



Mary Taylor, CPA
Auditor of State

**ST. MARYS CITY SCHOOL DISTRICT
AUGLAIZE COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

St. Marys City School District
Auglaize County
101 West South Street
St. Marys, Ohio 45885

To the Board of Education:

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

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

Ohio Administrative Code § 117-2-03 (B) requires the School 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 generally accepted accounting principles. 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, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School District, as of June 30, 2007, and the respective changes in cash financial position and the budgetary comparison for the General Fund thereof for the fiscal year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2008, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

January 29, 2008

**ST. MARYS CITY SCHOOL DISTRICT
AUGLAIZE COUNTY**

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

The discussion and analysis of St. Marys City School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2007, within the limitations of cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the School District's cash basis of accounting.

The School District has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing receipts, disbursements, and the related assets and liabilities. Under the School District's cash basis of accounting, receipts and disbursements and the related assets and liabilities are recorded when they result in cash transactions.

As a result of using the cash basis of accounting, certain assets and their related receipts (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

The statement of net assets and the statement of activities provide information about the cash activities of the whole School District.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds, with all other non-major funds presented in total in a single column. For the School District, the General Fund, the Bond Retirement Fund, and the Permanent Improvement Fund are the most significant funds.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Reporting the School District as a Whole

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2007, within the limitations of cash basis accounting. The statement of net assets presents the cash balance of the governmental activities of the School District at fiscal year end. The statement of activities compares cash disbursements with program receipts for each function or program of the School District's governmental activities. A function is a group of related activities designed to accomplish a major service or regulatory program for which the School District 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. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the School District's general receipts.

**ST. MARYS CITY SCHOOL DISTRICT
AUGLAIZE COUNTY**

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

These statements report the School District's cash position and the changes in cash position. Factors which contribute to these changes may include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the statement of net assets and the statement of activities, all of the School District activities are presented as governmental activities. All of the School District's programs and services are reported here including instruction, support services, non-instructional services, extracurricular activities, and capital outlay disbursements.

Reporting the School District's Most Significant Funds

Fund financial statements provide detailed information about the School District's major funds. While the School District uses many funds to account for its financial transactions, the fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund, the Bond Retirement debt service fund, and the Permanent Improvement capital projects fund.

Governmental Funds - All of the School District's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using the cash basis accounting. The governmental fund financial statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

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

The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2007 and fiscal year 2006:

Table 1			
Net Assets			
	2007	2006	Change
Assets:			
Cash and Cash Equivalents	\$8,382,607	\$6,800,942	\$1,581,665
Net Assets:			
Restricted	1,564,858	1,797,011	(232,153)
Unrestricted	6,817,749	5,003,931	1,813,818
Total Net Assets	\$8,382,607	\$6,800,942	\$1,581,665

Total net assets increased \$1,581,665, or 23 percent. Although both receipts and disbursements were very comparable to the prior fiscal year, receipts continue to exceed disbursements resulting in increased net assets.

**ST. MARYS CITY SCHOOL DISTRICT
AUGLAIZE COUNTY**

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

Table 2 reflects the change in net assets for fiscal year 2007 and fiscal year 2006.

**Table 2
Change in Net Assets**

	2007	2006	Change
Receipts:			
Program Receipts			
Charges for Services	\$1,352,818	\$1,190,644	\$ 162,174
Operating Grants, Contributions, and Interest	2,564,060	2,424,211	139,849
Capital Grants and Contributions	45,954	86,922	(40,968)
Total Program Receipts	<u>3,962,832</u>	<u>3,701,777</u>	<u>261,055</u>
General Receipts			
Property Taxes Levied for General Purposes	7,668,131	7,978,390	(310,259)
Property Taxes Levied for Debt Service	220,301	711,541	(491,240)
Property Taxes Levied for Permanent Improvements	438,693	451,944	(13,251)
Payment in lieu of Taxes	18,304	21,630	(3,326)
Grants and Entitlements	10,567,576	9,812,516	755,060
Interest	402,749	251,913	150,836
Sale of Capital Assets		65,000	(65,000)
Miscellaneous	164,257	134,882	29,375
Total General Receipts	<u>19,480,011</u>	<u>19,427,816</u>	<u>52,195</u>
Total Receipts	<u>23,442,843</u>	<u>23,129,593</u>	<u>313,250</u>
Disbursements:			
Instruction:			
Regular	9,202,237	8,742,468	(459,769)
Special	1,804,963	1,580,680	(224,283)
Vocational	1,431,779	1,454,423	22,644
Adult/Continuing	54,164	70,721	16,557
Support Services:			
Pupils	1,678,538	1,404,338	(274,200)
Instructional Staff	991,975	863,847	(128,128)
Board of Education	92,180	89,013	(3,167)
Administration	1,241,839	1,160,370	(81,469)
Fiscal	436,729	471,583	34,854
Business	257,365	236,931	(20,434)
Operation and Maintenance of Plant	1,504,528	1,443,664	(60,864)
Pupil Transportation	623,246	590,336	(32,910)
Central	18,649	6,812	(11,837)
Non-instructional Services	773,467	691,907	(81,560)
Extracurricular Activities	599,160	599,914	754
Capital Outlay	250,967	508,262	257,295
Debt Service:			
Principal Retirement	845,377	845,377	
Interest and Fiscal Charges	54,015	93,965	39,950
Total Disbursements	<u>21,861,178</u>	<u>20,854,611</u>	<u>(1,006,567)</u>
Increase in Net Assets	1,581,665	2,274,982	(693,317)
Net Assets at Beginning of Year	6,800,842	4,525,960	2,274,982
Net Assets at End of Year	<u>\$8,382,607</u>	<u>\$6,800,942</u>	<u>\$1,581,665</u>

