

Lima City School District

Allen County, Ohio

Single Audit

July 1, 2006 through June 30, 2007

Fiscal Year Audited Under GAGAS: 2007

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Mary Taylor, CPA
Auditor of State

Board of Education
Lima City School District
515 South Calumet Avenue
Lima, Ohio 45804

We have reviewed the *Independent Auditor's Report* of the Lima City School District, Allen County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Lima City School District is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 7, 2008

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**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lima City School District, Allen County, Ohio (the District), as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

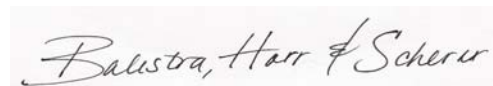
Ohio Administrative Code Section 117-2-03 (B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective cash-basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2007, and the respective changes in cash-basis financial position thereof, and the respective budgetary comparison of the General Fund and the Poverty Based Assistance fund for the year then ended in conformity with the accounting basis described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2008, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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



Balestra, Harr & Scherer, CPAs, Inc.
February 15, 2008

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

This discussion and analysis provides key information from management highlighting the financial performance of the Lima City School District for the year ended June 30, 2007. This is meant to be an easily readable summary of the most important financial information regarding the accompanying financial statements. Please read it in conjunction with the District's basic financial statements and notes to the basic financial statements.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued June, 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

Key financial highlights for 2007 are as follows:

Overall:

- For governmental activities, net assets decreased \$1.8 million, which represents a 16 percent decrease from 2006.
- General receipts accounted for \$37.9 million in receipts or 69 percent of all governmental receipts. Program specific receipts in the form of charges for services and sales and operating and capital grants and contributions accounted for \$17.4 million or 31 percent of total governmental receipts of \$55.2 million.
- The District had \$57.1 million in disbursements related to governmental activities; only \$17.4 million of these disbursements were offset by program specific charges for services and sales and operating and capital grants and contributions. General receipts (primarily grants and entitlements) of \$37.9 million were not adequate to provide for these programs. The District is realizing reduced revenues due to declining student enrollment.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide statements are designed to provide readers with a broad overview of the District's finances. The statement of cash balances presents information on all of the District's cash and investments by activity and by fund type. The statement of receipts, disbursements and changes in cash balances presents information showing how the government's cash balances changed during the most recent fiscal year.

Both of the government-wide financial statements distinguish functions of the District that are principally supported by intergovernmental and taxes revenues. All of the District programs and services are reported here including instruction, support services, administration, operation and maintenance of plant, and extracurricular activities.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental and fiduciary funds.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements and both are presented on the cash basis of accounting.

The District accounts for its activities using many individual funds. The most significant funds are reported in separate columns in the governmental fund financial statements. These statements provide detailed information about the individual major funds - unlike the government-wide financial statements, which report on the District as a whole. The General, Permanent Improvement, Building Construction Project and Poverty Based Assistance Funds are the District's major funds. Some funds are required to be established by State law. Also, the District may establish separate funds to show that it is meeting legal requirements for using grants or other money.

Notes to the basic financial statements. The notes provide additional information related to the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

A. Cash Balances at year-end

The District's cash balances at June 30, 2007 were as follows:

Governmental Activities	\$9,711,132
Fiduciary Activities	282,815

The governmental activities cash balances may be used to meet the government's ongoing obligations to citizens and creditors. The fiduciary activities cash balances are only to be used for scholarships and student managed activities.

B. Change in Net Assets

The following table presents a condensed summary of the District's fiscal year 2007 and 2006 and the resulting change in net assets.

	Governmental	Activities
	FY2007	FY2006
RECEIPTS		
Program Receipts:		
Charges for Services and Sales	\$ 2,226,324	\$ 2,245,465
Operating Grants and Contributions	15,128,823	16,101,582
Capital Grants and Contributions	<u>35,919</u>	<u>564,842</u>
Total Program Receipts	17,391,066	18,911,889
General Receipts:		
Property Taxes	10,258,580	10,042,574
Grants and Entitlements	26,689,103	26,086,332
Gifts and Donations	25,160	16,017
Miscellaneous	251,601	126,061
Investment Earnings	592,479	406,538
Rent	39,554	20,960
Sale and Loss of Assets	80	954,020

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

B. Change in Net Assets (Continued)

General Receipts: (Continued)

Refunding Bonds Issued	0	9,004,990
Premium on Refunding Bond Issued	0	994,593
Refunding Bond Issuance Costs	0	(171,863)
Payment to Refunded Bond Escrow Agent	0	<u>(9,825,593)</u>
Total General Receipts	<u>37,856,557</u>	<u>37,654,629</u>
Total Program and General Receipts	55,247,623	56,566,518

DISBURSEMENTS

Instruction:		
Regular	17,940,814	17,721,979
Special	5,367,479	5,502,870
Vocational	1,841,729	1,717,533
Adult/Continuing	184,253	209,901
Other	6,226,954	5,291,812
Support Services:		
Pupils	3,643,139	3,438,912
Instructional Staff	2,668,126	2,434,538
Board of Education	138,825	176,297
Administration	4,309,310	4,463,759
Fiscal	802,109	867,893
Business	225,572	196,978
Operation and Maintenance of Plant	5,118,765	4,834,042
Pupil Transportation	752,910	532,289
Central	803,965	526,193
Operation of Non-Instructional Services	3,404,485	3,498,493
Extracurricular Activities	650,208	629,436
Capital Outlay	1,342,854	1,293,618
Debt Service:		
Principal	865,000	735,000
Interest and Fiscal Charges	790,225	930,666
Total Program Expenses	<u>57,076,722</u>	<u>55,002,209</u>
Increase (Decrease) in Net Assets	(1,829,099)	1,564,309
Net Assets Beginning of Year (Restated)	<u>11,540,231</u>	<u>9,975,922</u>
Net Assets End of Year	<u>\$ 9,711,132</u>	<u>\$11,540,231</u>

Of the total governmental activities receipts of \$55,247,623, \$17,391,066 (31.5%) is from program receipts. This means that the government relies on general receipts to fund the majority of the cost of services provided to the citizens. Of those general receipts, 27.1% (\$10,258,580) comes from property tax levies and 70.5% (\$26,689,103) is from state and federal funding. The District's operations are reliant upon its property tax levy and the state's foundation program. In FY2007, capital grants and contributions were significantly less than in FY2006 due to the progression of the District building project.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

C. Governmental Activities

The following table presents the total disbursements of each of the government's primary services, and the comparative net after deducting the receipts generated by each function. Approximately 30.5% of the disbursements of the general government programs were recouped in program receipts. Instruction costs were \$31,561,229, but program receipts contributed to fund 27.8% of those costs. Thus, general revenues of \$22,779,238 were used to support the remainder of the instruction costs.

