,560	745,560	-
Capital Outlay	40,301	191,774	191,774	-
<b>Debt Service:</b>				
Principal Retirement	50,000	55,000	55,000	-
Interest and Fiscal Charges	11,545	4,909	4,909	-
<b>Total Expenditures</b>	<b>33,522,319</b>	<b>32,581,063</b>	<b>32,581,063</b>	<b>-</b>
<b>Excess of Revenues Over(Under) Expenditures</b>	<b>(1,523,864)</b>	<b>(617,539)</b>	<b>(616,076)</b>	<b>1,463</b>
<b>Other Financing Sources (Uses):</b>				
Transfers-Out	(80,000)	(15,000)	(15,000)	-
<b>Total Other Financing Sources (Uses)</b>	<b>(80,000)</b>	<b>(15,000)</b>	<b>(15,000)</b>	<b>-</b>
<b>Excess of Revenues and Other Financing Sources Over(Under) Expenditures and Other Financing Uses</b>	<b>(1,603,864)</b>	<b>(632,539)</b>	<b>(631,076)</b>	<b>1,463</b>
Fund Balance at Beginning of Year	5,915,716	5,915,716	5,915,716	-
Prior Year Encumbrances Appropriated	524,298	524,298	524,298	-
<b>Fund Balance at End of Year</b>	<b>\$ 4,836,150</b>	<b>\$ 5,807,475</b>	<b>\$ 5,808,938</b>	<b>\$ 1,463</b>

See accompanying notes to the basic financial statements

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

STATEMENT OF NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2004

	Private Purpose Trust	Agency Funds
Assets:		
Equity in pooled cash and cash equivalents	\$ 50,107	\$ 164,284
Investments	58,485	-
Accrued interest receivable	37	-
Total Assets	108,629	164,284
Liabilities:		
Accounts payable	-	33,237
Due to students	-	131,047
Total Liabilities	-	\$ 164,284
Net Assets:		
Held in trust for scholarships	\$ 108,629	

See accompanying notes to the basic financial statements

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Private Purpose Trust</u>
Additions:	
Gifts and Donations	\$ 364
Investment Earnings	<u>670</u>
Total Additions	<u>1,034</u>
Deductions:	
Payments in accordance with trust agreements	<u>2,486</u>
Total Deductions	<u>2,486</u>
Change in Net Assets	(1,452)
Net Assets Beginning of Year	<u>110,081</u>
Net Assets End of Year	<u><u>\$108,629</u></u>

See accompanying notes to the basic financial statements



## **DELAWARE CITY SCHOOL DISTRICT**

Delaware County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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### **NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

The Delaware City School District (School District) operates under a locally-elected five member board form of government and provides educational services mandated by state and, or federal agencies. This board controls the School District's eight instructional/support facilities staffed by 193 non-certificated employees, 321 certificated employees and 27 administrative employees to provide services to a student enrollment of 4,480 students.

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

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

#### ***Reporting Entity***

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

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing body and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations for which the School District approves the budget, the issuance of debt or the levying of taxes.

The School District does not have any component units.

The District is associated with two organizations, which are defined as jointly governed. These organizations include the Tri-Rivers Educational Computer Association and the Delaware County Area Career Center. These organizations are presented in Note 16 to the basic financial statements.

## DELAWARE CITY SCHOOL DISTRICT

Delaware County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

#### ***A. Basis Of Presentation***

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

#### **Government-Wide Financial Statements**

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

The statement of net assets presents the financial condition of the governmental activities of the School District at year-end. The government-wide statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities.

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

#### **Fund Financial Statements**

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

#### ***B. Fund Accounting***

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

## DELAWARE CITY SCHOOL DISTRICT

Delaware County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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

#### **Governmental Funds**

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

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

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

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

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

#### **Fiduciary Funds**

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

#### ***C. Measurement Focus***

##### **Government-wide Financial Statements**

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the Statement of Net Assets.

## DELAWARE CITY SCHOOL DISTRICT

Delaware County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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

#### **Fund Financial Statements**

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

Fiduciary funds are reported using the economic resources measurement focus.