Program receipts represent 17 percent of total receipts, a slight increase from the prior fiscal year, and are primarily represented by restricted intergovernmental receipts, charges for tuition, fees, sports-related activity fees, and food service sales.

**ST. MARYS CITY SCHOOL DISTRICT
AUGLAIZE COUNTY**

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

Property taxes and grants and entitlements basically make up the School District's general receipts. Property taxes for debt service decreased significantly from the retirement of the 1998 construction general obligation bonds. Grants and entitlements increased, in the amount of \$755,060, from Foundation receipts and the tangible personal property reimbursement received from the State of Ohio as tangible personal property taxes begin to decrease. Interest earned from investments increased from the availability of cash to be invested and improved interest rates.

The major program disbursements for governmental activities are for instruction, which continues to account for 57 percent of all governmental disbursements. Regular and special instruction increased primarily from negotiated increases in employee contracts. Employees received a 2.75 percent increase for fiscal year 2007, along with step increases and professional advancements. In addition, special instruction disbursements continue to increase for the purchase of services to support these student's needs.

Other programs which support the instruction process, including pupils, instructional staff, administration, operation and maintenance of plant, and transportation account for 28 percent of governmental disbursements. During fiscal year 2007, pupil support services incurred additional special education excess costs through the Auglaize County Educational Service Center along with enrollment costs associated with a student being educated in another school district. Disbursements in instructional staff support services included the cost of special education aides that were employed through the Auglaize County Educational Service Center.

Increases occurred in almost all support services disbursements primarily from negotiated salary increases.

Overall, the School District's total disbursements had increased by 4.8 percent. Fiscal year 2007 was the first in the last three fiscal years that the School District had not closed the operations of an instructional building resulting in savings of reducing operating costs and eliminating staffing positions.

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

**ST. MARYS CITY SCHOOL DISTRICT
AUGLAIZE COUNTY**

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

**Table 3
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2007	2006	2007	2006
Instruction:				
Regular	\$9,202,237	\$8,742,468	\$8,762,272	\$8,351,303
Special	1,804,963	1,580,680	23,030	(450)
Vocational	1,431,779	1,454,423	863,022	982,307
Adult/Continuing	54,164	70,721	(43,587)	(39,831)
Support Services:				
Pupils	1,678,538	1,404,338	1,670,443	1,396,177
Instructional Staff	991,975	863,847	991,975	849,937
Board of Education	92,180	89,013	92,180	89,013
Administration	1,241,839	1,160,370	1,241,839	1,160,370
Fiscal	436,729	471,583	436,729	471,583
Business	257,365	236,931	164,463	155,648
Operation and Maintenance of Plant	1,504,528	1,443,664	1,504,528	1,383,664
Pupil Transportation	623,246	590,336	557,763	522,219
Central	18,649	6,812	18,649	6,812
Non-instructional Services	773,467	691,907	46,903	(60,286)
Extracurricular Activities	599,160	599,914	417,778	436,764
Capital Outlay	250,967	508,262	250,967	508,262
Debt Service:				
Principal Retirement	845,377	845,377	845,377	845,377
Interest and Fiscal Charges	54,015	93,965	54,015	93,965
Total Disbursements	\$21,861,178	\$20,854,611	\$17,898,346	\$17,152,834

Instructional activities were supported by property tax receipts and unrestricted grants and entitlements by 77 percent. Special and adult/continuing instruction activities are provided for through operating grants. During fiscal year 2007, the School District received a greater amount in operating grants than disbursed for adult/continuing instruction. Noninstructional services include food service activities. Noninstructional services were not entirely covered by program receipts for fiscal year 2007 as they had been in fiscal year 2006. The majority of the program receipts associated with noninstructional services includes cafeteria sales and state and federal subsidies for food service. Although disbursements were greater than program revenues for food service activities, the additional disbursements included the cost to purchase a walk-in freezer, a reach-in cooler, a convection oven, and software.