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instruction:		
Regular	\$17,940,814	\$13,819,786
Special	5,367,479	1,843,597
Vocational	1,841,729	1,063,337
Adult/Continuing	184,253	124,820
Other	6,226,954	5,927,698
Support Services:		
Pupils	3,643,139	2,170,537
Instructional Staff	2,668,126	941,060
Board of Education	138,825	134,089
Administration	4,309,310	3,894,053
Fiscal	802,109	725,402
Business	225,572	188,955
Operation and Maintenance of Plant	5,118,765	4,645,723
Pupil Transportation	752,910	121,787
Central	803,965	739,525
Operation of Non-Instructional Services	3,404,485	(27,672)
Extracurricular Activities	650,208	408,102
Capital Outlay	1,342,854	1,309,632
Debt Service:		
Principal	865,000	865,000
Interest and Fiscal Charges	<u>790,225</u>	<u>790,225</u>
Total Program Expenses	<u>\$57,076,722</u>	<u>\$39,685,656</u>

FINANCIAL ANALYSIS OF THE DISTRICT'S INDIVIDUAL FUNDS

Governmental Funds

The District has four major governmental funds: the General, Permanent Improvement, Building Construction Project and Poverty Based Assistance Funds. Receipts of these funds comprise \$43,464,739 (78.7%) of the total \$55,247,599 governmental funds receipts.

General Fund. Fund cash balance at June 30, 2007 was \$1,491,914 which was \$176,449 less than the cash balance at June 30, 2006. The change in the General Fund cash balance is due to reduced revenues caused by declining student enrollment.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Permanent Improvement Fund. Fund cash balance at June 30, 2007 was \$1,202,751, which was \$994,003 less than the cash balance at June 30, 2006. The change in the Permanent Improvement Fund is due to the increased expenditures for land improvements for the athletic fields.

Building Construction Project Fund. Fund cash balance at June 30, 2007 was \$2,112,601, which was \$78,822 less than the cash balance at June 30, 2006. The change in the Building Construction Fund cash balance is due to the progression of the District building project. As of June 30, 2007 all buildings were occupied and in the close out phase of the project.

Poverty Based Assistance Fund. Fund cash balance at June 30, 2007 was \$1,216,458, which was \$172,515 less than the cash balance at June 30, 2006. The change in the Poverty Based Assistance Fund cash balance is expected due to normal operating activities of the fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

The statement comparing the District's General Fund original and final budgets and actual results are included on Page 12. The original budget for a fiscal year is prepared in June each year when the Board adopts temporary appropriations to start the fiscal year that starts July 1. The final budget is adopted and approved by the Board at its June Board meeting each year to close out the year. Each month, when the Board adopts the month end financial reports, it also adopts amended appropriations for activity as needed. The Board also adopts (at least twice a year) a five-year forecast for the current year and the proceeding four years; this document is the working copy of the District's budget for the general fund and emergency levy fund. The District did approve the final forecast in May, 2007. There were no material variances requiring explanation.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The District's financial statements are prepared on the cash basis of accounting and thus, capital assets acquired by the District are recorded as disbursements when paid and have not been capitalized.

Debt. The District did not issue any new debt during the year ended June 30, 2007. The District paid principal of \$865,000 on five bond issues. The District does not record debt balances outstanding on the financial statements. See Note 11 to the financial statements for additional information regarding debt.

CURRENT ISSUES AFFECTING FINANCIAL CONDITIONS

State law fixes the amount of tax revenue, forcing it to remain constant except for new valuations in the District. Management must plan expenses accordingly, staying within the District's five-year plan.

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 decisions are 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 the decision will have on its future State funding and on its financial operations. Due to the unsettled issues in the school funding, management is required to plan carefully and prudently to provide the resources to meet student needs over the next several years.

REQUESTS FOR ADDITIONAL INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ryan S. Stechschulte, Treasurer at Lima City School District, 515 S. Calumet Avenue, Lima, Ohio 45804.

Lima City School District
Statement of Net Assets - Cash Basis
June 30, 2007

	<u>Governmental</u> <u>Activities</u>
ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 9,711,132
<i>Total Assets</i>	\$ 9,711,132
NET ASSETS:	
Restricted for Capital Outlay	3,921,435
Restricted for Other Purposes	4,297,783
Unrestricted	<u>1,491,914</u>
<i>Total Net Assets</i>	<u>\$ 9,711,132</u>

See accompanying notes to the basic financial statements.

Lima City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2007

	Disbursements	Program Revenues			Net (Disbursements)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Receipts and Changes in Net Assets
					Governmental Activities
Governmental Activities:					
Instruction:					
Regular	\$ 17,940,814	\$ 477,556	\$ 3,643,472	\$ -	\$ (13,819,786)
Special	5,367,479	117,324	3,406,558	-	(1,843,597)
Vocational	1,841,729	93,957	684,435	-	(1,063,337)
Adult/Continuing	184,253	4,330	55,103	-	(124,820)
Other	6,226,954	206,501	92,755	-	(5,927,698)
Support Services:					
Pupils	3,643,139	73,615	1,398,987	-	(2,170,537)
Instructional Staff	2,668,126	25,846	1,701,220	-	(941,060)
Board of Education	138,825	4,736	-	-	(134,089)
Administration	4,309,310	135,051	280,206	-	(3,894,053)
Fiscal	802,109	24,087	52,620	-	(725,402)
Business	225,572	36,617	-	-	(188,955)
Operation and Maintenance of Plant	5,118,765	161,805	308,967	2,270	(4,645,723)
Pupil Transportation	752,910	20,434	610,689	-	(121,787)
Central	803,965	25,440	39,000	-	(739,525)
Operation of Non-Instructional Services	3,404,485	577,346	2,854,811	-	27,672
Extracurricular Activities	650,208	241,679	-	427	(408,102)
Capital Outlay	1,342,854	-	-	33,222	(1,309,632)
Debt Service:					
Principal	865,000	-	-	-	(865,000)
Interest and Fiscal Charges	790,225	-	-	-	(790,225)
Total Governmental Activities	\$ 57,076,722	\$ 2,226,324	\$ 15,128,823	\$ 35,919	(39,685,656)
General Revenues and Other Financing Sources and Uses					
Grants and Entitlements not Restricted to Specific Programs					26,689,103
Gifts and Donations					25,160
Investment Earnings					592,479
Miscellaneous					251,601
Property and Other Local Taxes					10,258,580
Rent					39,554
Sale and Loss of Assets					80
Total General Receipts					<u>37,856,557</u>
Change in Net Assets					(1,829,099)
Net Assets Beginning of Year					<u>11,540,231</u>
Net Assets End of Year					<u>\$ 9,711,132</u>

See accompanying notes to the basic financial statements.

