



**Auditor of State
Betty Montgomery**

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Lima City School District
Allen County
515 South Calumet Avenue
Lima, Ohio 45804

To the Board of Education:

We have audited the accompanying financial statements of Lima City School District, Allen County, (the District), as of and for the year ended June 30, 2003. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 opinion.

Ohio Administrative Code Section 117-2-03 (B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, as discussed in Note 2, the accompanying financial statements and notes have been prepared on a basis of accounting in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual reports in accordance with generally accepted accounting principles. This basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash, investments, and combined fund cash balances of the District, as of June 30, 2003, and its combined cash receipts and disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements and encumbrances, for the year then ended on the basis of accounting described in Note 2.

As described in Note 3, during the year ended June 30, 2003, the District changed its method of accounting for financial reporting.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2004 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying federal awards expenditures schedule 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 financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of management, the Board of Education, and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, 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

September 10, 2004

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES AND SIMILAR FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	Governmental Fund Types				Fiduciary Funds	Total (Memorandum Only)
	General Fund	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
Cash Receipts:						
From local sources:						
Taxes	\$7,375,809	\$125,418	\$1,153,884	\$165,813		\$8,820,924
Tuition	66,365					66,365
Earnings on investments	98,255	2,769		980,831	206	1,082,061
Extracurricular Activities		237,802				237,802
Classroom Materials and Fees	10,952					10,952
Miscellaneous Revenues	653,564	359,982		425,503	2,703	1,441,752
Revenue For/On Behalf of the District				33,922		33,922
Intergovernmental - State	25,989,124	4,040,000	123,838	17,711,491		47,864,453
Intergovernmental - Federal	277,076	4,040,633				4,317,709
Total Cash Receipts	34,471,145	8,806,604	1,277,722	19,317,560	2,909	63,875,940
Cash Disbursements:						
Current:						
Instruction:						
Regular	15,027,793	3,106,456		205,420		18,339,669
Special	3,373,202	2,011,608				5,384,810
Vocational	1,756,917	28,539				1,785,456
Adult	214,206	139,768				353,974
Other	954,333					954,333
Support services:						
Pupil	1,786,663	1,950,146				3,736,809
Instructional staff	826,699	1,090,684				1,917,383
Board of Education	51,006					51,006
Administration	3,967,964	259,360				4,227,324
Fiscal	661,420	40,465	23,292	56,819		781,996
Business	258,607	39,447				298,054
Operations and maintenance	4,124,904	26,530		248,010		4,399,444
Pupil transportation	524,362	4,136				528,498
Central	464,822	45,815		1,269,876		1,780,513
Operation of Non-Instructional Services		723,300		309,861	3,369	1,036,530
Extracurricular activities	783,023	178,025		4,692		965,740
Facilities Acquisition and Construction Services	23,204			28,067,297		28,090,501
Debt service:						
Principal retirement			1,167,002			1,167,002
Interest			1,028,422			1,028,422
Total Cash Disbursements	34,799,125	9,644,279	2,218,716	30,161,975	3,369	76,827,464
Receipts (Under) Disbursements	(327,980)	(837,675)	(940,994)	(10,844,415)	(460)	(12,951,524)
Other Financing Sources (Uses):						
Operating Transfers In	162	274,256	862,854			1,137,272
Operating Transfers Out	(736,813)	(7,795)		(392,502)	(162)	(1,137,272)
Advances In	132,769					132,769
Advances Out		(57,769)				(57,769)
Proceeds From Sale of Assets	5,403					5,403
Proceeds from Sale of Notes			1,035	4,783,597		4,784,632
Refund of Prior Year Expenditures	177,649	29			3,261	180,939
Total Other Financing Sources (Uses)	(420,830)	208,721	863,889	4,391,095	3,099	5,045,974
Receipts and Other Financing Sources Over (Under) Expenditures and Other Uses	(748,810)	(628,954)	(77,105)	(6,453,320)	2,639	(7,905,550)
Fund Cash Balances, July 1 (Restated Note 3)	2,077,207	2,054,127	413,848	41,594,064	18,230	46,157,476
Fund Cash Balances, June 30	\$1,328,397	\$1,425,173	\$336,743	\$35,140,744	\$20,869	\$38,251,926
Reserve for Encumbrances, June 30	\$209,278	\$816,351		\$32,229,417		\$33,255,046

The notes to the financial statements are an integral part of this statement.

LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN FUND CASH BALANCES
PROPRIETARY FUND TYPE AND SIMILAR FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	Proprietary Fund Type		Fiduciary Funds		Total (Memorandum Only)
	Enterprise Funds	Nonexpendable Trust Funds	Agency	Agency	
Operating Receipts:					
Tuition and fees					
Food Service	\$756,435				\$756,435
Investment Earnings					
Extracurricular Activities	875		56,360		57,235
Classroom Materials and Fees	35,905				35,905
	<u>793,215</u>		<u>56,360</u>		<u>849,575</u>
Total Operating Receipts	793,215		56,360		849,575
Operating Disbursement:					
Personal services	869,283		114		869,397
Benefits	215,764				215,764
Purchased Services	76,652		3,199		79,851
Materials and supplies	935,139		100		935,239
Capital Outlay	5,589				5,589
Other Expenses	78,730	168,533	450,601		697,864
	<u>2,181,157</u>	<u>168,533</u>	<u>454,014</u>		<u>2,803,704</u>
Total Operating Disbursements	2,181,157	168,533	454,014		2,803,704
Operating (Loss)	(1,387,942)	(168,533)	(397,654)		(1,954,129)
Nonoperating Receipts:					
Grants	1,496,354				1,496,354
Interest revenue	26,104	1,711	4,443		32,258
Sale of Assets	2,173				2,173
Miscellaneous	3,892	2,550	654,353		660,795
	<u>1,528,523</u>	<u>4,261</u>	<u>658,796</u>		<u>2,191,580</u>
Total Nonoperating Receipts	1,528,523	4,261	658,796		2,191,580
Net Income (Loss) Before Operating Transfers and Advances	140,581	(164,272)	261,142		237,451
Advances out	(75,000)				(75,000)
Net Income.(Loss)	65,581	(164,272)	261,142		162,451
Fund Cash Balances at July 1 (Restated Note 3)	13,787	214,548	221,422		449,757
Fund Cash Balances at June 30	<u>\$79,368</u>	<u>\$50,276</u>	<u>\$482,564</u>		<u>\$612,208</u>
Reserve for Encumbrances, June 30	<u>\$22,934</u>		<u>\$2,770</u>		<u>\$25,704</u>