The School District's Funds

The School District's governmental funds are accounted for using the cash basis of accounting. The General Fund reported a positive change in fund balance in fiscal year 2007. Total receipts increased by 4 percent from fiscal year 2006. Property tax receipts decreased from the phase-out of the collection of tangible personal property taxes; however, the School District received a full year of tangible personal property reimbursement, additional Foundation receipts, and additional open enrollment receipts to receive overall \$766,474 more in General fund receipts in fiscal year 2007. Disbursements increased by 6.7 percent primarily from negotiated increases in salaries and inflation.

The Auglaize County Auditor reduced the amount of property tax collections for future debt service in the Bond Retirement debt service fund due to the retirement of the 1998 construction general obligation bonds.

Property taxes generated sufficient receipts for capital needs within the Permanent Improvement capital projects fund.

**ST. MARYS CITY SCHOOL DISTRICT
AUGLAIZE COUNTY**

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

Budgeting Highlights

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

During fiscal year 2007, the School District amended its General Fund budget as needed. The School District did not amend budgeted operating receipts. The change from final budgeted receipts to actual receipts, in the amount of \$2,043,252, was significant. Intergovernmental receipts were greater than estimated in fiscal year 2007. The School District had not included an estimate for property tax allocations in estimated receipts.

The School District amended its final appropriations by 1.5 percent; however, these changes were not significant, nor were the changes from final budget to actual receipts.

General Fund receipts were greater than disbursements by \$1,743,759 in fiscal year 2007. In fiscal year 2006, the General Fund receipts were greater than disbursements by \$2,075,248. During fiscal year 2006 and 2007, the School District received property tax receipts from a five-year emergency levy that created the increase of total receipts over disbursements for these two fiscal years.

Debt Administration

At June 30, 2007, the School District's outstanding debt included general obligation bonds for construction of additions to the library and for asbestos removal loans, in the amount of \$495,000 and \$258,392, respectively. For further information regarding the School District's debt, refer to Note 12 to the basic financial statements.

Current Issues

The Board of Education passed a resolution to participate in the Ohio School Facilities Commission Classroom Facilities Assistance Program and also a resolution of acceptance in the Ohio School Facilities Commission Classroom Facilities Assistance Program. Both resolutions indicate a State share of \$29,481,972 and a local share of \$18,849,130 for a total project budget of \$48,331,102.

The Board of Education also passed two resolutions with respect to the issuance of bonds. The first declaring the necessity of a bond issue and the second to declare the intent to proceed with the issuance of bonds. The bond issue will be in the amount of \$25,750,238 at an estimated interest rate of 4.75 percent for a period not to exceed twenty-eight years. The County Auditor certified the millage at 6.9 mills. This bond levy was passed by the voters on November 6, 2007.

The bonds will include \$6,901,108 in locally funded initiatives, which consist of a six hundred seat auditorium, terrazzo floor upgrade to the buildings, a competition-sized gymnasium, additional square footage at the Grade 6 to 12 building, and retain a portion of old junior high building that is scheduled to be demolished.

The Board of Education approved two options for the purchase of real estate. The first option is for approximately 73.64 acres of land. The total purchase price for this parcel is \$1,000,000. The cost for this option was \$10,000 with the balance to be paid at the point in time when the Board exercises the option to purchase the real estate. The purchase of this real estate is to be paid from the School District's Permanent Improvement capital projects fund and not from the proceeds of the proposed bond levy. The second option is for the purchase of approximately .75 acres of land and is contingent upon the Board acquiring the property in the first option. The purchase price for this parcel is \$1.

**ST. MARYS CITY SCHOOL DISTRICT
AUGLAIZE COUNTY**

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

The School District issued bond anticipation notes, in the amount of \$14,900,000, on December 27, 2007, with an interest rate of 3.75 percent. The School District also issued bond anticipation notes on January 15, 2008, in the amount of \$10,850,000, with an interest rate of 3.75 percent. Both notes mature on June 10, 2008.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to reflect the School District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Thomas Sommer, Treasurer, St. Marys City School District, 101 West South Street, St. Marys, Ohio 45885.