#### ***D. Basis of Accounting***

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

#### **Revenues – Exchange and Non-exchange Transactions**

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

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

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

## DELAWARE CITY SCHOOL DISTRICT

Delaware County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

#### **Expenditures/Expenses**

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

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

#### ***E. Budget Data***

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue, are identified by the School District. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2004.

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

**DELAWARE CITY SCHOOL DISTRICT**

Delaware County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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

***F. Cash and Cash Equivalents***

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

During fiscal year 2004, investments were limited to various government securities, certificates of deposit, repurchase agreements and STAR Ohio.

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

The School District has invested funds in the State Treasury Assets Reserves of Ohio (STAR Ohio) during fiscal year 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2004.

For presentation purposes on the balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

The School District has allocated interest according to Ohio statutes. Interest revenue credited to the General Fund during fiscal year 2004 amounted to \$52,694, which includes \$7,497 assigned from other funds. Interest was also recorded in the debt service, permanent improvement, non-major and private purpose trust funds in the amounts of \$12,407, \$5,431, \$6,179 and \$670, respectively.

***G. Inventory***

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

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

***H. Prepaid Items***

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method and recording a current asset for the prepaid amount and reflecting the expenditure in the year in which services are consumed.

**DELAWARE CITY SCHOOL DISTRICT**

Delaware County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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

***I. Estimates***

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

***K. Capital Assets and Depreciation***

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

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

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

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

***L. Interfund Activity***

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

***M. Compensated Absences***

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

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

**DELAWARE CITY SCHOOL DISTRICT**

Delaware County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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

A liability for sick leave is accrued using the vesting method which states that the District will estimate its liability based on sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments as specified by the retirement system as well as other employees who are expected to become eligible in the future to receive such payments. The amount is based on accumulated sick and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated sick leave for all employees after fifteen years of current service with the School District.

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

***N. Accrued Liabilities and Long-Term Obligations***

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

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

***O. Net Assets***

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

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

***P. Reservations and Designations of Fund Balance***

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

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



**DELAWARE CITY SCHOOL DISTRICT**

Delaware County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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**NOTE 3 - ACCOUNTABILITY**

At June 30, 2004, the Title VI(B) special revenue fund had a fund balance deficit of \$6,031. This deficit resulted from adjustments for accrued liabilities. Management expects the deficit in this fund to be corrected in early fiscal year 2005. The general fund is liable for any deficit in other funds and provides operating transfers when cash is required, not when accruals occur.

**NOTE 4 - BUDGETARY BASIS OF ACCOUNTING**

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

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

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

<u>Net Change in Fund Balance</u>	
<u>General Fund</u>	
GAAP Basis	\$ (2,345,241)
Revenue Accruals	1,424,545
Expenditure Accruals	749,213
Encumbrances	<u>(459,593)</u>
Budget Basis	<u>\$ (631,076)</u>

## DELAWARE CITY SCHOOL DISTRICT

Delaware County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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### **NOTE 5 - DEPOSITS AND INVESTMENTS**

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

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

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

Category 3 consists of "interim" monies, those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by the certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts including passbook accounts.

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

Interim monies may be invested in the following obligations:

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

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

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

Bonds and other obligations of the State of Ohio;

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

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

**DELAWARE CITY SCHOOL DISTRICT**

Delaware County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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**NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)**

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

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

Deposits

At fiscal year end, the carrying amount of the School District deposits was \$103,282 and the bank balance was \$178,897. Of the bank balance \$162,885 was covered by federal deposit insurance and the remaining amounts are collateralized with securities held by the pledging financial institution's trust department or agent but not in the School District's name.