The notes to the financial statements are an integral part of this statement.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**COMBINED STATEMENT OF RECEIPTS-BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Fund Types/Fund	Budget	Actual	Variance Favorable/ (Unfavorable)
Governmental:			
General Fund	\$34,798,910	\$34,787,128	(\$11,782)
Special Revenue Funds	10,586,284	9,080,889	(1,505,395)
Debt Service Funds	2,139,792	2,141,611	1,819
Capital Project Funds	23,991,448	24,101,157	109,709
Proprietary:			
Enterprise Funds	2,388,103	2,321,738	(66,365)
Fiduciary:			
Expendable Trust Funds	3,890	6,170	2,280
Nonexpendable Trust Funds	4,235	4,261	26
Agency Funds	601,976	715,156	113,180
Total (Memorandum Only)	<u>\$74,514,638</u>	<u>\$73,158,110</u>	<u>(\$1,356,528)</u>

The notes to the financial statements are an integral part of this statement.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**COMBINED STATEMENT OF DISBURSEMENTS AND
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Fund Types/Fund	Prior Year Carryover <u>Appropriations</u>	2003 <u>Appropriations</u>	<u>Total</u>
Governmental:			
General Fund	\$543,233	\$35,485,071	\$36,028,304
Special Revenue Funds	192,440	11,743,915	11,936,355
Debt Service Funds		2,218,716	2,218,716
Capital Project Funds	46,717,663	31,623,244	78,340,907
Proprietary:			
Enterprise Funds	18,404	2,330,749	2,349,153
Fiduciary:			
Expendable Trust Funds		6,673	6,673
Nonexpendable Trust Funds		189,805	189,805
Agency Funds	457	599,871	600,328
Total (Memorandum Only)	<u>\$47,472,197</u>	<u>\$84,198,044</u>	<u>\$131,670,241</u>

The notes to the financial statements are an integral part of this statement.

<u>Actual 2003 Disbursements</u>	<u>Encumbrances Outstanding At June 30, 2003</u>	<u>Total</u>	<u>Variance Favorable/ (Unfavorable)</u>
\$35,535,938	\$209,278	\$35,745,216	\$283,088
9,709,843	816,351	10,526,194	1,410,161
2,218,716		2,218,716	
30,554,477	32,229,417	62,783,894	15,557,013
2,256,157	22,934	2,279,091	70,062
3,531		3,531	3,142
168,533		168,533	21,272
454,014	2,770	456,784	143,544
<u>\$80,901,209</u>	<u>\$33,280,750</u>	<u>\$114,181,959</u>	<u>\$17,488,282</u>

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**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The District was established during 1856 through the consolidation of existing land areas and school districts. The District is the 58th largest in the State of Ohio (among 628 school districts) in terms of enrollment. It is staffed by 239 non-certificated employees and 505 certificated full-time teaching personnel who provide services to 5,162 students and other community members. The District currently operates fourteen instructional/support facilities and one administrative center.

Reporting Entity

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

Parochial Schools - Within the District boundaries, Lima Central Catholic and three elementary schools are operated by the Toledo Catholic Diocese. Current State legislation provides funding to these parochial schools. These monies are received and disbursed on behalf of the parochial school by the Treasurer of the District, as directed by the parochial school. The activity of these State monies is reflected in a special revenue fund for financial reporting purposes.

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

Lima Digital Academy Community School (the Academy) is a legally separate, not-for-profit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to address the growing need for a comprehensive educational program delivered to students in the K – 12 population primarily through distance learning technologies. The comprehensive educational program will address special problems of disabled students, students removed from school for disciplinary reasons, students needing advanced or specialized courses which are not available locally, and others, including some home-schooled students, who are not currently enrolled in any public school and who are not receiving a meaningful, comprehensive, and standards-based educational program.

The Academy operates under the direction of a five-member Board of Directors with Lima City School District acting as their sponsor. Based on the fact that the District appoints the voting majority of the Board of Directors and is able to significantly influence the programs or services performed or provided, the Academy is a component unit of the District. However, the District reports on the cash basis of accounting which does not reflect component units within their financial statements and related note disclosures. Separately issued financial statements can be obtained from Lima Digital Academy at 515 S. Calumet Avenue, Lima, Ohio 45804.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY (Continued)

The Lima City Schools Foundation (The Foundation) is a community-based, unincorporated, non-profit association established for the exclusive purposes of promoting the quality of schools and educational programs in the Lima City School District. It is intended that The Foundation provide monies not available from public funds to maintain and improve the quality of education available to students of the Lima City School District. Activities supported by The Foundation may include, but are not limited to, enrichment of the school curriculum, co-curriculum and extra-curricular activities and programs; the enhancement of instruction and facilities; and the promotion of school-community recognition and awareness.

In accordance with a certain "Agreement Creating a Committee Advised Endowment Fund" between The Foundation, The Lima Community Foundation and The Dayton Foundation, the Board of Trustees shall govern the operation of The Foundation and shall make recommendations to The Dayton Foundation regarding distribution of the net income and current gifts of The Foundation. The number of trustees for The Foundation shall be not less than seven (7). The Treasurer and Superintendent, or an appointee of the Superintendent, of the Lima City School District shall serve as trustees in an ex officio capacity on a continuing basis. One (1) member of the Lima City Schools Board of Education shall be designated biannually by the Board of Education to serve a two-year term as a trustee for the years of such designation. A minimum of four (4) trustees shall be appointed by the Lima City Schools Nominating Committee.

Based on the above, The Lima City Schools Foundation is a component unit of the District. However, the District reports on the cash basis of accounting which does not reflect component units within their financial statements and related note disclosures. Separately issued financial statements can be obtained from at 515 S. Calumet Avenue, Lima, Ohio 45804.

The following entities which perform activities within the District's boundaries for the benefit of its residents are excluded from the accompanying financial statements because the District is not financially accountable for these entities, nor are they fiscally dependent on the District: the City of Lima, the Parent Teacher Association, and the Allen County Educational Service Center.

The District is associated with four jointly governed organizations, two insurance pools and a related organization. These organizations include the Northwest Ohio Area Computer Services Cooperative, the West Central Ohio Special Education Regional Resource Center, the West Central Ohio Regional Professional Development Center, the Northwestern Ohio Educational Research Council, Inc., the Allen County Schools Health Benefit Plan, the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan, and the Lima Public Library. These organizations are presented in Notes 14, 15 and 16 to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Although required by Ohio Administrative Code Section 117-2-03 (B) to prepare its annual financial report in accordance with generally accepted accounting principles, the District chooses to prepare its financial statements on the basis of accounting formerly prescribed or permitted for school districts by the Auditor of State. This comprehensive basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as formerly prescribed or permitted for school districts by the Auditor of State.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting

The District maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

1. Governmental Fund Types

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

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest, and related costs. According to governmental accounting principles, the debt service fund accounts for the payment of long-term debt for governmental funds only. Under Ohio law, the debt service fund might also be used to account for the payment of the long-term debt of proprietary funds and the short-term debt of both governmental and proprietary funds.

Capital Projects Funds - The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds).

2. Proprietary Fund Type

Proprietary funds are used to account for the District's ongoing activities which are similar to those found in the private sector. The following is the District's proprietary fund type:

Enterprise Funds - Enterprise funds are used to account for District activities that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

3. Fiduciary Fund Types

Fiduciary Funds - are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The District's fiduciary funds include expendable trust, nonexpendable trust, and agency funds.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Process

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with the Allen County Budget Commission for rate determination.