Lima City School District
Statement of Assets and Fund Balances - Cash Basis
Governmental Funds
June 30, 2007

	<u>General Fund</u>	<u>Permanent Improvement Fund</u>	<u>Building Construction Project</u>	<u>Poverty Based Assistance</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:						
Equity in Pooled Cash and Cash Equivalents	\$ 1,491,914	\$ 1,202,751	\$ 2,112,601	\$ 1,216,458	\$ 3,687,408	\$ 9,711,132
<i>Total Assets</i>	<u>1,491,914</u>	<u>1,202,751</u>	<u>2,112,601</u>	<u>1,216,458</u>	<u>3,687,408</u>	<u>9,711,132</u>
FUND BALANCES:						
Reserved:						
Reserved for Encumbrances	342,951	154,254	430,430	-	445,927	1,373,562
Reserved for Unclaimed Monies	5,413	-	-	-	-	5,413
Unreserved, Undesignated, Reported in:						
General Fund	1,143,550	-	-	-	-	1,143,550
Special Revenue Funds	-	-	-	1,216,458	2,789,652	4,006,110
Capital Projects Funds	-	1,048,497	1,682,171	-	451,829	3,182,497
<i>Total Fund Balances</i>	<u>\$ 1,491,914</u>	<u>\$ 1,202,751</u>	<u>\$ 2,112,601</u>	<u>\$ 1,216,458</u>	<u>\$ 3,687,408</u>	<u>\$ 9,711,132</u>

See accompanying notes to the basic financial statements.

Lima City School District
Statement of Cash Receipts, Disbursements, and Changes in Fund Balances - Cash Basis
Governmental Funds
For the Fiscal Year Ended June 30, 2007

	General Fund	Permanent Improvement Fund	Building Construction Fund	Poverty Based Assistance	All Other Governmental Funds	Total Governmental Funds
REVENUES:						
Property and Other Local Taxes	\$ 8,803,225	\$ -	\$ -	\$ -	\$ 1,455,355	\$ 10,258,580
Intergovernmental	29,323,144	-	-	3,081,562	8,994,220	41,398,926
Interest	396,612	74,198	103,610	-	18,059	592,479
Tuition and Fees	1,319,954	-	-	-	36,485	1,356,439
Rent	39,554	-	-	-	-	39,554
Extracurricular Activities	-	-	-	-	261,726	261,726
Gifts and Donations	-	11,635	-	-	432,525	444,160
Customer Sales and Services	33,261	-	-	-	574,898	608,159
Miscellaneous	253,049	24,935	-	-	9,592	287,576
<i>Total Revenues</i>	<u>40,168,799</u>	<u>110,768</u>	<u>103,610</u>	<u>3,081,562</u>	<u>11,782,860</u>	<u>55,247,599</u>
EXPENDITURES:						
Current:						
Instruction:						
Regular	14,100,806	-	-	2,227,854	1,612,154	17,940,814
Special	3,483,965	-	-	118,992	1,764,522	5,367,479
Vocational	1,773,517	-	-	-	68,212	1,841,729
Adult/Continuing	130,294	-	-	-	53,959	184,253
Other	6,129,125	-	-	97,829	-	6,226,954
Support Services:						
Pupils	2,184,543	-	-	723,253	735,343	3,643,139
Instructional Staff	767,735	-	-	86,149	1,814,242	2,668,126
Board of Education	138,825	-	-	-	-	138,825
Administration	4,008,304	-	-	-	301,006	4,309,310
Fiscal	713,396	-	3,915	-	84,798	802,109
Business	169,196	-	-	-	56,376	225,572
Operation and Maintenance of Plant	4,796,156	69,789	-	-	252,820	5,118,765
Pupil Transportation	606,914	-	-	-	145,996	752,910
Central	756,714	-	8,251	-	39,000	803,965
Operation of Non-Instructional Services	-	-	-	-	3,404,485	3,404,485
Extracurricular Activities	417,996	13,177	-	-	219,035	650,208
Capital Outlay	906	1,021,805	170,266	-	149,877	1,342,854
Debt Service:						
Principal	-	-	-	-	865,000	865,000
Interest	-	-	-	-	790,225	790,225
<i>Total Expenditures</i>	<u>40,178,392</u>	<u>1,104,771</u>	<u>182,432</u>	<u>3,254,077</u>	<u>12,357,050</u>	<u>57,076,722</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	(9,593)	(994,003)	(78,822)	(172,515)	(574,190)	(1,829,123)
OTHER FINANCING SOURCES AND USES:						
Transfers In	-	-	-	-	166,800	166,800
Sale and Loss of Assets	-	-	-	-	80	80
Transfers Out	(166,856)	-	-	-	-	(166,856)
<i>Total Other Financing Sources and Uses</i>	<u>(166,856)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>166,880</u>	<u>24</u>
<i>Net Change in Fund Balances</i>	(176,449)	(994,003)	(78,822)	(172,515)	(407,310)	(1,829,099)
<i>Fund Balance at Beginning of Year</i>	<u>1,668,363</u>	<u>2,196,754</u>	<u>2,191,423</u>	<u>1,388,973</u>	<u>4,094,718</u>	<u>11,540,231</u>
<i>Fund Balance at End of Year</i>	<u>\$ 1,491,914</u>	<u>\$ 1,202,751</u>	<u>\$ 2,112,601</u>	<u>\$ 1,216,458</u>	<u>\$ 3,687,408</u>	<u>\$ 9,711,132</u>

See accompanying notes to the basic financial statements.