Investments

The School District's investments are categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the District's name. The School District's investment in STAR Ohio, an investment pool operated by the Ohio State Treasurer, is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	Category 2	Category 3	Carrying Amount
Federal Agency Securities	\$ 4,949,907	\$ -	\$ 4,949,907
Repurchase Agreements	-	965,000	965,000
STAR Ohio	-	-	<u>3,626,037</u>
Total	\$ 4,949,907	\$ 965,000	<u>\$ 9,540,944</u>

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

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

**DELAWARE CITY SCHOOL DISTRICT**

Delaware County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

**NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)**

	Cash and Cash Equivalents	
	<u>Deposits</u>	<u>Investments</u>
GASB Statement 9	\$ 9,581,341	\$ 62,885
Investments of the Cash Management Pool:		
Repurchase agreements	(965,000)	965,000
STAR Ohio	(3,626,037)	3,626,037
Federal Agency Securities	(4,949,907)	4,949,907
Certificates of Deposit	<u>62,885</u>	<u>( 62,885)</u>
GASB Statement 3	<u>\$ 103,282</u>	<u>\$ 9,540,944</u>

**NOTE 6 - PROPERTY TAXES**

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

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

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

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the Delaware City School District. The County Auditor periodically remits to the District its portion of the taxes collected. The full tax rate for all District operations for the year ended June 30, 2004 was \$67.93 per \$1,000 of assessed value. The assessed values upon which the fiscal year 2004 taxes were collected are as follows:

	<u>2004 First Half Collections</u>	<u>2003 Second Half Collections</u>
Agricultural/residential		
And other real estate	\$ 545,903,200	\$ 518,079,750
Public utility personal	20,567,730	20,505,600
Tangible personal property	<u>73,045,331</u>	<u>78,154,374</u>
Total	<u>\$ 639,516,261</u>	<u>\$ 616,739,724</u>

**DELAWARE CITY SCHOOL DISTRICT**

Delaware County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

**NOTE 6 - PROPERTY TAXES (Continued)**

Property taxes receivable represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies that are measurable as of June 30, 2004. Although total property tax collections for the next year are measurable, only the amount available as an advance at June 30 is intended to finance current year operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2004 was recognized as revenue.

The amount available as an advance at June 30 was \$2,240,133 in the General Fund, \$493,357 in the Bond Retirement Debt Service Fund and \$120,704 in the Permanent Improvement Capital Projects Fund. These amounts have been set aside as a reservation of fund balance.

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2004, consisted of current and delinquent property taxes, accounts (rent and student fees), and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
<u>Governmental Activities:</u>	
General Fund	\$ 43,486
Title II-A Grant	38,823
Food Service Subsidy	44,697
Permanent Improvement Fund	719
Other Non-major Funds	<u>19,651</u>
Total Intergovernmental Receivables	<u><u>\$ 147,376</u></u>

**NOTE 8 - CAPITAL ASSETS**

	Balance 6/30/03	Additions	Deductions	Balance 6/30/04
<b><u>Capital Assets, not being depreciated</u></b>				
Land	<u>\$ 2,453,020</u>	<u>\$ 176,493</u>	<u>\$ -</u>	<u>\$ 2,629,513</u>
<b><u>Capital Assets, being depreciated</u></b>				
Buildings and Improvements	49,492,051	2,065,000	-	51,557,051
Furniture and Equipment	4,232,266	29,674	(8,736)	4,253,204
Vehicles	2,037,397	221,423	-	2,258,820
Library and Textbooks	<u>2,546,227</u>	<u>-</u>	<u>-</u>	<u>2,546,227</u>
	<u>58,307,941</u>	<u>2,316,097</u>	<u>(8,736)</u>	<u>60,615,302</u>
<b><u>Less: Accumulated Depreciation</u></b>				
Buildings and Improvements	(10,796,672)	(1,143,631)	-	(11,940,303)
Furniture and Equipment	(2,335,021)	(340,593)	4,732	(2,670,882)
Vehicles	(1,182,780)	(146,268)	-	(1,329,048)
Library and Textbooks	<u>(2,082,583)</u>	<u>(46,585)</u>	<u>-</u>	<u>(2,129,168)</u>
	<u>(16,397,056)</u>	<u>(1,677,077)</u>	<u>* 4,732</u>	<u>(18,069,401)</u>
Governmental Activities Capital Assets, Net	<u>\$ 44,363,905</u>	<u>\$ 815,513</u>	<u>\$ (4,004)</u>	<u>\$ 45,175,414</u>