1. Estimated Resources

The County Budget Commission certifies its actions to the District by March 1. As part of this certification, the District receives the official certificate of estimated resources which states the projected receipts of each fund. On or about July 1 this certificate is amended to include any unencumbered balances from the preceding fiscal year. Prior to June 30, the District must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying financial statements do not include July 1, 2002 unencumbered fund balances. However, those fund balances are available for appropriations.

2. Appropriations

A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation measure must be passed by October 1 of each year for the period July 1 to June 30. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources.

3. Encumbrances

The District is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation. At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

D. Cash and Investments

To improve cash management, all cash received by the District Treasurer is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through District accounting records.

Investments are stated at cost which approximates market value. Investment earnings are allocated as authorized by State statute based upon District policy.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the District.

F. Property, Plant and equipment

Fixed assets acquired or constructed for general governmental service are recorded as expenditures. Depreciation is not recorded for these fixed assets.

G. Total Columns on Financial Statements

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

3. CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES

For fiscal year 2003, the District changed its method of accounting for financial reporting from accounting principles generally accepted in the United States of America to a basis of accounting formerly prescribed or permitted for school districts by the Auditor of State. This comprehensive basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. This change had the following effect on fund balances as previously reported:

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Project</u>	<u>Enterprise</u>	<u>Internal Service</u>	<u>Agency</u>
Fund Balance / Retained Earnings June 30, 2002	(\$1,575,984)	\$1,240,573	\$38,766,026	\$90,633	\$469	\$0
Accrual adjustments	3,653,191	813,554	2,828,038	(76,846)	(469)	221,422
Restated Fund Balance July 1, 2002	<u>\$2,077,207</u>	<u>\$2,054,127</u>	<u>\$41,594,064</u>	<u>\$13,787</u>	<u>\$0</u>	<u>\$221,422</u>

4. ACCOUNTABILITY AND COMPLIANCE

A. Accountability

The following funds had a deficit fund balance at June 30, 2003:

<u>Fund - Special Cost Center</u>	<u>Fund Name</u>	<u>Deficit Amount</u>
010-9901	Equipment Reimbursement Building	\$ 54,662
019-9042	Workforce Grant	797
499-9012	Rebound V – 2003	5,773
514-9062	Eisenhower Grant - 2002	3,154
572-9000	Title I – 2003	108,266
584-9001	Drug-Free Schools – 2003	4,662
587-9305	Title VI-B Preschool – 2003	163
590-9001	Title II-A – 2003	22,217
599-9008	Twenty-first Century Grant – 2003	138,693

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

4. ACCOUNTABILITY AND COMPLIANCE (Continued)

The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed, rather than when accruals occur.

B. Compliance

Amended certificates of estimated resources were not always obtained for additional revenues received and expended. At June 30, 2003, the Building Construction Fund had expenditures in excess of certified resources in the amount of \$2,821,691. Expenditures from this fund totaled \$59,992,311, while certified resources for this fund totaled \$57,170,620.

At June 30, 2003, the Building Construction Fund had appropriations in excess of certified resources in the amount of \$18,687,716. Appropriations for this fund totaled \$75,858,336, while certified resources for this fund totaled \$57,170,620.

Other compliance issues included deficit cash balances existed in various funds throughout the year.

5. DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

- a. United States treasury notes, bills, bonds, or other obligations or security issued by the United States or any other obligation guaranteed as to principal and interest by the United States;
- b. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Mortgage Association. All federal securities shall be direct issuances of federal government agencies or instrumentalities;

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

- c. 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;
- d. Bonds and other obligations of the State of Ohio;
- e. 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; and,
- f. The State Treasurer's investment pool (STAR Ohio).

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "*Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements*".

A. Cash on Hand

At fiscal year end, the District had \$300 in undeposited cash on hand which is included on the balance sheet of the District as part of "equity in pooled cash and cash equivalents".

B. Deposits

At fiscal year end, the carrying amount of the District's deposits was \$720,718, and the bank balance was \$1,140,245. Of the bank balance, \$194,661 was covered by federal depository insurance and the remaining amounts were uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

C. Investments

The District's investments are categorized below to give an indication of the level of risk assumed by the District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments which 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 and investments in mutual funds are unclassified since they are not evidenced by securities that exist in physical or book entry form.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

	Category 2	Carrying Value	Fair Value
Treasury Securities	\$ 516,484	\$ 516,484	\$ 509,063
Federal National Mortgage Association	5,915,802	5,915,802	5,926,988
Federal Home Loan Bank	3,381,779	3,381,779	3,397,564
Federal Home Loan Mortgage Association	7,175,185	7,175,185	7,152,435
Federal Farm Credit Bank	1,425,014	1,425,014	1,456,000
Money Market Mutual Funds		17,575,140	17,575,140
STAR Ohio		<u>2,153,712</u>	<u>2,153,712</u>
Totals		<u>\$38,143,116</u>	<u>\$38,170,902</u>

6. PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal property (used in business) located in the District. Real and public utility property tax revenues received in calendar year 2003 represent the collection of calendar year 2002 taxes. Real property taxes for calendar year 2003 are levied after April 1, 2002, on the assessed values as of January 1, 2002, the lien date.

Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002 and are collected in 2003 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments 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. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

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

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

6. PROPERTY TAXES (Continued)

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

	2002 Second- Half Collections		2003 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$216,655,930	78.25%	\$218,250,950	77.68%
Public Utility	16,481,060	5.95%	17,053,790	6.07%
Tangible Personal	<u>43,749,257</u>	<u>15.80%</u>	<u>45,657,201</u>	<u>16.25%</u>
Total Assessed Value	<u>\$276,886,247</u>	<u>100.00%</u>	<u>\$280,961,941</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$45.31		\$43.56	

7. RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts; theft of, or damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. During fiscal year 2003, the District contracted with Indiana Insurance for property and general liability, boiler and machinery insurance and builders risk insurance. Boiler and machinery and builders risk insurance coverage has a \$25,000 and \$5,000 deductible per occurrence, respectively. Professional liability is protected by Indiana Insurance Company with \$1,000,000 each occurrence, \$5,000,000 aggregated limit.

Vehicles are covered by Indiana Insurance Company and are fully covered for comprehensive and \$100 deductible for collisions. Automobile liability has a \$2,000,000 combined single limit of liability.

Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from last year.

Public officials bond insurance is provided by the Ohio Casualty Insurance Company, for a total of \$80,000.

B. Workers' Compensation

The District participated in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. Participants in the GRP are placed on tiers according to their loss history. Participants with low loss histories are rewarded with greater savings than participants with higher loss histories. Each participant pays its workers' compensation premium to the state based on the rate for its GRP tier rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley Uniservice, Inc. provides administrative, cost control, assistance with safety programs, and actuarial services to the GRP.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

7. RISK MANAGEMENT (Continued)

C. Health Insurance

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

8. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The 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 State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 9 percent of their annual covered salary and the 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 District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board.