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**ST. MARYS CITY SCHOOL DISTRICT
AUGLAIZE COUNTY**

**STATEMENT OF NET ASSETS - CASH BASIS
JUNE 30, 2007**

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>\$8,382,607</u>
Net Assets:	
Restricted for:	
Debt Service	245,030
Capital Projects	1,021,333
Food Service	158,767
Other Purposes	139,728
Unrestricted	<u>6,817,749</u>
Total Net Assets	<u><u>\$8,382,607</u></u>

See accompanying notes to the basic financial statements.

**ST. MARYS CITY SCHOOL DISTRICT
AUGLAIZE COUNTY**

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2007**

	<u>General</u>	<u>Bond Retirement</u>	<u>Permanent Improvement</u>	<u>Other Governmental</u>	<u>Total</u>
Assets					
Equity in Pooled Cash and Cash Equivalents	\$6,817,749	\$245,030	\$1,008,148	\$297,170	\$8,368,097
Restricted Assets					
Equity in Pooled Cash and Cash Equivalents	14,510				14,510
Total Assets	<u>6,832,259</u>	<u>245,030</u>	<u>1,008,148</u>	<u>297,170</u>	<u>8,382,607</u>
Fund Balances					
Reserved for Bus Purchases	14,510				14,510
Reserved for Encumbrances	135,446		74,455	44,303	254,204
Unreserved, Reported in					
General Fund	6,682,303				6,682,303
Special Revenue Funds				239,682	239,682
Debt Service Fund		245,030			245,030
Capital Projects Fund			933,693	13,185	946,878
Total Fund Balances	<u>\$6,832,259</u>	<u>\$245,030</u>	<u>\$1,008,148</u>	<u>\$297,170</u>	<u>\$8,382,607</u>

See accompanying notes to the basic financial statements.

**ST. MARYS CITY SCHOOL DISTRICT
AUGLAIZE COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<u>General</u>	<u>Bond Retirement</u>	<u>Permanent Improvement</u>	<u>Other Governmental</u>	<u>Total</u>
Receipts					
Property Taxes	\$7,668,131	\$220,301	\$438,693		\$8,327,125
Payment in Lieu of Taxes	18,304				18,304
Intergovernmental	11,475,857	165,983	68,905	\$1,435,915	13,146,660
Interest	336,719	18,089	47,941	12,731	415,480
Tuition and Fees	660,554				660,554
Charges for Services				417,980	417,980
Extracurricular Activities				181,382	181,382
Gifts and Donations	9,250			8,949	18,199
Miscellaneous	211,016		103	46,040	257,159
Total Receipts	<u>20,379,831</u>	<u>404,373</u>	<u>555,642</u>	<u>2,102,997</u>	<u>23,442,843</u>
Disbursements					
Current:					
Instruction:					
Regular	9,055,081			147,156	9,202,237
Special	1,057,151			747,812	1,804,963
Vocational	1,431,779				1,431,779
Adult/Continuing				54,164	54,164
Support Services:					
Pupils	1,546,704			131,834	1,678,538
Instructional Staff	926,128			65,847	991,975
Board of Education	92,180				92,180
Administration	1,237,379			4,460	1,241,839
Fiscal	421,897	4,903	9,929		436,729
Business	257,365				257,365
Operation and Maintenance of Plant	1,437,400		65,265	1,863	1,504,528
Pupil Transportation	623,246				623,246
Central	8,899		9,750		18,649
Noninstructional Services				773,467	773,467
Extracurricular Activities	405,417			193,743	599,160
Capital Outlay			236,883	14,084	250,967
Debt Service:					
Principal Retirement		845,377			845,377
Interest and Fiscal Charges		54,015			54,015
Total Disbursements	<u>18,500,626</u>	<u>904,295</u>	<u>321,827</u>	<u>2,134,430</u>	<u>21,861,178</u>
Excess of Receipts Over (Under) Disbursements	1,879,205	(499,922)	233,815	(31,433)	1,581,665
Other Financing Sources (Uses)					
Advances In	2,500			8,000	10,500
Advances Out	(8,000)			(2,500)	(10,500)
Transfers In		45,377			45,377
Transfers Out	(45,377)				(45,377)
Total Other Financing Sources (Uses)	<u>(50,877)</u>	<u>45,377</u>		<u>5,500</u>	
Changes in Fund Balances	1,828,328	(454,545)	233,815	(25,933)	1,581,665
Fund Balances at Beginning of Year	<u>5,003,931</u>	<u>699,575</u>	<u>774,333</u>	<u>323,103</u>	<u>6,800,942</u>
Fund Balances at End of Year	<u><u>\$6,832,259</u></u>	<u><u>\$245,030</u></u>	<u><u>\$1,008,148</u></u>	<u><u>\$297,170</u></u>	<u><u>\$8,382,607</u></u>

See accompanying notes to the basic financial statements.