**DELAWARE CITY SCHOOL DISTRICT**

Delaware County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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**NOTE 8 - CAPITAL ASSETS (Continued)**

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

Instruction:

Regular \$ 207,564

Support Services:

Instructional Staff 118,221

Administration 3,635

Operation and Maintenance of Plant 37,079

Pupil Transportation 157,842

Operation of Non-Instructional Services 27,760

Extracurricular Activities 5,229

557,330

Unallocated Depreciation 1,119,747

Total Depreciation Expense \$ 1,677,077

Unallocated depreciation is depreciation of the individual school buildings throughout the District, which essentially serve all functions/programs, and therefore is not included as a direct expense of any function or program but disclosed as a separate expense.

**NOTE 9 - RISK MANAGEMENT**

The School District is exposed to various risks of loss related to torts, thefts-of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2004, the School District contracted with the Ohio School Plan for general liability insurance with a \$1 million single occurrence and a \$3 million aggregate limit. Property is protected by Hartford Insurance and holds a \$1,000 deductible per occurrence. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage for any part of the last three years.

**NOTE 10 - DEFINED BENEFIT PENSION PLANS**

***A. School Employees Retirement System***

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

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$800,682, \$744,150 and \$760,380 respectively; 34.75 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

**DELAWARE CITY SCHOOL DISTRICT**

Delaware County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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**NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)**

***B. State Teachers Retirement System***

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

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

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations for the fiscal years ended June 30, 2004, 2003, and 2002 were \$2,439,918, \$2,369,384, and \$2,296,506 respectively; 81.77 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

## DELAWARE CITY SCHOOL DISTRICT

Delaware County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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### **NOTE 11 – POSTEMPLOYMENT BENEFITS**

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

The Retirement Board allocates employer contributions to the Health Care Reserve Fund from which health care benefits are paid. For fiscal year ended June 30, 2004, the Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$174,280 during the 2004 fiscal year. The balance in the Health Care Reserve Fund was \$3.1 billion on June 30, 2004.

For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000. There were 111,853 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, the allocation rate is 4.91 percent. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit.

For fiscal year 2004, the minimum pay has been established at \$25,400. For the School, the amount to fund health care benefits, including the surcharge, was \$363,811.

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, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits of \$300.8 million. The number of benefit recipients currently receiving health care benefits is approximately 62,000.



**DELAWARE CITY SCHOOL DISTRICT**

Delaware County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

**NOTE 12 – OTHER EMPLOYEE BENEFITS**

*Compensated Absences*

Accumulated Unpaid Vacation

District classified employees earn vacation leave at varying rates based upon negotiated agreements and State laws. In the case of death or retirement, an employee (or his estate) is paid for his unused vacation leave. The total obligation for vacation leave for the District as a whole amounted to \$9,959 at June 30, 2004.

Accumulated Unpaid Sick Leave

District employees may accumulate sick leave. Upon retirement, payment is made for one-fourth of the total unused sick leave balance up to a maximum of sixty days for certified and classified employees. The total obligation for sick leave accrual for the District as a whole as of June 30, 2004 was \$1,749,650.

**NOTE 13 - LONG-TERM OBLIGATIONS**

The activity of the School Districts long-term obligations during fiscal year 2004 was as follows:

	Balance June 30, 2003	Increase	Decrease	Balance June 30, 2004	Due within One Year
General Obligation Bonds:					
1994 School Construction:					
Current Interest Serial 2.45-4.5%	\$ 845,000	\$ -	\$410,000	\$ 435,000	\$ 435,000
Capital Appreciation 5-5.35%	1,569,700	83,621	-	1,653,321	-
Current Interest Term 5.2%	4,830,000	-	4,830,000	-	-
1995 School Construction:					
Current Interest Serial 3.9-5.25%	3,345,000	-	780,000	2,565,000	815,000
Capital Appreciation 5.8-6.1%	2,551,950	153,782	-	2,705,732	-
Current Interest Term 5.5-5.75%	11,615,000	-	11,615,000	-	-
1998 School Construction					
Current Interest Serial 3.7-4.95%	4,120,000	-	680,000	3,440,000	350,000
Capital Appreciation 4.55-4.7%	1,581,190	74,023	-	1,655,213	-
Current Interest Term 5-5.125%	13,205,000	-	-	13,205,000	-
2004 Refunding					
Current Interest 2.0-5.0%	-	14,925,000	-	14,925,000	410,000
Capital Appreciation 2.3-3.05%	-	1,527,906	-	1,527,906	-
Deferred Amounts:					
Add: Bond Premium	-	1,643,363	-	1,643,363	-
Less: Deferred Amount on Refunding	-	(1,395,425)	-	(1,395,425)	-
Total General Obligation Bonds	43,662,840	17,012,270	18,315,000	42,360,110	2,010,000
Energy Conservation Note Payable	110,000	-	55,000	55,000	55,000
Compensated Absences	1,695,188	36,813	78,817	1,653,184	100,000
Capital Lease Obligation	2,133,888	-	414,099	1,719,789	431,511
Intergovernmental Payable	329,709	383,422	329,709	383,422	383,422
Total General Long-Term Obligations	\$47,931,625	\$17,432,505	\$ 19,192,625	\$ 46,171,505	\$2,979,933

**DELAWARE CITY SCHOOL DISTRICT**

Delaware County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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**NOTE 13 - LONG-TERM OBLIGATIONS (Continued)**

Legal Debt Margins

The School District's voted legal debt margin was \$16,354,501 and an unvoted debt margin of \$639,516 at June 30, 2004.

General Obligation Bonds

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

- \$9,098,460, issued in fiscal year 1994 and maturing in fiscal year 2017, for the construction of an elementary school. These bonds include current interest serial bonds, capital appreciation bonds and current interest term bonds. The capital appreciation bonds will mature in 2005 through 2008. The maturity amount of the bonds is \$2,005,000. For fiscal year 2004, \$83,621 was accreted for a total bond value of \$1,653,321.
- \$19,899,306, issued in fiscal year 1995 and maturing in fiscal year 2021, for the construction of a new middle and high school. These bonds include current interest serial bonds, capital appreciation bonds and current interest term bonds. The capital appreciation bonds will mature in 2009-2012. The maturity amount of the bonds is \$4,050,000. For fiscal year 2004, \$153,782 was accreted for a total bond value of \$2,705,732.
- \$19,749,968, issued in fiscal year 1998 and maturing in fiscal year 2026, for the construction of a new middle school. These bonds include current interest serial bonds, capital appreciation bonds and current interest term bonds. The capital appreciation bonds will mature in 2005 through 2008. The maturity amount of the bonds is \$1,900,000. For fiscal year 2004, \$74,023 was accreted for a total bond value of \$1,655,213.
- \$16,444,954, issued in fiscal year 2004 and maturing in fiscal year 2021, for the partial advance refunding of general obligation bonds previously issued, \$4,830,000 of 1994 bonds and \$11,615,000 of 1995 bonds. These bonds include current interest serial bonds and capital appreciation bonds. The capital appreciation bonds will mature in 2008 through 2010. The maturity amount of the bonds is \$2,700,000. For fiscal year 2004, \$7,952 was accreted for a total bond value of \$1,527,906.

Principal and interest requirements to retire the District's long-term general obligation bonds outstanding at June 30, 2004 are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2005	\$2,010,000	\$1,654,183	\$3,664,183
2006	1,885,000	1,507,138	3,392,138
2007	2,049,669	1,789,616	3,839,285
2008	2,120,292	1,432,198	3,552,490
2009	2,130,000	1,431,073	3,561,073
2010 – 14	11,210,000	6,640,378	17,850,378
2015 – 19	12,090,000	4,375,390	16,465,390
2020 – 24	8,700,000	1,650,500	10,350,500
2025 - 26	2,925,000	148,375	3,073,375
Total	<u>\$45,119,961</u>	<u>\$20,628,851</u>	<u>\$65,748,812</u>

## DELAWARE CITY SCHOOL DISTRICT

Delaware County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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### **NOTE 13 - LONG-TERM OBLIGATIONS (Continued)**

#### Advance Refunding

The School District issued \$16,444,954 of general obligation bonds to provide resources to purchase U.S. Government securities that were placed, along with the premiums received associated with the sale of the bonds, in an irrevocable trust for the purpose of generating resources for future debt service payments of \$4,830,000 of the 1994 and \$11,615,000 of the 1995 School Construction general obligation bonds. As a result, the refunded bonds are considered to be defeased and the liability associated with these bonds has been removed from the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$1,395,425. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is the same as the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next seventeen years by \$1,610,134 and resulted in an economic gain of \$1,229,456.