The District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001, were \$523,393, \$343,056, and \$232,307, respectively.

B. State Teachers Retirement System

The 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.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contribution for pension obligations to STRS for the fiscal years ended June 30, 2003, 2002, and 2001, were \$3,001,583, \$2,225,014, and \$2,118,145, respectively.

C. Social Security System

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

9. POST RETIREMENT BENEFITS

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

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

9. POST RETIREMENT BENEFITS (Continued)

The State Teachers Retirement board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of cover payroll. For fiscal year 2003, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount was \$230,891.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$2.8 billion at June 30, 2003. For the fiscal year ended June 30, 2003, net health care costs paid by STRS were \$352,301,000, and STRS has 108,294 eligible benefit recipients.

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

For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$14,500. For the District, the amount to fund health care benefits, including the surcharge was \$469,410 for fiscal year 2003.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2003, were \$204,930,737, and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million. SERS has approximately 50,000 participants currently receiving health care benefits.

10. SHORT TERM DEBT OBLIGATION

A summary of the short term debt obligation for the year ended June 30, 2003 follows:

	Balance 6/30/02	Additions	Reductions	Balance 6/30/03
<u>General Obligation Notes</u>				
Bond Anticipation Note – 2.0%	<u>\$0</u>	<u>\$4,765,000</u>	<u>\$0</u>	<u>\$4,765,000</u>

By Ohio law, notes can be issued in anticipation of bond proceeds, special assessment bond proceeds and levies, or for up to 50% of anticipated revenue collections. The District issued a \$4,765,000 bond anticipation note for a 150-day period during the year. The note was redeemed on October 31, 2003.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

11. LONG-TERM DEBT OBLIGATIONS

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

General Long-Term Obligations:	Principal Outstanding 6/30/02	Additions	Deletions	Principal Outstanding 6/30/03
General Obligation Bonds - 2000 Classroom Facilities-Variou Purpose - Serial and Term Bonds 5-6%	6,005,000		205,000	5,800,000
Capital Appreciation Bonds 10.73%	363,694	37,227		400,921
General Obligation Bonds - 2000 Classroom Facilities Serial and Term Bonds 4.7-5.5%	9,030,000		320,000	8,710,000
Capital Appreciation Bonds 9.86%	470,547	51,852		522,399
General Obligation Bonds- Various Purpose - 2001 Serial and Term Bonds 5.0%	1,556,988	0	0	1,556,988
Lease-Purchase – 2002 4.28%	<u>3,500,000</u>	<u>0</u>	<u>642,002</u>	<u>2,857,998</u>
Total Long-Term Obligations	<u>\$20,926,229</u>	<u>\$89,079</u>	<u>\$1,167,002</u>	<u>\$19,848,306</u>

Ohio School Facilities Loan - On December 3, 1999, the District and the Ohio School Facilities Commission entered into a school facilities agreement pursuant to Ohio Revised Code Section 3318.08 for construction and improvements to its facilities under the State's "Classroom Facilities Program." Under this program, the District entered into an agreement with the State of Ohio in which the State initially paid for a portion of the estimated project costs.

Generally, the District repays the State for its contribution by levying an additional property tax of one-half mill for a twenty-three year period. The total budget for the project is \$104,029,247, of which \$92,663,247 was awarded in school facilities monies and \$11,366,000 is the District's share of the project. During fiscal year 2003, the District received \$17,632,382 in school facilities monies.

If the District's three-year average adjusted valuation per pupil increases above the state-wide median three-year adjusted valuation per pupil, the District may become responsible for repayment of a portion of the State's contribution. Based on the District's adjusted valuation relative to the state-wide median adjusted valuation, this possibility appears remote.

General Obligation Bonds - On June 1, 2000, the District issued \$6,865,997 in general obligation bonds authorized pursuant to a vote of the electors of the District at an election held November 2, 1999, under the authority of the Ohio Revised Code Chapter 133. The proceeds of the Bonds will be used to pay outstanding bond anticipation notes issued for the following various purposes: the local share of school construction under the State of Ohio Classroom Facilities Construction Program; to acquire a site for Classroom Facilities; and constructing, improving and making additions to school facilities for a school auditorium and acquiring and installing equipment and furnishings therein.

The bond issue included serial, term and capital appreciation bonds in the amount of \$2,535,000, \$4,030,000 and \$300,997, respectively. The bonds were issued for a twenty three year period with final maturity during fiscal year 2022. The bonds will be retired with a voted 5.1 mill property tax levy from the Debt Service Fund.

General Obligation Bonds - On June 15, 2000, the District issued \$9,999,999 in general obligation bonds authorized pursuant to a vote of the electors of the District at an election held on November 2, 1999, under the authority of Ohio Revised Code Chapter 133. The proceeds of the Bonds will be used to pay outstanding bond anticipation notes issued for the purpose of paying the local share of school construction under the State of Ohio Classroom Facilities Construction Program.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

11. LONG-TERM OBLIGATIONS (Continued)

The bond issue included serial, term and capital appreciation bonds in the amount of \$4,580,000, \$5,035,000 and \$384,999, respectively. The bonds were issued for a twenty three year period with final maturity during fiscal year 2022. The bonds will be retired with a voted 5.1 mill property tax levy from the Debt Service Fund.

General Obligation Bonds – On December 1, 2001, the District issued \$1,556,988 in unvoted general obligation bonds for the purpose of acquiring school buses, refunding the July 31, 1995 General Obligation Notes issued for energy conservation and refunding the September 25, 1998 General Obligations Bonds issued for the purchase of the Academy of Learning, under the authority of the Ohio Revised Code Section 133. The bonds were issued for a fifteen-year period with final maturity during fiscal year 2017. The bonds will be retired from the Debt Service Fund.

Lease-Purchase – On April 15, 2002, the District entered into a lease-purchase agreement with the Port Authority of Allen County acting as lessor and the District as lessee for the lease-purchase of land for the new high school complex, under the authority of the Ohio Revised Code Section 3313.37. The lease-agreement is for a period of five years with final maturity during fiscal year 2007. The lease-purchase will be paid from the Debt Service fund.

The general obligation serial bonds issued on June 1, 2000, maturing on December 1, 2009, and thereafter are subject to optional redemption, in whole or in part on any date in any order of maturity as determined by the Board of Education and by lot within a maturity, at the option of the Board of Education on or after December 1, 2011 as follows:

Redemption Dates	Redemption Price
December 1, 2009 through November 30, 2010	102%
December 1, 2010 through November 30, 2011	101
December 1, 2011 and thereafter	100

The general obligation term bonds issued on June 1, 2000, due on December 1, 2022, are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2013, and on each December 1 thereafter at 100% of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

Year	Principal Amount to be Redeemed
2013	\$305,000
2014	325,000
2015	345,000
2016	365,000
2017	385,000
2018	410,000
2019	430,000
2020	460,000
2021	485,000

Unless otherwise called for redemption, the remaining \$520,000 principal amount of the term bonds due December 1, 2022, is to be paid at stated maturity.