**ST. MARYS CITY SCHOOL DISTRICT
AUGLAIZE COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGE IN FUND BALANCE
BUDGET (NON-GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Receipts				
Property Taxes	\$7,935,479	\$7,935,479	\$7,668,131	(\$267,348)
Payment in Lieu of Taxes	20,000	20,000	18,304	(1,696)
Intergovernmental	9,686,000	9,686,000	11,475,857	1,789,857
Interest	54,000	54,000	336,719	282,719
Tuition and Fees	487,000	487,000	660,554	173,554
Gifts and Donations	15,000	15,000	9,250	(5,750)
Miscellaneous	139,100	139,100	211,016	71,916
Total Receipts	<u>18,336,579</u>	<u>18,336,579</u>	<u>20,379,831</u>	<u>2,043,252</u>
Disbursements				
Current:				
Instruction:				
Regular	8,779,721	9,155,221	9,053,999	101,222
Special	1,022,354	1,047,355	1,057,301	(9,946)
Vocational	1,539,435	1,589,435	1,439,235	150,200
Other	148,200	48,200	35,160	13,040
Support Services:				
Pupils	1,677,347	1,577,347	1,547,983	29,364
Instructional Staff	952,738	952,738	928,804	23,934
Board of Education	103,647	103,647	99,611	4,036
Administration	1,313,592	1,313,593	1,250,642	62,951
Fiscal	430,511	430,511	422,464	8,047
Business	274,698	276,198	258,170	18,028
Operation and Maintenance of Plant	1,410,250	1,435,253	1,482,041	(46,788)
Pupil Transportation	639,966	639,965	644,427	(4,462)
Central	12,374	12,374	10,811	1,563
Extracurricular Activities	442,520	449,521	405,424	44,097
Total Disbursements	<u>18,747,353</u>	<u>19,031,358</u>	<u>18,636,072</u>	<u>395,286</u>
Excess of Receipts Over Disbursements	(410,774)	(694,779)	1,743,759	2,438,538
Other Financing Sources (Uses)				
Advances In			2,500	2,500
Advances Out	(5,000)	(5,000)	(8,000)	(3,000)
Transfers Out	(45,377)	(45,377)	(45,377)	
Total Other Financing Sources (Uses)	<u>(50,377)</u>	<u>(50,377)</u>	<u>(50,877)</u>	<u>(500)</u>
Changes in Fund Balance	(461,151)	(745,156)	1,692,882	2,438,038
Fund Balance at Beginning of Year	4,797,955	4,797,955	4,797,955	
Prior Year Encumbrances Appropriated	205,976	205,976	205,976	
Fund Balance at End of Year	<u><u>\$4,542,780</u></u>	<u><u>\$4,258,775</u></u>	<u><u>\$6,696,813</u></u>	<u><u>\$2,438,038</u></u>

See accompanying notes to the basic financial statements.

**ST. MARYS CITY SCHOOL DISTRICT
AUGLAIZE COUNTY**

**STATEMENT OF CASH BASIS FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	Private Purpose Trust	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$145,952	\$80,547
Cash and Cash Equivalents in Segregated Accounts		5,835
Total Assets	<u>145,952</u>	<u>86,382</u>
Net Assets:		
Endowments	129,580	
Held in Trust for Scholarships	16,372	
Held for Student Activities		73,505
Undistributed Assets		12,877
Total Net Assets	<u>\$145,952</u>	<u>\$86,382</u>

See accompanying notes to the basic financial statements.

ST. MARYS CITY SCHOOL DISTRICT
AUGLAIZE COUNTY

STATEMENT OF CHANGES IN CASH BASIS FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Private Purpose Trust
Additions:	
Interest	\$9,487
Miscellaneous	2,687
Total Receipts	<u>12,174</u>
Deductions:	
Non-instructional Services	<u>11,000</u>
Change in Net Assets	1,174
Net Assets at Beginning of Year	<u>144,778</u>
Net Assets at End of Year	<u><u>\$145,952</u></u>

See accompanying notes to the basic financial statements.