#### Energy Conservation Notes

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

#### Other Long-Term Obligations

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

### **NOTE 14 - CAPITAL LEASES - LESSEE DISCLOSURE**

In the previous fiscal year, the School District entered into a capitalized lease for HVAC upgrades at various school facilities. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital outlay expenditures will be made out of the building fund as they are incurred. Capital lease payments will be reflected as debt service expenditures in the basic financial statements for the governmental funds. The terms of the lease includes an option that would allow the School District to satisfy their obligation at any time by paying principal plus accrued interest, otherwise lease payments are renewable every year for the next five years. In prior years, the School District entered into several other leases deemed to be capital leases.

Capital assets acquired by lease have been capitalized in the statement of net assets for governmental activities in the amount of \$2,185,238, which is equal to the present value of the minimum lease payments at the time of acquisition. The corresponding liability was split between long-term liabilities due within a year and long-term liabilities due within more than one year on the statement of net assets for governmental activities. Principal payments in fiscal year 2004 totaled \$414,099.

**DELAWARE CITY SCHOOL DISTRICT**

Delaware County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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**NOTE 14 - CAPITAL LEASES - LESSEE DISCLOSURE (Continued)**

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2004.

	<u>Fiscal Year Ending June 30,</u>	<u>Lease Payments</u>
	2005	\$ 497,430
	2006	467,054
	2007	463,078
	2008	<u>456,775</u>
Total Minimum Lease Payments		1,884,337
Less: Amount Representing Interest		<u>(164,548)</u>
Present Value of Minimum Lease Payments		<u>\$ 1,719,789</u>

**NOTE 15 - INTERFUND ACTIVITY**

During the year ended June 30, 2004, the School District provided operating funds to the District Managed Student Activity Fund through a transfer from the General Fund. The amount of this transfer was \$15,000 and was made with no intention of repayment.

**NOTE 16 – JOINTLY GOVERNED ORGANIZATIONS**

*Tri-Rivers Educational Computer Association*

The School District is a participant in the Tri-Rivers Educational Computer Association (TRECA), which is a computer consortium. TRECA is an association of public schools within the boundaries of Delaware, Knox, Marion, Morrow, Muskingum, and Wyandot Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts.

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

*Delaware Area Career Center*

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

**DELAWARE CITY SCHOOL DISTRICT**

Delaware County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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**NOTE 17 - CONTINGENCIES**

Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2004.

Litigation

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

**NOTE 18 - STATE SCHOOL FUNDING DECISION**

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

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

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

**NOTE 19 - SET-ASIDE CALCULATIONS AND FUND RESERVES**

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

	<u>Textbooks</u>	<u>Capital Spending</u>	<u>Totals</u>
Set-aside Reserve Balance as of June 30, 2003	\$ (561,557)	\$ -	\$ (561,557)
Current Year Set-aside Requirement	608,053	608,053	1,216,106
Qualifying Disbursements	(842,389)	(1,250,645)	(2,093,034)
Total	<u>\$ (795,893)</u>	<u>\$ (642,592)</u>	<u>\$(1,438,485)</u>
Balance Carried forward to FY 2005	<u>\$(795,893)</u>	<u>\$ -</u>	

**DELAWARE CITY SCHOOL DISTRICT**

Delaware County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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**NOTE 19 - SET-ASIDE CALCULATIONS AND FUND RESERVES (Continued)**

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

In previous years, the Board of Education determined to maintain the budget stabilization account, which previously was required by State Legislation. During the fiscal year, the School District had expenditures totaling \$189,578 that were paid out of the budget stabilization account. Funds remaining in the budget stabilization account totaled \$367,699 at June 30, 2004 and are shown as designated fund balance on the governmental funds' balance sheet.