The capital appreciation bonds are not subject to redemption prior to scheduled maturity. The capital appreciation bonds will mature in fiscal years 2010 through 2012. The maturity amount of the bonds is \$915,000. The accreted amount for fiscal year 2003 was \$37,227.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

11. LONG-TERM OBLIGATIONS (Continued)

The general obligation serial and term bonds issued on June 15, 2000, maturing on December 1, 2011, and December 1, 2022, are subject to optional redemption, in whole or in part on any date in any order of maturity as determined by the Board of Education and by lot within a maturity, at the option of the Board of Education on or after December 1, 2010, as follows:

Redemption Dates	Redemption Price
December 1, 2010 through November 30, 2011	102%
December 1, 2011 through November 30, 2012	101
December 1, 2012 and thereafter	100

The general obligation term bonds issued on June 1, 2000, due on December 1, 2022, are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2015, and on each December 1 thereafter, at 100% of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

Year	Principal Amount to be Redeemed
2015	520,000
2016	545,000
2017	575,000
2018	610,000
2019	640,000
2020	675,000
2021	715,000

Unless otherwise called for redemption, the remaining \$755,000 principal amount of the term bonds due December 1, 2022, is to be paid at stated maturity.

The capital appreciation bonds are not subject to redemption prior to scheduled maturity. The capital appreciation bonds will mature in fiscal years 2012 through 2014. The maturity amount of the bonds is \$1,560,000. The accreted amount for fiscal year 2003 was \$51,852.

Principal and interest requirements to retire the notes and bonds outstanding at June 30, 2003 are as follows:

Fiscal Year Ending	Principal	Interest	Total
2004	\$ 1,276,761	\$ 973,170	\$ 2,249,931
2005	1,333,746	913,509	2,247,255
2006	1,398,973	850,426	2,249,399
2007	1,475,506	783,836	2,259,342
2008	885,000	718,751	1,603,751
2009-2013	3,839,173	3,953,406	7,792,579
2014-2018	3,939,147	3,048,558	6,987,705
2019-2023	<u>5,700,000</u>	<u>849,137</u>	<u>6,549,137</u>
Total	<u>\$19,848,306</u>	<u>\$12,090,793</u>	<u>\$31,939,099</u>

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

12. CONTRACTUAL COMMITMENTS

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

<u>Contractor</u>	<u>Project</u>	<u>Amount Outstanding</u>
Fanning, Howey and Associates	District-wide Professional Services	\$ 247,414
Dupont Flooring Systems	West Middle School Flooring	119,846
Thomas & Marker	South Middle School General Trades	2,311,054
Koester Electric	South Middle School Electrical	619,320
Lima Sheet Metal Company	South Middle School Mechanical	460,084
Smith-Boughan, Inc.	South Middle School Plumbing	244,801
Farnham Equipm Company	South Middle School Casework	238,500
C & T Design and Equipment Co.	South Middle School Kitchen Equipment	222,391
Sidney Electric Company	South Middle School Technology	108,575
Smith-Boughan, Inc.	South Middle School Temperature Control	108,256
Peterson Construction	High School General Trades	10,255,912
Sidney Electric	High School Electrical/Technology	2,379,721
Piping Solutions, Inc.	High School Mechanical	2,329,564
A. Hattersley & Sons, Inc	High School Plumbing	1,049,165
Universal Custom Millwork, Inc.	High School Casework	899,495
Cotterman & Company	High School Roofing	838,002
C & T Design and Equipment Co.	High School Kitchen Equipment	698,082
Smith-Boughan, Inc.	High School Temperature Control	338,756
R D Jones Excavating, Inc.	High School Sitework	268,204
Simplex Grinnell	High School Fire Suppression	264,882
Northwestern Ohio	High School Security/Access Control	169,941
Leipsic Landscaping	High School Landscaping	150,000
Peterson Construction	Independence Elementary General Trades	3,408,252
Smith-Boughan, Inc.	Independence Elementary Mechanical	879,077
Koester Electric	Independence Elementary Electrical	595,650
R. A. M. E., Inc.	Independence Elementary Roofing	334,500
Ohio Plumbing and Electrical	Independence Elementary Plumbing	264,240
C & T Design and Equipment Co.	Independence Elementary Kitchen Equipment	216,530
Universal Custom Millwork	Independence Elementary Casework	191,021
Bruns Building and Development	Independence Elementary Sitework	145,443
Sidney Electric Company	Independence Elementary Technology	126,200
R D Jones Excavating, Inc.	Heritage Elementary/Westwood Demolition	164,995
R D Jones Excavating, Inc.	Liberty Elementary Sitework	<u>318,000</u>
Total		<u>\$30,965,873</u>

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

13. STATUTORY RESERVES

The School District is required by state law to set aside certain general fund revenue amounts, as defined, into various reserves. For fiscal year ended June 30, 2003, the reserve activity was as follows:

	Textbooks	Capital Acquisition
Set-aside Cash Balance as of June 30, 2003	(\$ 126,707)	(\$16,866,000)
Tax Anticipation Notes Issued		(4,765,000)
Current Year Set-aside Requirement	765,400	765,400
Current Year Offsets	0	(291,231)
Qualifying Disbursements	(1,598,900)	(474,169)
Total	(\$ 960,207)	(\$21,631,000)

Qualifying expenditures for the textbook reserve exceeded the required set aside by \$960,207 and can be carried forward to future years. Accumulated set-aside requirements from bond or note proceeds in the capital improvements set aside may be carried forward to offset future years' requirements. The total reserve cash balance for the two set-asides at the end of the fiscal year was \$0.

14. JOINTLY GOVERNED ORGANIZATIONS

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

Financial information can be obtained from Michael Wildermuth, who serves as director, at 645 South Main Street, Lima, Ohio 45804.

West Central Ohio Special Education Regional Resource Center (SERRC) - The SERRC is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The SERRC is governed by a board of 52 members made up the 50 superintendents of the participating districts, one non-public school, and Wright State University whose term rotates every year. The degree of control exercised by any participating school district is limited to its representation on the Board.

Financial information can be obtained by contacting the Krista Hart, Treasurer, at the Hardin County Educational Service Center, 1 Court House Square, Suite 50, Kenton, Ohio 43326-2385.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

14. JOINTLY GOVERNED ORGANIZATIONS (Continued)

West Central Ohio Regional Professional Development Center (Center) - The Center is a jointly governed organization among the school districts located in Allen, Auglaize, Hancock, Hardin, Mercer, Paulding, Putnam and Van Wert counties. The jointly governed organization was formed for the purpose of establishing an articulated, regional structure for professional development, in which school districts, the business community, higher education and other groups cooperatively plan and implement effective professional development activities than are tied directly to school improvement, and in particular, to improvements in instructional programs. The Center is governed by a board made up of fifty-two representatives of the participating school districts, the business community, and two institutions of higher learning whose term rotates every two years. The degree of control exercised by any participating school district is limited to its representation on the Board.