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**ST. MARYS CITY SCHOOL DISTRICT
AUGLAIZE COUNTY**

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

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1862 through the consolidation of existing land areas and school districts. The School District serves an area of approximately eighty-two square miles. It is located in Auglaize County, and includes all of the City of St. Marys and portions of Logan, Moulton, Noble, Salem, St. Marys, and Washington Townships. The School District is the 207th largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by seventy-six classified employees, one hundred seventy-six certified teaching personnel, and eighteen administrative employees who provide services to 2,359 students and other community members. The School District currently operates four school buildings and a service building.

A. Reporting Entity

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

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

The following activities are included within the reporting entity:

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

The School District participates in five jointly governed organizations and two insurance pools, and is associated with a related organization. These organizations are the West Central Ohio Regional Professional Development Center, West Central Ohio Special Education Regional Resource Center, Northwest Ohio Area Computer Services Cooperative, Auglaize County Educational Academy, Auglaize County Special Needs School, Mercer Auglaize School Employee Benefit Trust, Southwestern Ohio Educational Purchasing Council Insurance Program, and the St. Marys Community Public Library. These organizations are presented in Notes 16, 17, and 18 to the basic financial statements.

**ST. MARYS CITY SCHOOL DISTRICT
AUGLAIZE COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are presented on a cash basis of accounting. This basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principals include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principals Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the School District's accounting policies.

A. Basis of Presentation

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

1. Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements usually distinguish between those activities of the School District that are governmental activities (primarily supported by taxes and intergovernmental receipts) and those that are considered business-type activities (primarily supported by fees and charges). However, the School District has no business-type activities.

The statement of net assets presents the cash balance of the governmental activities of the School District at fiscal year end. The statement of activities compares disbursements with program receipts for each function or program of the School 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 School District is responsible. Program receipts include charges paid by the recipient of the program's goods or services, and grants, contributions, and interest 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 School District's general receipts.

2. Fund Financial Statements

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

**ST. MARYS CITY SCHOOL DISTRICT
AUGLAIZE COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting

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

1. Governmental Funds

The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other non-exchange transactions as governmental funds. The School District's major funds are the General Fund, Bond Retirement Debt Service Fund, and Permanent Improvement Capital Projects Fund.

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

Bond Retirement Fund - The Bond Retirement Debt Service Fund is used to account for the accumulation of resources for, and the payment of principal, interest, and related costs of the school improvement and library construction general obligation bonds and the asbestos removal loan.

Permanent Improvement Fund - The Permanent Improvement Capital Projects Fund accounts for the acquisition, construction, or improvement of capital facilities.

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

2. Fiduciary Funds

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

C. Basis of Accounting

The School District's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the School District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

**ST. MARYS CITY SCHOOL DISTRICT
AUGLAIZE COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in the financial statements.

D. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the schedule of tax funds, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The schedule of tax funds indicates the projected receipts and disbursements for those funds receiving tax monies. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of control has been established by the Board at the function level for the General Fund and the fund level for all other funds. Budgetary allocations at the object level within the General Fund and the function and object level for all other funds are made by the Treasurer.

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

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

E. Cash and Investments

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

During fiscal year 2007, the School District's investments included nonnegotiable certificates of deposit, federal agency securities, mutual 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.

**ST. MARYS CITY SCHOOL DISTRICT
AUGLAIZE COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$336,719, which included \$9,849 assigned from other School District funds.

Investments of the School District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are 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.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

F. Capital Assets

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

G. Interfund Balances

On the fund financial statements, interfund loans are classified as "Advances In/Out". Interfund balances within governmental activities are eliminated on the statement of net assets.

H. 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 School District.

I. Long-Term Obligations

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

J. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for adult education programs, vocational programs, and federal and state grants restricted to expenditure for specified purposes. The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. At June 30, 2007, there were no net assets restricted by enabling legislation.

**ST. MARYS CITY SCHOOL DISTRICT
AUGLAIZE COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Fund Balance Reserves

The School District reserves those portions of fund balance which are legally segregated for a specific future use and not available for appropriation or disbursement. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. A fund balance reserve has been established for unexpended receipts restricted for bus purchases and encumbrances.

L. Interfund Activity

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

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Payments for interfund services provided and used are not eliminated.

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements 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 disbursements to the funds that initially paid for them are not presented on the financial statements.