DELAWARE CITY SCHOOL DISTRICT  
DELAWARE COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2004

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<b><u>United States Department of Agriculture</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Donation	NA	10.550	\$ -	\$ 90,965	\$ -	\$ 90,965
School Breakfast Program	043877-05PU-2003/2004	10.553	20,946	-	20,946	-
National School Lunch Program	043877-LLP1/LLP4-2003/2004	10.555	305,882	-	305,882	-
Total Nutrition Cluster/Total United States Department of Agriculture			326,828	90,965	326,828	90,965
<b><u>United States Department of Education</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	043877-C1S1-2003/2004	84.010	415,374	-	438,407	-
Special Education Cluster:						
Special Education_Grants to States	043877-6BPB/6BSF-2003P/2004P	84.027	657,331	-	660,808	-
Special Education_Preschool Grant	043877-PGS1-2003P/2004	84.173	25,445	-	25,374	-
Total Special Education Cluster			682,776	-	686,182	-
Safe and Drug-Free Schools and Communities_State Grants	043877-DRS1-2003/2004	84.186	19,479	-	39,579	-
Innovative Educational Program Strategies	043877-C2S1-2003/2004	84.298	27,549	-	26,227	-
Technology Literacy Challenge Fund Grants	043877-TJS1-2004	84.318	11,243	-	11,242	-
Comprehensive School Reform Demonstration	043877-RFS2/RFS3-2002/2003	84.332	42,092	-	38,465	-
Improving Teacher Quality State Grants	043877-TRS1-2003/2004	84.367	133,140	-	182,733	-
Total United States Department of Education			1,331,653	-	1,422,835	-
<b><u>United States Department of Health and Human Services</u></b>						
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medical Assistance Program		93.778	116,810	-	116,810	-
<i>Passed Through Ohio Department of Education:</i>						
Temporary Assistance for Needy Families		93.558	20,986	-	20,986	-
Total United States Department of Health and Human Services			137,796	-	137,796	-
<b><u>Corporation for National and Community Services</u></b>						
<i>Passed through Ohio Department of Education:</i>						
Learn and Serve America_School and Community Based Programs	04387-SVS1-2003	94.004	(11,585)	-	2,703	-
<b><u>United States Department of Homeland Security</u></b>						
<i>Passed Through Ohio Emergency Management Agency:</i>						
Public Assistance		97.036	5,604	-	5,604	-
<b>Totals</b>			<b>\$ 1,790,296</b>	<b>\$ 90,965</b>	<b>\$ 1,895,766</b>	<b>\$ 90,965</b>

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

**DELAWARE CITY SCHOOL DISTRICT  
DELAWARE COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE A--SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B—CHILD NUTRITION CLUSTER**

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





## Auditor of State Betty Montgomery

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

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

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Delaware City School District, Delaware County, Ohio (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 13, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, 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 such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to the District's management in a separate letter dated January 13, 2005.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2004-001.

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A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness. However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the District in a separate letter dated January 13, 2005.

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

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

**Betty Montgomery**  
Auditor of State

January 13, 2005



## Auditor of State Betty Montgomery

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

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

To the Board of Education:

#### Compliance

We have audited the compliance of Delaware City School District, Delaware County, Ohio (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings as item 2004-002.

#### Internal Control Over Compliance

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

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**Internal Control Over Compliance  
(Continued)**

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

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



**Betty Montgomery**  
Auditor of State

January 13, 2005

**DELAWARE CITY SCHOOL DISTRICT  
DELAWARE COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2004**

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iii)</b>	<b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under ' .510?</b>	Yes
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Special Education Cluster, CFDA # 84.027/84.173; Title II-A – Improving Teacher Quality, CFDA # 84.367
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	Yes

**DELAWARE CITY SCHOOL DISTRICT  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2004  
(Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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<b>Finding Number</b>	<b>2004-001</b>
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**Reportable Condition**