Lima City School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
GENERAL FUND
For the Fiscal Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES:				
Property and Other Local Taxes	\$ 7,969,424	\$ 8,616,643	\$ 8,803,225	\$ 186,582
Intergovernmental	32,121,132	29,323,144	29,323,144	-
Interest	239,131	375,370	396,612	21,242
Tuition and Fees	1,233,478	1,317,489	1,319,954	2,465
Rent	20,960	39,254	39,554	300
Customer Sales and Services	29,441	40,564	33,261	(7,303)
Miscellaneous	259,282	252,808	253,049	241
Total Revenues	41,872,848	39,965,272	40,168,799	203,527
EXPENDITURES:				
Current:				
Instruction:				
Regular	15,611,975	14,218,065	14,183,040	35,025
Special	3,436,854	3,521,477	3,484,297	37,180
Vocational	1,774,839	1,929,633	1,788,784	140,849
Adult/Continuing	147,630	141,766	130,294	11,472
Other	5,967,515	6,238,362	6,165,531	72,831
Support Services:				
Pupils	2,067,577	2,242,374	2,186,573	55,801
Instructional Staff	836,059	848,718	783,515	65,203
Board of Education	209,636	147,811	144,987	2,824
Administration	4,433,873	4,074,567	4,020,418	54,149
Fiscal	836,600	734,632	721,498	13,134
Business	173,087	178,328	170,098	8,230
Operation and Maintenance of Plant	5,349,973	5,138,052	4,951,031	187,021
Pupil Transportation	570,766	618,845	610,286	8,559
Central	689,087	790,380	762,171	28,209
Extracurricular Activities:				
Academic Oriented Activities	53,659	58,004	50,154	7,850
Sport Oriented Activities	298,368	299,182	284,462	14,720
Co-Curricular Activities	85,057	87,477	83,377	4,100
Capital Outlay:				
Other Facilities Acquisition and Construction	5,000	1,000	906	94
Total Expenditures	42,547,555	41,268,673	40,521,422	747,251
Excess of Revenues Over (Under) Expenditures	(674,707)	(1,303,401)	(352,623)	950,778
OTHER FINANCING SOURCES AND USES:				
Sale and Loss of Assets	163,700	-	-	-
Transfers Out	(400,000)	(172,480)	(166,856)	5,624
Total Other Financing Sources and Uses	(236,300)	(172,480)	(166,856)	5,624
Net Change in Fund Balances	(911,007)	(1,475,881)	(519,479)	956,402
Fund Balance (Deficit) at Beginning of Year	1,255,731	1,255,731	1,255,731	-
Prior Year Encumbrances Appropriated	412,661	412,661	412,661	-
Fund Balance (Deficit) at End of Year	\$ 757,385	\$ 192,511	\$ 1,148,913	\$ 956,402

See accompanying notes to the basic financial statements.

Lima City School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
POVERTY BASED ASSISTANCE
For the Fiscal Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES:				
Intergovernmental	\$ 3,151,487	\$ 3,081,562	\$ 3,081,562	\$ -
EXPENDITURES:				
Current:				
Instruction:				
Regular	1,253,163	2,229,682	2,227,854	1,828
Special	78,783	118,992	118,992	-
Other	58,836	101,674	97,829	3,845
Support Services:				
Pupils	730,611	735,278	723,253	12,025
Instructional Staff	75,500	86,304	86,149	155
Total Expenditures	<u>2,196,893</u>	<u>3,271,930</u>	<u>3,254,077</u>	<u>17,853</u>
Excess of Revenues Over (Under) Expenditures	954,594	(190,368)	(172,515)	17,853
OTHER FINANCING SOURCES AND USES:				
Other Financing Uses	<u>(2,343,567)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(1,388,973)	(190,368)	(172,515)	17,853
Fund Balance (Deficit) at Beginning of Year	1,388,973	1,388,973	1,388,973	-
Prior Year Encumbrances Appropriated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance (Deficit) at End of Year	<u>\$ -</u>	<u>\$ 1,198,605</u>	<u>\$ 1,216,458</u>	<u>\$ 17,853</u>

See accompanying notes to the basic financial statements.

Lima City School District
Statement of Fiduciary Net Assets - Cash Basis
Fiduciary Funds
June 30, 2007

	Private Purpose Trust Fund	Agency Fund
ASSETS:		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ 242,339	\$ 40,476
<i>Total Assets</i>	242,339	40,476
NET ASSETS:		
Held in Trust for Scholarships	242,339	-
Unrestricted	-	40,476
<i>Total Net Assets</i>	\$ 242,339	\$ 40,476

See accompanying notes to the basic financial statements.

Lima City School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2007

	Private Purpose Trust Funds
ADDITIONS:	
Gifts and Contributions	\$ 82,808
Interest	10,347
<i>Total Additions</i>	93,155
DEDUCTIONS:	
Payments in Accordance with Trust Agreements	107,036
<i>Total Deductions</i>	107,036
<i>Change in Net Assets</i>	(13,881)
<i>Net Assets Beginning of Year</i>	256,220
<i>Net Assets End of Year</i>	\$ 242,339

See accompanying notes to the basic financial statements.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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 in 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 232 non-certificated employees and 462 certificated full-time teaching personnel who provide services to 4,750 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 ensure 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. The District has no component units which are significant in relation to the basic financial statements of the District.

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 group purchasing 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.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Although Ohio Administrative Code Section 117-2-03 (B) requires the District's financial report to follow generally accepted accounting principles (GAAP), the District chooses to prepare its financial statements and notes in accordance with the cash basis of accounting. The District recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred.

The District also reports long-term investments as assets, valued at cost. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved). Differences between disbursements reported in the government-wide and fund financial statements versus budgetary expenditures result from encumbrances outstanding at the beginning and end of the fiscal year.

B. Basis of Presentation

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

1. Government-Wide Financial Statements

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

The statement of net assets presents the cash balance of the governmental activities of the District at fiscal year-end. The statement of activities compares disbursements with program receipts for each function or program of the District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the District's general receipts.

2. Fund Financial Statements

During the fiscal year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance.

Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

C. Fund Accounting

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

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Accounting (Continued)

1. Governmental Funds:

The District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The District's major funds are the General, Permanent Improvement, Building Construction Project and Poverty Based Assistance Funds.

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

Permanent Improvement Fund - The Permanent Improvement Fund is used to account for all transactions related to the acquiring, constructing, or improving of such permanent improvements as are authorized by Chapter 5705, Revised Code.

Building Construction Project Fund - The Building Construction Project Fund is used to account for monies received and expended in connection with contracts entered into by the District and the Ohio Department of Education for the building and equipping of classroom facilities.

Poverty Based Assistance Fund - The Poverty Based Assistance Fund is used to account for monies received and expended in accordance with the requirements of Poverty Based Assistance funding. Poverty Based Assistance is one aspect of the building blocks of school funding and has replaced Disadvantaged Pupil Impact Aid (DPIA) funding.

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

2. Fiduciary Funds:

The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are not available to support the District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for various student-managed activities. The District's private purpose trust fund accounts for scholarship activities. In accordance with GASB 34, fiduciary funds are not included in the government-wide statements.

D. Budgetary Process

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

D. Budgetary Process (Continued)

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

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

E. Cash and Investments

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

During fiscal year 2007, investments were limited to Federal National Mortgage Association, Federal Home Loan Bank, Federal Home Loan Mortgage, Federal Farm Credit Bank, US Treasury Money Market Funds and STAR Ohio. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2007.

Following Ohio Statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2007 was \$396,612.

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

F. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. The financial statements do not report these assets.

G. Compensated Absences

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.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Long-Term Liabilities

Cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when disbursements are made.

I. Interfund Activity

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

J. Net Assets

Net cash assets represent cash assets held by the District at year-end. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. Restricted for Other Purposes is comprised of net assets restricted for grants. The District applies restricted resources when a cash disbursement is made for purposes for which both restricted and unrestricted net assets are available. As of June 30, 2007, of the District's \$8,219,218 restricted net assets, \$0 was restricted by enabling legislation.

3. ACCOUNTABILITY AND COMPLIANCE

Ohio Administrative Code § 117-2-03(B) requires the District to prepare its annual financial report in accordance with generally accepted principles. The District prepares its financial statements in accordance with the cash basis of accounting in a report format similar to the requirements of Governmental Accounting Standards Board Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This is contrary to Ohio Administrative Code § 117-2-03(B).

4. 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.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

4. DEPOSITS AND INVESTMENTS (Continued)

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

Interim monies 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 the payment of 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;
- 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, its political subdivisions, or other units or agencies of this State or its political subdivisions;
- e. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
- f. No load money market mutual funds consisting exclusively of obligations described in division (a) or (b) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
- g. The State Treasurer's investment pool (STAR Ohio);
- h. Securities lending agreements in which the District lends securities and the eligible institution agrees to exchange either securities described in division (a) or (b), or cash, or both securities and cash, equal value for equal value;
- i. High grade commercial paper in an amount not to exceed five percent of the District's total average portfolio;
- j. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the District's total average portfolio.

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.

4. DEPOSITS AND INVESTMENTS (Continued)

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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.

A. Cash on Hand

At fiscal year end, the District had \$200 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

Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, the carrying amount of the District's deposits was \$4,760,279, and the bank balance was \$5,761,449. Of the bank balance, \$500,000 was covered by federal depository insurance and \$5,261,449 was exposed to custodial credit risk because it was 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.

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

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.

Description	Market Value	Investment Maturities (in years)		Credit Rating S&P
		Less than 1	1-5	
June 30, 2007:				
Federal National Mortgage Association	1,596,904	399,451	1,197,453	AAA
Federal Home Loan Bank	1,113,730	199,965	913,765	AAA
Federal Home Loan Mortgage	430,034	-	430,034	AAA
Federal Farm Credit Bank	561,643	-	561,643	AAA
US Treasury Money Market Funds	148,102	148,102	-	AAA
STAR Ohio	1,376,614	1,376,614	-	AAA
Total Investments	<u>\$ 5,227,027</u>	<u>\$ 2,124,132</u>	<u>\$ 3,102,895</u>	

The District uses the cash basis of accounting and records all investments at cost rather than at market value. This is the reason for the differences between investments in the above schedule and the reconciliation.

4. DEPOSITS AND INVESTMENTS (Continued)

Interest Rate Risk – The District does have a formal investment policy that limits investment maturities as a means

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

of managing its exposure to fair value losses arising from increasing interest rates. In practice, the District manages its exposure to declines in fair values by limiting the maximum maturity of its investment portfolio to five years.

Credit Risk –The District limits their investments to Repurchase Agreements, Federal National Mortgage Association, Federal Home Loan Bank, Federal Home Loan Mortgage, Federal Farm Credit Bank, US Treasury Money Market Funds and STAR Ohio.

Concentration of Credit Risk – The District’s investment policy allows investments in Repurchase Agreements, US Government Securities and Instrumentalities, Money Market Mutual Funds and STAR Ohio and allowable investments as defined by Ohio Revised Code Sections 133 and 135. The District has invested 31% in Federal National Mortgage Association, 21% in Federal Home Loan Bank, 8% in Federal Home Loan Mortgage, 11% in Federal Farm Credit Bank, 3% in US Treasury Money Market Funds, and 26% in Star Ohio.

Custodial Credit Risk - Custodial credit risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the District’s securities are either insured and registered in the name of the District or at least registered in the name of the District, other than the District’s repurchase agreements which are exposed to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty’s trust department or agent but not in the District’s name. The District has no investment policy dealing with investment custodial risk beyond the requirement in state statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

The classification of cash and cash equivalents and investments on the financial statements is based on the criteria set forth in GASB Statement No. 9, “Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting.” A reconciliation between the classification of cash and cash equivalents and investments on the financial statements and the classification of deposits and investments according to GASB Statement No. 40 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$9,993,947	\$ 0
Cash on Hand	(200)	
Investments:		
Federal National Mortgage Association	(1,599,040)	1,599,040
Federal Home Loan Bank	(1,112,627)	1,112,627
Federal Home Loan Mortgage	(432,061)	432,061
Federal Farm Credit Bank	(565,024)	565,024
US Treasury Money Market Funds	(148,102)	148,102
STAR Ohio	<u>(1,376,614)</u>	<u>1,376,614</u>
GASB Statement No. 40	<u>\$ 4,760,279</u>	<u>\$5,233,468</u>

5. 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.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
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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 2007 represent the collection of calendar year 2006 taxes. Real property taxes for calendar year 2007 are levied after April 1, 2006, on the assessed values as of January 1, 2006, 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 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien December 31, 2005, were levied after April 1, 2006 and are collected 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 2007 (other than public utility property) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value as of December 31, 2006. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three 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.