3. COMPLIANCE

For the fiscal year ended June 30, 2007, the following funds had expenditures plus encumbrances in excess of appropriations at the legal level of budgetary control as follows:

	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Variance</u>
General Fund			
Special Instruction	\$1,047,354	\$1,057,301	\$9,947
Support Services			
Operation and Maintenance of Plant	1,435,250	1,482,041	46,791
Pupil Transportation	639,965	644,427	4,462
Advances Out	5,000	8,000	3,000
Auxiliary Services	119,040	121,884	2,844
SchoolNet Professional Development Fund	6,940	7,279	339
Miscellaneous Federal Grants Fund	4,105	35,438	31,333

The School District will monitor the activity of their funds more closely towards fiscal year end to stay within estimated resources and appropriations.

Additionally, the School did not comply with requirements regarding reporting in accordance with generally accepted accounting principles.

**ST. MARYS CITY SCHOOL DISTRICT
AUGLAIZE COUNTY**

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

4. DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Bankers' acceptances and commercial paper if training requirements have been met.

**ST. MARYS CITY SCHOOL DISTRICT
AUGLAIZE COUNTY**

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

4. DEPOSITS AND INVESTMENTS (Continued)

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

At year end, the School District had \$8,850 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents".

A. Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At June 30, 2007, the carrying amount of deposits was \$1,077,793 and the bank balance was \$1,294,973 of which \$157,986 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

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

B. Investments

As of June 30, 2007, the School District had the following investments.

	Carrying Value	Maturity
Federal Home Loan Bank Bonds	\$ 978,816	January 18, 2008
Federal Home Loan Mortgage Corporation Notes	730,035	December 30, 2008
Mutual Funds	120	37 Days
STAR Ohio	5,819,329	38.56 Days
Total Investments	\$7,528,300	

Interest rate risk arises because potential purchases of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The investment policy restricts the School District from investing in any securities other than those identified in the Ohio Revised Code and that all investments must mature within five years from the date of investment unless matched to a specific obligation or debt of the School District.

The Federal Home Loan Bank Bonds, Federal Home Loan Mortgage Corporation Notes, and mutual funds carry a rating of AAA by Moodys. STAR Ohio carries a rating of AAA by Standard and Poor's. The School District has no investment policy dealing with credit risk beyond the requirements of State statute. Ohio law requires that mutual funds must consist of obligations listed in items 1 and 2 on page 25 and STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

**ST. MARYS CITY SCHOOL DISTRICT
AUGLAIZE COUNTY**

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

4. DEPOSITS AND INVESTMENTS (Continued)

The School District places no limit on the amount it may invest in any one issuer. The following table indicates the percentage of each investment to the total portfolio:

	Carrying Value	Percentage of Portfolio
Federal Home Loan Bank	\$978,816	13.0%
Federal Home Loan Mortgage Corporation	730,035	9.7

5. PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2007 represent the collection of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were 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 revenues received in calendar year 2007 represent the collection of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien on December 31, 2005, were levied after April 1, 2006, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2007 (other than public utility property) represent the collection of calendar year 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. In prior years, tangible personal property was assessed at 25 percent of true value for capital assets and 23 percent for inventory. The tangible personal property tax is being phased out. The assessment percentage for all property, including inventory, for 2007 is 12.5 percent. This will be reduced to 6.25 percent for 2008 and zero for 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The School District receives property taxes from Auglaize County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the county by June 30, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**ST. MARYS CITY SCHOOL DISTRICT
AUGLAIZE COUNTY**

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

5. PROPERTY TAXES (Continued)

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

	2006 Second- Half Collections		2007 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$214,568,520	84.58%	\$218,189,250	87.57%
Public Utility	8,420,330	3.32	8,554,350	3.43
Tangible Personal	30,700,525	12.10	22,414,106	9.00
Total Assessed Value	<u>\$253,689,375</u>	<u>100.00%</u>	<u>\$249,157,706</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$53.00		\$51.15	

6. PAYMENT IN LIEU OF TAXES

According to State law, the School District has entered into agreements with a number of property owners under which the School District has granted property tax abatements to those property owners. The property owners have agreed to make payments to the School District which reflect all or a portion of the property taxes which the property owners would have paid if their taxes had not been abated. The payment is received annually either as an agreed upon flat amount per year or the amount of estimated taxes that would have been due in that fiscal year. Most of the agreements are for a ten year period. The property owners' contractually promise to make these payments in lieu of taxes until the agreement expires.

7. INTERFUND BALANCES

At June 30, 2007, the General Fund had an unpaid interfund cash advance in the amount of \$8,000, to other governmental funds to provide cash flow resources until the receipt of grant monies.

8. RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2007, the School District contracted with the Southwestern Ohio Educational Purchasing Council Insurance Program for the following insurance coverage.