Financial information may be obtained by contacting Bradley Brown, Treasurer, Hancock County Educational Service Center, 7746 County Road 140, Findlay, Ohio 45840-3087.

Northwestern Ohio Educational Research Council, Inc.

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials, and provide opportunities for training. The NOERC serves a twenty-five county area in Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., Box 456, Ashland, Ohio 44805.

15. GROUP PURCHASING POOLS

Allen County Schools Health Benefit Plan - The District participates in the Allen County Schools Health Benefit Plan (the Trust), a public entity shared risk pool consisting of the school districts within Allen County. The Trust is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides sick, accident and other benefits to the employees of the participating school districts.

Each participating school district's superintendent is appointed to a Board of Trustees which advises the Trustee, CoreSource, concerning aspects of the administration of the Trust. Each school district decides which plans offered the Board of Education will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Board of Trustees and payment of the monthly premiums.

Financial information can be obtained from Don Smith, who serves as Chairman, at 204 North Main Street, Lima, Ohio 45801.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

15. GROUP PURCHASING POOLS (Continued)

Ohio Association of School Business Officials Workers' Compensation Group Rating Plan – The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio Association of School Business Officials (OASBO) Workers' Compensation Group Rating Plan (GRP) was established as a group purchasing pool. The Executive Director of OASBO, or his designee, serves as coordinator of the GRP. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

16. RELATED ORGANIZATION

The Lima Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Lima City School District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel, and does not depend on the District for operational subsidies. Although the District serves as the taxing authority, its role is limited to a ministerial function. The determination to request approval of a tax, the rate, and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Lima Public Library, Scott Shafer, Clerk/Treasurer, 650 West Market Street, Lima, Ohio 45801.

17. CONTINGENCIES

A. Grants

The 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 District at June 30, 2003.

B. Litigation

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

C. State School Funding Decision

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

The Supreme Court relinquished jurisdiction over the case and directed "... the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

18. SUBSEQUENT EVENTS

On November 25, 2003, the District entered into a contract with Sidney Electric Company in the amount of \$621,910 for video distribution equipment for the new Liberty Elementary School, Independence Elementary School, Lima South Middle School and Lima Senior High School.

On November 25, 2003, the District entered into a contract with Pomeroy IT Solutions in the amount of \$710,000 for network electronics for the new Liberty Elementary School, Independence Elementary School, Lima South Middle School and Lima Senior High School.

On January 23, 2004, the District entered into a contract with Effective Office Environments in the amount of \$734,654.61 for loose furnishings for the new Liberty Elementary School, Independence Elementary School, Lima South Middle School, and Lima Senior High School.

On January 23, 2004, the District entered into a contract with Folding Equipment Company in the amount of \$461,775.99 for school specialties for the new Liberty Elementary School, Independence Elementary School, Lima South Middle School, and Lima Senior High School.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**SCHEDULE OF FEDERAL AWARD EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Federal Grantor/ Pass-Through Grantor/ Program Titles	Federal CFDA Number	Project Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. Department of Education (Passed through the Ohio Department of Education)						
Special Education Cluster:						
Special Education - Grants to States	84.027	044222-6BSB 2003 P	\$24,275		\$15,275	
	84.027	044222-6BSF 2003 P	546,260		516,952	
	84.027	044222-6BSF 2002 P	97,474		238,502	
	84.027	044222-6BST 2002	50,000		32,537	
Total Special Education - Grants to States			718,009		803,266	
Special Education - Preschool Grants	84.173	044222-PGS1 2003 P	31,657		31,820	
	84.173	044222-PGS1 2002 P	4,170		20,690	
Total Special Education - Preschool grants			35,827		52,510	
Total Special Education Cluster			753,836		855,776	
Title I Grants to Local Educational Agencies	84.010	044222-C1S1-2003	1,683,423		1,791,689	
	84.010	044222-C1S1-2002	251,832		427,387	
Total Title I Grants			1,935,255		2,219,076	
Innovative Education Programs Strategies	84.298	044222-C2S1-2002	7,404			
	84.298	044222-C2S1-2002			6,885	
	84.298	044222-C2S1 2001			6,544	
Total Innovative Education Program Strategies			7,404		13,429	
Adult Education - State Grant Program	84.002	044222-ABS1 2002	56,394		56,394	
	84.002	044222-ABS1 2002 C			22,394	
Total Adult Education - State Grant Program			56,394		78,788	
Vocational Education - Basic Grants to States	84.048	044222-20C1 2003	180,534		130,795	
	84.048	044222-20C1 2002	27,269		12,322	
	84.048	044222-20A0 2002	3,600			
Total Vocational Education - Basic Grants to States			211,403		143,117	
Safe and Drug-Free Schools and Communities - National	84.184C	044222-T4S1-2003	5,280		5,280	
Safe and Drug-Free Schools and Communities - State Grant	84.186	044222-DRS1 2003	34,602		39,264	
	84.186	044222-DRS1 2002	22,604		12,813	
	84.186	044222-DRS1 2001			12,492	
Total Safe and drug-Free Schools and Communities - State Grant			57,206		64,569	
Eisenhower Professional Development State Grants	84.281	044222-MSS1-2002	(3,251)		13,491	
	84.281	044222-MSS1-2001	(434)		14,953	
Total Eisenhower Professional Development State Grants			(3,685)		28,444	
Even Start - State Educational Agencies	84.213	044222-EVS2-2003	69,770		49,044	
	84.213	044222-EVS2-2002	49,069		77,996	
	84.213	044222-EVS2-2001			12,046	
Total Even Start - State Educational Agencies			118,839		139,086	

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**SCHEDULE OF FEDERAL AWARD EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Federal Grantor/ Pass-Through Grantor/ Program Titles	Federal CFDA Number	Project Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. Department of Education (Passed through the Ohio Department of Education) (Continued)						
Educational Technology State Grants	84.318	044222-TJS1-2003	59,924		56,533	
Special Education - State Program Improvement Grants for Children with Disabilities	84.367	044222-STS1-2000	22,500		2,141	
Advanced Placement Program	84.330	044222-AVS1-2003	400		400	
Comprehensive School Reform Demonstration	84.332	044222-RFS1 2002	100,000		62,562	
	84.332	044222-RFS2 2001	20,000		44,693	
Total Comprehensive School Reform Demonstration			120,000		107,255	
Twenty-First Century Community Learning Centers	84.287	044222-T1S1-2003	92,933		231,626	
Improving Teacher Quality - State Grants	84.367	044222-TRS1 2003	485,546		460,058	
Class Size Reduction	84.340	044222-CRS1 2002	67,888		39,928	
	84.340	044222-CRS1 2001			23,140	
Total Class Size Reduction			67,888		63,068	
School Renovation Grants	84.352A	044222-ATS3-2002	6,289		6,289	
	84.352A	044222-ATS2-2002	9,865		9,865	
	84.352A	044222-ATS1-2002	(90)			
Total School Renovation Grants			16,064		16,154	
Goals 2000 - State and Local Education Systemic Improvement Grants	84.276	044222-G2S5-2001			7,000	
	84.276	044222-G2S2-2001			38,310	
Total Goals 2000					45,310	
(Passed through Lima Technical College)						
Tech-Prep Education	84.243	044222-TP-00	33,150		26,181	
Total U.S. Department of Education			4,017,837		4,554,150	
U.S. Department of Health and Human Services (Passed through the Ohio Department of Mental Retardation and Developmental Disabilities)						
Medical Assistance Program (CAFS)	93.778	N/A	277,076		277,076	
U.S. Department of Agriculture (Passed through the Ohio Department of Education)						
Child Nutrition Cluster:						
Food Distribution	10.550	N/A		214,000		214,000
School Breakfast Program	10.553	044222-05PU	359,470		359,470	
National School Lunch Program	10.555	044222-LL-P1 & P4	1,028,051		1,028,051	
Summer Food Service Program for Children	10.559	044222-23 & 24 PU	15,277		15,277	
Total U.S. Department of Agriculture			1,402,798	214,000	1,402,798	214,000
Total Federal Financial Assistance			<u>\$5,697,711</u>	<u>\$214,000</u>	<u>\$6,234,024</u>	<u>\$214,000</u>