The assessed values upon which the fiscal year 2007 taxes were collected are:

	2006 Second- Half Collections		2007 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$281,861,730	82.83%	\$300,374,710	85.70%
Public Utility	19,017,700	5.59%	20,410,800	5.82%
Tangible Personal	<u>39,425,484</u>	<u>11.58%</u>	<u>\$ 29,727,305</u>	<u>8.48%</u>
Total Assessed Value	<u>\$340,304,914</u>	<u>100.00%</u>	<u>\$350,512,815</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$43.22		\$40.87	

6. 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 2007, the District

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contracted with Indiana Insurance for property, general liability and business personal property insurance. Limits for these coverages are \$116,560,575, \$1,000,000 each occurrence and \$25,000,000, 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 \$1,000 deductible for collisions. Automobile liability has a \$1,000,000 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 Ohio Casualty Group for a total of \$160,000.

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.

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.

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. 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 per 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 43215-3746 or by calling (614) 222-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

7. DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employees Retirement System (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of

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annual covered payroll. For fiscal year 2007, 10.68 percent was the portion allocated to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$731,807, \$776,326, and \$662,405, respectively; which is the required contribution for those years.

B. State Teachers Retirement System

The School District contributed to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer defined benefit pension plan. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported in whole or in part, by the state or any political subdivision thereof. STRS Ohio provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. STRS Ohio 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 STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, or by calling (614)227-4090, or by visiting the STRS Ohio website at www.strsoh.org.

Plan Options – New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. 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.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation of every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

7. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and

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termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. 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.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio's public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance. Effective April 11, 2005, a reemployed retiree may alternatively receive a refund of member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3% of the original base amount.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A Defined Benefit 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. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent. For fiscal year 2007, 13 percent was the portion allocated to fund pension obligations. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contributions for pension obligations to STRS for fiscal years ended June 30, 2007, 2006, and 2005 were \$3,004,521, \$3,060,746, and \$2,896,088, respectively; which is the required contribution for those years.

7. DEFINED BENEFIT PENSION PLANS (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2007, 2 members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

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8. POST RETIREMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for healthcare coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of the coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$231,117 during the 2007 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2007 the balance in the Fund was \$4.1 billion. For the year ended June 30, 2007, net health care costs paid by STRS were \$265,558,000 and STRS had 122,934 eligible benefit recipients.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premiums. The portion is based on years of service, Medicare eligibility and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, the health care allocation is 3.32%. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay has been established as \$35,800. For the School District, the amount to fund health care benefits, including the surcharge, equaled \$330,779 during the 2007 fiscal year.

8. POST RETIREMENT BENEFITS (Continued)

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2006 (the latest information available) were \$158,751,207. The target level for the health care fund is 150% of the projected claims less premium contributions for the next fiscal year. As of June 30, 2006 (the latest information available), the value of the health care fund was \$295.6 million, which is about 221% of next year's projected net health care costs. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a

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health care reserve equal to at least 150% of estimated annual net claim costs. The number of participants eligible to receive benefits is 59,492.

9. OTHER EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vacation and sick leave benefits is derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. The superintendent and treasurer earn twenty five days of vacation per year. Accumulated unused vacation time is paid to classified employees, the superintendent and the treasurer upon termination of employment. Teachers do not earn vacation time.

10. LONG-TERM DEBT OBLIGATIONS

Under the cash basis of accounting, debt obligations are not reported as a liability in the accompanying basic financial statements. However, information regarding such changes in the District's general long-term obligations (excluding capital leases and compensated absences) during 2007 is as follows:

	Principal Outstanding 6/30/06	Additions	Deletions	Principal Outstanding 6/30/07	Amount Due Within One Year
General Long-Term Obligations:					
General Obligation Bonds - 2000 School Facilities-Variou Purpose - Serial and Term Bonds 5-6%	\$1,150,000	\$0	\$255,000	\$895,000	\$265,000
Capital Appreciation Bonds 9.99%	300,997	0	0	300,997	0
General Obligation Bonds - 2000 School Facilities Serial and Term Bonds 4.7-5.5%	2,625,000	0	385,000	2,240,000	405,000
Capital Appreciation Bonds 10.73%	384,999	0	0	384,999	0
General Obligation Bonds- Various Purpose - 2001 Serial and Term Bonds 5.0%	1,375,000	0	75,000	1,300,000	215,000
General Obligation Bonds - 2003 School Improvement Serial and Term Bonds 2 -4.8%	4,634,996	0	55,000	4,579,996	60,000
Capital Appreciation Bonds 24.578%	50,125	0	0	50,125	0
General Obligation Bonds - 2005 School Facilities Refunding Serial and Term Bonds 3-5%	8,540,000	0	95,000	8,445,000	120,000
Capital Appreciation Bonds 24.33%	<u>464,990</u>	<u>0</u>	<u>0</u>	<u>464,990</u>	<u>0</u>
Total Long-Term Obligations	<u>\$19,526,107</u>	<u>\$0</u>	<u>\$865,000</u>	<u>\$18,661,107</u>	<u>\$1,065,000</u>

10. LONG-TERM DEBT OBLIGATIONS (Continued)

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 period. The total budget for the project is \$104,029,247, of which \$92,663,247 was awarded in

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school facilities monies and \$11,366,000 is the District's share of the project. In fiscal year 2007, the District did not receive any 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. This debt is not reflected in the general long-term obligations schedule above.

School Facilities Bonds – Various Purpose - 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 were 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. On November 10, 2005, a portion of these bonds were refunded. The bonds are being retired with a voted 5.1 mill property tax levy from the Debt Service Fund with a final maturity date of December 1, 2013.

School Facilities Bonds - Classroom Facilities - 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 were 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. 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. On November 10, 2005, a portion of these bonds were refunded. The bonds are being retired with a voted 5.1 mill property tax levy from the Debt Service Fund with a final maturity date of December 1, 2014.