**Foodservice Receipts**

The District utilizes a computerized point of sale system to account for daily foodservice receipts. The point of sale system creates an individual student account for all students within the District. Every student receives a debit card to receipt money into the account and charge against the account. In addition, if students do not have their debit card, they can enter a pin number to process daily lunch activity. The point of sale system automatically updates the individual student account upon swiping the debit card or entering a pin number. The District does not have procedures in place to monitor student accounts. We also noted that a detailed daily transaction report that reports each foodservice transaction for the day is not generated on a daily basis by all buildings within the District. When a detailed transaction report is not generated each day, there is no way to determine that an individual foodservice transaction was processed completely and accurately through the system, deposited and posted to the accounting system.

At the end of the day, each cashier performs cash reconciliations through the point of sale system. These are reviewed by the head cook and lead cashier, and compared to the system generated daily receipt report which reports total sales/charges for the day, but does not report individual transactions. The total daily receipt report is then submitted to the Foodservice Supervisor and is compared to the CN-7/CN-6 and deposit slip. These procedures ensure that receipts processed through the point of sale system have been accounted for and deposited with the main depository. However, 15% of the transactions selected for testing did not have cash reconciliations maintained by the buildings and the Foodservice Supervisor did not maintain the total daily receipt reports for 27.5% of the transactions selected for testing. By not maintaining these reports there is no evidence that the above procedures were performed.

By not monitoring individual student accounts, maintaining all system generated reports and generating daily detailed transaction reports, errors or irregularities could occur and go undetected by management. This could ultimately lead to revenues being diverted or lost without managements' knowledge.

We recommend that the District generate detailed daily transaction reports for all buildings. The detailed transaction reports should be reconciled to the cashier reconciliations to provide additional assurance that all foodservice receipts have been properly processed and accounted for. The report should also be reviewed for any unusual transactions, such as, large debits or credits to an individual student account, multiple lunches being purchased by one student, multiple voids or negative receipt entries, and other unexplained unusual transactions. We further recommend that the District maintain all cash reconciliations and system generated reports providing evidence that procedures are performed to help ensure that all foodservice activity has been completely and accurately entered into the point of sale system, deposited and posted to the accounting system.

DELAWARE CITY SCHOOL DISTRICT  
FRANKLIN COUNTY

SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2004  
(Continued)

3. FINDINGS FOR FEDERAL AWARDS

Finding Number	2004-002
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**Non-Compliance - Special Education Cluster CFDA # 84.027/84.173 and Title 11 A- CFDA # 84.367**

**Cash Management**

34 CFR 80.21 (c) provides in part, that grantees shall be paid in advance, provided they have procedures in place to minimize the time elapsing between the transfer of funds and their disbursement by the grantee.

The District completes and submits Project Cash Request forms as necessary to request the drawdown of grant funds from the Ohio Department of Education (ODE). Included as a component of this formal request is a formula which calculates the "Cash Balance on Hand"; which is the total amount of project cash receipts received to date less the total amount of cash expenditures as of the date of the request. The Ohio Department of Education reviews this calculation to monitor the accumulation of unspent funds. According to the ODE online Project Cash Request form, fund balance accumulation is not permitted to exceed 10% of the total approved grant award.

The District included budgeted payroll expenditures within their cash-basis expenditure calculation each time a Project Cash Request form was completed, rather than reporting cash expenditures, as required. As a result, each drawdown request form reflected an inaccurate total for cash expenditures which resulted in an understated cash balance of unspent funds.

The District had funds accumulated in excess of the 10% limitation for five of the eight Project Cash Request periods tested for Title II-A funds and five of the nine Project Cash Request periods tested for Special Education Cluster funds. A review of the fund balance reports throughout the period indicated a high accumulation of balances throughout the fiscal year. We recommend that the District include cash expenditures only on Project Cash Request forms. Further the District should have procedures in place to ensure the timely expenditure of funds; including the monitoring of monthly fund balances to ensure that there is no excessive accumulation of grant monies as per the federal requirements.







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**DELAWARE CITY SCHOOL DISTRICT  
DELAWARE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
FEBRUARY 15, 2005**