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

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 2 – NUTRITION CLUSTER

Non-monetary assistance, such as food received from the United States Department of Agriculture, is reported on the schedule at the fair value of the commodities received and consumed. Cash receipts from the United State Department of Agriculture are commingled with state grants. It is assumed federal monies are expended first. At June 30, 2003, the District had no significant commodities in inventory.

NOTE 3 - MATCHING REQUIREMENTS

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

NOTE 4 - TRANSFERS

Due to the elimination of CFDA Nos. 84.281 and 84.340, certain funds were reassigned and reported under CFDA No. 84.367. On the District's cash basis financial statements; this was accomplished by reducing the receipt in the transferring fund and recording the receipt in the receiving fund.

<u>CFDA No.</u>	<u>Project No.</u>	<u>Amount Transferred</u>	<u>CFDA No.</u>	<u>Project No.</u>	<u>Amount Received</u>
84.281	044222-MSS1-2002	(\$3,251)	84.367	044222-TRS1-2003	\$3,251
84.340	044222-CRS1-2002	(63,443)	84.367	044222-TRS1-2003	63,443

NOTE 5 – REFUND OF MONEY

During fiscal year 2003, the District was required to refund certain funds to the Ohio Department of Education. These refunds were recorded as negative receipts on this schedule.

<u>CFDA No.</u>	<u>Project No.</u>	<u>Amount Refunded</u>	<u>Reason for Refund</u>
84.281	044222-MSS1-2001	\$434	Expiration of period of availability
84.352A	044222-ATS1-2002	90	Unspent funds
84.352A	044222-ATS2-2002	72	Unspent funds
84.352A	044222-ATS3-2002	100	Unspent funds

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Auditor of State Betty Montgomery

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

Lima City School District
Allen County
515 South Calumet Avenue
Lima, Ohio 45804

To the Board of Education:

We have audited the financial statements of Lima City School District, Allen County, (the District), as of and for the year ended June 30, 2003, and have issued our report thereon dated September 10, 2004, wherein we noted that the District implemented the basis of accounting previously prescribed by the Auditor of State for financial reporting rather than generally accepted accounting principles which is now required. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-001 through 2003-005. We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated September 10, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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 the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2003-006 and 2003-007.

**Internal Control Over Financial Reporting
(Continued)**

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 conditions described above are material weaknesses.

We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of District in a separate letter dated September 10, 2004.

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

September 10, 2004



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

Lima City School District
Allen County
515 South Calumet Avenue
Lima, Ohio 45804

To the Board of Education:

Compliance

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

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

As described in item 2003-008 in the accompanying schedule of findings, the District did not comply with requirements regarding Special Tests and Provisions that are applicable to its Twenty-First Century Community Learning Centers and Improving Teacher Quality grants. Compliance with such requirements is necessary, in our opinion, for the District to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, 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.

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the accompanying schedule of findings as items 2003-008.

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. Our consideration of the internal control over compliance 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 consider the reportable condition described above, as item 2003-008 to be a material weakness. We also noted another matter involving the internal control over federal compliance that does not require inclusion in this report that we have reported to management of District in a separate letter dated September 10, 2004.

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



Betty Montgomery
Auditor of State

September 10, 2004

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	Yes
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Qualified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	CFDA # 84.010: Title I - Improving Teacher Quality State Grants CFDA # 84.367: Title II, Part A CFDA # 84.287: Twenty-First Century Community Learning Centers CFDA #s 10.550, 10.553, 10.555 & 10.559: Nutrition Cluster
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER - 2003-001

FINDING FOR RECOVERY

Yearbook Sales

Christine Biglow, Yearbook Advisor, was responsible for collecting and depositing revenue from yearbook and candy sales, however, duplicate receipts and corresponding pay-ins issued were greater than amounts deposited. For the period July 1, 2002 through June 30, 2003, the amount of \$2,777, was collected for yearbooks and candy sold but had not been deposited to the District's treasury.

In accordance with the foregoing facts, and pursuant to **Ohio Rev. Code Section 117.28**, a Finding for Recovery for public money collected but not accounted for, is hereby rendered against, Christine Biglow, Yearbook Advisor, in the amount of two thousand, seven hundred and seventy-seven dollars (\$2,777) and in favor of the District's Yearbook Agency Fund.

As of September 8, 2004, four hundred and seventy dollars (\$470) has been repaid through the re-issuance of checks by individuals purchasing a yearbook, leaving a balance of two thousand, three hundred and seven dollars (\$2,307) collected but not accounted for.

FINDING NUMBER - 2003-002

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Admin Code Section 117-2-03 (B) requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). However, the School District prepares its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38, the School District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

The School District should prepare their financial statements in accordance with GAAP.

FINDING NUMBER - 2003-003

Ohio Rev. Code Section 5705.36 allows all subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. An increased amended certificate must be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue. A reduced amended certificate must be obtained if the amount of the deficiency will reduce available resources below the current level of appropriation.

**FINDING NUMBER - 2003-003
(Continued)**

Expenditures had been made in excess of estimated resources throughout the year. Failure to obtain an amended certificate for an increase or deficiency could result in expenditures being made in excess of actual revenue and result in deficit spending.

As of June 30, 2003, the Building Construction Fund had expenditures in the amount of \$59,992,311, and estimated resources of \$57,170,620; therefore the amount expended was greater than the estimated resources for which an amended certificate had not been obtained.

An amended certificate of estimated resources should be obtained whenever it is determined that the revenue to be collected will be significantly greater than the last certificate of estimated resources, and the revenue is intended to be expended.

FINDING NUMBER - 2003-004

Ohio Rev. Code Section 5705.39 states that the total appropriation from each fund should not exceed the total estimated revenue. An appropriation measure is not to become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

As of June 30, 2003, the Building Construction Fund had appropriations in the amount of \$75,858,336, and estimated resources of \$57,170,620; therefore appropriations exceeded estimated resources. The District also received the certificate from the county auditor indicating that the total appropriations from each fund do exceed the official estimate of resources from October 28, 2002 (Permanent Appropriations) and July 7, 2003 (Final Appropriations).