Various Purpose 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 are being retired from the Debt Service Fund.

School Improvement Bonds – On October 22, 2003, the District issued \$4,764,996 of general obligation bonds authorized pursuant to a vote of the electors of the District at an election held May 6, 2003 under the authority of the Ohio Revised Code Chapter 133. The proceeds of the Bonds were used to pay costs of improving, construction, reconstructing, renovating, remodeling, enlarging, furnishing and equipping (including educational technology) building and facilities and acquiring and improving sites for school purposes. The bond issue included serial, term and capital appreciation bonds in the amount of \$1,625,000, \$3,050,000 and \$89,996, respectively. The bonds were issued for a twenty five-year period with final maturity December 1, 2028. The bonds are being retired from the Debt Service Fund.

10. LONG-TERM DEBT OBLIGATIONS (Continued)

School Facilities Advance Refunding Bonds – On November 10, 2005, the District issued \$8,540,000 in serial and term bonds and \$464,990 in capital appreciation bonds to provide resources to purchase U.S. Government Securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the following debt. The District placed \$9,825,593 with the refunding bond escrow agent to advance refund \$3,970,000 of the School Facilities Bonds – Various Purpose dated June 1, 2000 and maturing on December 1, 2022 and \$5,035,000 of the School Facilities Bonds – Classroom Facilities dated June 15, 2000 and maturing on December 1, 2022. The bonds were issued for a seventeen-year period with final maturity December 1, 2022. The bonds are being retired from the Debt Service Fund. The amounts of each of the bond issues which

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were advance refunded are considered defeased and as such are not shown in the accompanying schedule of changes in general long-term obligations.

The capital appreciation bonds issued on June 1, 2000 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. However, under the cash basis of accounting, the outstanding balance in the schedule of changes in general long-term obligations is recorded at the original issue amount and no accretion is reported.

The capital appreciation bonds issued on June 15, 2000 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. However, under the cash basis of accounting, the outstanding balance in the schedule of changes in general long-term obligations is recorded at the original issue amount and no accretion is reported.

The general obligation term bonds issued on October 22, 2003, due on December 1, 2028, are subject to mandatory sinking fund redemption in part by lot pursuant to the terms of the mandatory sinking fund redemption requirements of the Authorizing Legislation. The mandatory redemption is at a redemption price equal to 100% of the principal amount redeemed, plus accrued interest to the date of redemption date, as follows:

Year	Principal Amount to be Redeemed
2014	155,000
2016	200,000
2018	240,000
2024	325,000
2026	360,000
2027	375,000

The capital appreciation bonds are not subject to redemption prior to scheduled maturity. The capital appreciation bonds will mature in fiscal years 2005 through 2012. The maturity amount of the bonds is \$375,000. However, under the cash basis of accounting, the outstanding balance in the schedule of changes in general long-term obligations is recorded at the original issue amount and no accretion is reported.

The capital appreciation bonds issued on November 10, 2005 are not subject to redemption prior to scheduled maturity. The capital appreciation bonds will mature in fiscal years 2015 and 2016. The maturity amount of the bonds is \$2,045,000. However, under the cash basis of accounting, the outstanding balance in the schedule of changes in general long-term obligations is recorded at the original issue amount and no accretion is reported.

10. LONG-TERM DEBT OBLIGATIONS (Continued)

Principal and interest requirements to retire the bonds outstanding at June 30, 2007 are as follows:

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Fiscal Year Ending	Principal	Interest	Total
2008	\$ 1,065,000	\$ 745,204	\$ 1,810,204
2009	1,120,000	693,878	1,813,878
2010	1,123,201	697,230	1,820,431
2011	1,055,253	786,312	1,841,565
2012	786,806	850,807	1,637,613
2013-2017	2,980,847	5,502,808	8,483,655
2018-2022	6,880,000	1,529,898	8,409,898
2023-2027	2,885,000	407,010	3,292,010
2028-2029	<u>765,000</u>	<u>37,080</u>	<u>802,080</u>
Total	<u>\$18,661,107</u>	<u>\$11,250,227</u>	<u>\$29,911,334</u>

11. INTERFUND ACTIVITY

The following interfund activity occurred during the fiscal year:

	Transfers In	Transfers Out
General Fund	\$ -	\$ 166,856
Non-Major Special Revenue Funds		
Gifted Supplement	3,015	
Severance Incentive	<u>21,910</u>	<u>-</u>
Total Non-Major Special Revenue Funds	24,925	-
Non-Major Debt Service Fund		
Bond Retirement	<u>141,875</u>	<u>-</u>
Total Non-Major Debt Service Funds	141,875	-
Total Governmental Funds	166,800	166,856
Non-Major Agency Fund		
Future Homemakers	<u>56</u>	<u>-</u>
Total Non-Major Agency Funds	56	-
Total Transfers In/Out	<u>\$ 166,856</u>	<u>\$ 166,856</u>

General Fund (Major fund) transfers were made to the Gifted Supplement Fund (Non-Major Special Revenue Fund), Severance Incentive Fund (Non-Major Special Revenue Fund), Bond Retirement Fund (Non-Major Debt Service Fund) and the Future Homemakers Fund (Non-Major Agency Fund). These transfers were routine and were made for the transfer of the FY06 carryover amount previously reported in the General Fund, severance payouts, the retirement of debt and to eliminate a deficit fund balance, respectively.

All intrafund transfers were eliminated for purposes of reporting in the District-Wide Financial Statements since they were within the fund.

12. STATUTORY RESERVES

The 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, 2007, the reserve activity was as follows:

Capital

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	Textbooks	Acquisition
Set-aside Cash Balance as of June 30, 2006	(\$ 753,635)	(\$20,143,457)
Current Year Set-aside Requirement	777,894	777,894
Current Year Offsets	0	(123,820)
Qualifying Disbursements	(<u>1,252,349</u>)	(<u>1,100,271</u>)
Total	(<u>\$1,228,090</u>)	(<u>\$20,589,654</u>)

Qualifying expenditures for the textbook reserve exceeded the required set aside by \$1,228,090 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.

13. CONTRACTUAL COMMITMENTS

As of June 30, 2007, the District had a contractual commitment to Tuttle Barton Malow for engineering fees in the amount of \$321,045 and to R.D. Jones Excavating, Inc. for site work on the athletic fields in the amount of \$111,705.

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.

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,

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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 to 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.

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

Lima Public Library - 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.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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, 2007.

B. Litigation

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

18. BUDGETARY BASIS FUND BALANCES FUND BALANCES

Differences between the budgetary basis fund balances and fund cash balances are due to encumbrances. The table below presents those differences for the School District's General and Special Revenue major:

	<u>General Fund</u>	<u>Poverty Based Assistance Fund</u>
Budgetary Basis Fund Balance	\$1,148,913	\$1,216,458
Encumbrances	<u>343,001</u>	<u>0</u>
Fund Cash Balance	<u>\$1,491,914</u>	<u>\$1,216,458</u>

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**SCHEDULE OF FEDERAL AWARD RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Federal Grantor/ Pass-Through Grantor/ Program Titles	Pass Through Number	CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. Department of Education						
<i>(Passed through the Ohio Department of Education)</i>						
Special Education Cluster:						
Special Education - Grants to States	6BSF	84.027	\$ 1,365,490	\$ -	\$ 1,546,590	\$ -
Special Education - Preschool Grants	PGS1	84.173	61,056	-	58,212	-
Total Special Education Cluster			1,426,546	-	1,604,802	-
<i>(Passed through the Ohio Department of Education)</i>						
Adult Education - State Grant Program	ABS1	84.002	112,269	-	109,940	-
Title I Grants to Local Educational Agencies	C1S1 & C1SK	84.010	2,215,136	-	2,643,095	-
Vocational Education - Basic Grants to States	20C1	84.048	121,006	-	137,278	-
Safe and Drug-Free Schools and Communities - State Grants	DRS1	84.186	38,294	-	40,195	-
Education for Homeless Children and Youth	HCS1	84.196	30,442	-	31,559	-
Twenty-First Century Community Learning Centers	T1S1	84.287	287,236	-	272,885	-
Innovative Education Programs Strategies	C2S1	84.298	3,089	-	9,801	-
Educational Technology State Grants	TJS1 & TJSL	84.318	396,596	-	367,947	-
Comprehensive School Reform Demonstration	RFK3	84.332	103,725	-	101,014	-
Improving Teacher Quality - State Grants	TRS1	84.367	435,097	-	529,717	-
Hurricane Education Recovery	HRO1	84.938	13,872	-	16,123	-
Total U.S. Department of Education			3,756,762	-	4,259,554	-
Corporation for National and Community Service						
<i>(Passed through the Ohio Department of Education)</i>						
Learn and Serve America_School and Community Based Programs	SVS1	94.004	2,034	-	1,446	-
Total Corporation for National and Community Service			2,034	-	1,446	-
U.S. Department of Health and Human Services						
<i>(Passed through the Ohio Department of Education)</i>						
Temporary Assistance for Needy Families	N/A	93.558	-	-	5,959	-
Total U.S. Department of Health and Human Services			-	-	5,959	-
U.S. Department of Agriculture						
<i>(Passed through the Ohio Department of Education)</i>						
<i>Child Nutrition Cluster:</i>						
School Breakfast Program	05PU	10.553	713,277	-	713,277	-
National School Lunch Program	LLP1 & LLP4	10.555	1,244,378	-	1,244,378	-
Summer Food Service Program for Children	24PU	10.559	21,550	-	21,550	-
<i>Total Child Nutrition Cluster</i>			1,979,205	-	1,979,205	-
Food Distribution	N/A	10.550	-	355,582	-	355,582
Total U.S. Department of Agriculture			1,979,205	355,582	1,979,205	355,582
Total Federal Financial Assistance			\$ 7,164,547	\$ 355,582	\$ 7,850,966	\$ 355,582

See accompanying notes to the schedule of federal award expenditures.

N/A - Not available

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – FOOD DISTRIBUTION

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

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

NOTE C – MATCHING REQUIREMENTS

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

BALESTRA, HARR & SCHERER CPAs, INC.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Lima City School District, Allen County (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 15, 2008, wherein we noted the District follows the cash basis of accounting rather than accounting principles generally accepted in the United States of America. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the cash accounting basis such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or another matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2007-001.

We noted certain matters that we have reported to management in a separate letter dated February 15, 2008.

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, members of the Board, 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.



Balestra, Harr & Scherer, CPAs, Inc.

February 15, 2008

BALESTRA, HARR & SCHERER CPAs, INC.

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Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

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

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 its major federal program for the year ended June 30, 2007. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the 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 the 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 an opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

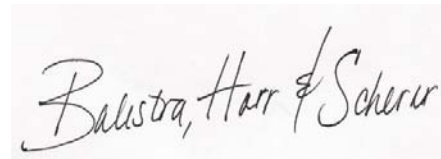
A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

**Internal Control Over Compliance
(Continued)**

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

February 15, 2008

LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY
JUNE 30, 2007

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505

SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant control deficiencies reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant control deficiencies reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under section .510?	No
(d)(1)(vii)	Major Programs (list):	Special Education – Grants to States, CFDA#84.027 Title I – Grants to Local Education Agencies, CFDA#84.010 Educational Technology – State Grants, CFDA#84.318
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY
JUNE 30, 2007

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505

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

Finding Number 2007-001

Noncompliance Citation

Ohio Revised Code § 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 § 117-2-03 further clarifies the requirements of Ohio Revised Code § 117.38.

Ohio Administrative Code § 117-2-03(B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. The District prepares its financial statements in accordance with the cash basis of accounting in a report format similar to the requirements of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. This presentation differs from accounting principles generally accepted in the United States of America (GAAP). There would be variances on the financial statements between this accounting practice and GAAP that, while presumably material, cannot be reasonably determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

The District should take the necessary steps to ensure that the financial report is prepared in accordance with generally accepted accounting principles.

Client Response

The School District officials do not believe that preparing financial statements in accordance with generally accepted accounting principles is cost beneficial.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2006-001	A noncompliance citation was issued for Ohio Revised Code Section 117.38 and Ohio Admin. Code Section 117-2-03 (B), for failing to prepare the School District's financial statements in accordance with generally accepted accounting principles.	No	Not Corrected: Reissued as Finding Number 2007-001.



Mary Taylor, CPA
Auditor of State

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
APRIL 17, 2008**