The failure to obtain an amended certificate for an increase or deficiency could result in expenditures being made in excess of actual revenue and result in deficit spending.

Procedures should be developed to monitor estimated resources in relation to proposed appropriations in order to identify any potential appropriation that may exceed estimated resources. The certificate should be obtained from the county auditor that the total appropriations from each fund do not exceed the total official estimate or amended official estimate, whenever new appropriations are enacted.

FINDING NUMBER - 2003-005

Ohio Rev. Code Section 5705.10 states money that is paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund cash balance in any fund indicates that money from another fund or funds has been used to pay the obligations of the fund carrying the deficit balance. The following funds were found to have deficit balances in the months listed, during fiscal year 2003, by a maximum of the amounts listed:

Fund	Months in Deficit	Maximum Deficit Amount
003-9655 – Scoreboard	July through May	\$18,429
006-0000 – Food Service	September, October, November, February, March, and April	246,070
010-9901 – Equipment Reimbursement Building	October through June	55,037
019-9026 – Workforce Grant	July through October	55,428
019-9042 – Workforce Grant	July through June	75,927
035-0000 – Severance/Incentive Reserve Fund	July, August, September, October, January, February, April, and May	75,276
200-9619 – Yearbook II Senior	January through May	11,690
463-9002 – Alternative Education	August, September, October, February, March, and April	31,741
499-9012 – Rebound V	September through June	5,773
499-9039 – Opportunities for Parenting Teens	July	13,381
499-9043 – Opportunities for Parenting Teens	September through November	32,123
514-9062 – Eisenhower Grant	November through June	7,428
516-9305 – Title 6B	August and September	29,153
524-9002 – Perkins – Vocational	August, September, February, and March	14,831
524-9014 – Vocational Tech Prep	July and September through March	5,070
572-9000 – Title I FY2003	August, September, November, January, February, May, and June	198,448
572-9193 – Title I FY 2002	July	28,921
572-9198 – Comprehensive School Reform – North	December and January	6,648
584-9001 – Drug Free Schools	April through June	8,417
587-9305 – Title 6B Preschool	August, September, January, March, April, and June	5,181
590-9001 – Title II-A	September, October, November, January, February, April, May, and June	66,793
599-9007 – Comprehensive School Reform – West	July	10,540
599-9008 – 21 st Century Grant	April through June	138,693

Procedures should be developed to monitor fund balances and identify those funds that may potentially fall into a negative balance. Advances may be made to cover shortfalls. Reference may be made to Audit Bulletin 97-003 for guidance.

FINDING NUMBER - 2003-006

Student Activity Pay-in Procedures

Currently, all money received by any student activity advisor is submitted to the Business Office Secretary, who is responsible for depositing said funds with the District Treasurer. The process requires an advisor to submit a pay-in, along with the money, in an envelope marked with the applicable activity. After the Business Office Secretary verifies the deposit, she will initial the pay-in and return a copy to the respective advisor. However, the deposits are not always counted and verified in a timely manner, in the presence of the respective advisor, leaving the money in the custody of the Business Office Secretary for sometimes up to three or four days at a time. Further, no evidence was found to indicate that the activity advisors are performing a periodic reconciliation between their activity accounts records and the records maintained by the District Treasurer.

Failure to verify the deposit at the time the advisor brings the money to the Business Office Secretary, and the lack of a periodic reconciliation process, could lead to discrepancies in the deposits, and the errors not being detected in a timely manner, which could ultimately lead to a loss of revenue for the activity.

All money brought to the Business Office Secretary for deposit should be counted and verified while the advisor is present. The initialed copy of the pay-in should also be given to the advisor at this time. In addition, each advisor should perform a periodic reconciliation between their activity records and the District Treasurer's records, such as the FINANC report, to account for all pay-ins made by the advisor. Discrepancies, if any, should be investigated and documentation maintained.

FINDING NUMBER - 2003-007

Adherence to Negotiated Agreement

The District has a negotiated agreement with the Lima Education Association, covering teachers within the District. Article XIII of the agreement outlines the calculation of severance payments upon retirement. Severance payments were made during fiscal year 2003 that were not in accordance with the language contained in the negotiated agreement. As a result, a Memorandum of Understanding was adopted by both parties to clarify and correct the original negotiated agreement. The changes and clarification per this Memorandum of Understanding, however, still did not agree with the actual severance payments made by the District for thirty-four teachers retiring during the 2001-02 school year and fifteen teachers retiring during the 2002-03 school year, resulting in questioned severance payments made totaling \$247,081.75 during fiscal 2003. Due to both situations, the School Board and the Lima Education Association has agreed to approve the payments as made, rather than following the original or amended negotiated agreement.

Failure to follow the approved negotiated agreements could lead to payments being made that are not in accordance with the intentions of the negotiating parties (the School District and Union). Further more, failure to abide by the negotiated agreement could open the School District to unnecessary liabilities.

Procedures and controls should be adopted and put into operation to assure that all payments are made in accordance with the negotiated agreement approved the by the District and the Union.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	2003-008
CFDA Title and Number	84.287 - Twenty-First Century Community Learning Centers 84.367 - Improving Teacher Quality – State Grants
Federal Award Number / Year	044222-T1S1-2003 044222-TRS1-2003
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

34 CFR Sections 200.62 through 200.67 state that a State Educational Agency, a Local Educational Agency, or any other educational service agency (or consortium of such agencies) receiving financial assistance must provide eligible private school children and their teachers or other educational personnel with equitable services or other benefits under these programs. Before an agency or consortium makes any decision that affects the opportunity of eligible private school children, teachers, and other educational personnel to participate, the agency or consortium must engage in timely and meaningful consultation with private school officials.

Timely and meaningful consultations were not held with private school officials in regards to the 21st Century and Improving Teacher Quality grants.

Failure to provide and document timely and meaningful consultations with private school officials could lead to a loss of funding for the affected grants.

Timely and meaningful consultations should be held with private school officials. Documentation should be maintained regarding the consultations. In addition, documentation should be maintained of private school's desire to not participate in the federal funded program. This documentation should contain the signature of the private school official.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 §.315 (b)
FOR THE YEAR ENDED JUNE 30, 2002**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2002-10202-001	ORC Sec. 117.28 - Finding for Recovery – Yearbook sales not accounted for	Yes	Currently being repaid via payroll deductions.
2002-10202-002	ORC Sec. 5705.10 – Negative fund balances	No	Repeated
2002-10202-003	ORC Sec. 5705.36 – Failure to obtain amended Certificate of Estimated Resources	No	Repeated
2002-10202-004	ORC Sec. 5705.41(B) – Expenditures exceeded appropriations	No	Included in the management letter for the current audit.
2002-10202-005	ORC Sec. 5705.39 – Appropriations exceeded estimated resources	No	Repeated



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 23, 2004**