Coverage provided by Selective Insurance Company of South Carolina is as follows:

General Liability	
Per Occurrence	\$1,000,000
Aggregate	3,000,000
Automobile Liability	1,000,000
Building	57,584,253
Contents	7,707,954
Coverage provided by American Alternative Insurance Corporation is as follows:	
Excess Liability	\$5,000,000
Coverage provided by Federal Insurance Company is as follows:	
Boiler and Machinery	\$50,000,000

**ST. MARYS CITY SCHOOL DISTRICT
AUGLAIZE COUNTY**

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

8. RISK MANAGEMENT (Continued)

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

The School District participates in the Southwestern Ohio Educational Purchasing Council Insurance Program (SOEPC), a public entity shared risk pool consisting of thirty-two school districts. The School District pays an annual premium to SOEPC for property and liability insurance coverage. The Executive Committee of SOEPC is responsible for its management and operation. The annual premium provides funding for the Aggregate Loss Fund, excess coverage, claims administration, and membership to the Program. The School District's risk within SOEPC is limited to any deductibles and the portion of the premium paid and held within the Aggregate Loss Fund. All annual claims above the amount held within the Aggregate Loss Fund will be paid by the excess liability policy.

The School District participates in the Mercer Auglaize School Employee Benefit Trust (Trust), a public entity shared risk pool consisting of eleven local school districts and two educational service centers. The School District pays monthly premiums to the Trust for employee medical and dental insurance coverage. The Trust is responsible for the management and operations of the program. Upon withdrawal from the Trust, a participant is responsible for the payment of all Trust liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

The School District pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administration costs.

9. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

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

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

**ST. MARYS CITY SCHOOL DISTRICT
AUGLAIZE COUNTY**

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

9. DEFINED BENEFIT PENSION PLANS (Continued)

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

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The School District's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2007, 2006, and 2005 was \$1,277,239, \$1,213,644, and \$1,215,694, respectively; 84 percent has been contributed for fiscal year 2007 and 100 percent has been contributed for fiscal years 2006 and 2005. Contributions for the DCP and CP for the fiscal year ended June 30, 2007, were \$1,480 made by the School District and \$13,057 made by plan members.

B. School Employees Retirement System

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

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute an actuarially determined rate. The rate for fiscal year 2007 was 14 percent of annual covered payroll; 10.68 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board.

The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 was \$216,697, \$229,269, and \$203,565, respectively; 45 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

C. Social Security System

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

**ST. MARYS CITY SCHOOL DISTRICT
AUGLAIZE COUNTY**

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

10. POST-EMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2007, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount was \$98,363.

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

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

For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. However, the surcharge amount is capped at 2 percent of the School District's salaries. For the School District, the amount to fund health care benefits, including the surcharge, was \$97,960 for fiscal year 2007.

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

11. OTHER EMPLOYEE BENEFITS

A. 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. All two hundred sixty day administrative personnel earn twenty days of vacation per contract period. Accumulated unused vacation time is paid to classified employees and two hundred sixty day administrative personnel upon termination of employment. Teachers do not earn vacation time.

**ST. MARYS CITY SCHOOL DISTRICT
AUGLAIZE COUNTY**

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

11. OTHER EMPLOYEE BENEFITS (Continued)

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred days for all employees. Upon retirement, payment is made for 26.5 percent of their accrued, but unused sick leave credit to a maximum of fifty-three days for all employees.

B. Health Care Benefits

The School District offers medical and dental insurance to most employees through the Mercer Auglaize School Employee Benefit Trust. Vision care is provided through Vision Service Plan, Inc. In addition, the School District offers life insurance through MetLife.

C. Retirement Incentive

Through the fiscal year 2008 employee contract year, the School District has provided for a retirement incentive to eligible certified and classified employees. Employees with ten or more years of service with the School District who retire after May 31 in the year of initial eligibility will be paid an additional forty-five days of severance.

Through June 30, 2008, bus drivers with ten or more years of service with the School District who retire after May 31 in the year of initial eligibility will be paid an additional \$1,250 severance payment.

12. LONG-TERM OBLIGATIONS

Changes in the School District's long-term obligations during fiscal year 2007 were as follows:

	<u>Balance at 6/30/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/06</u>	<u>Due Within One Year</u>
Governmental Activities					
General Obligations Bonds					
1998 Construction 3.65 - 5%	\$ 700,000	\$0	\$700,000		
2000 Library Construction 6.7%	595,000	0	100,000	\$495,000	\$110,000
Total General Obligation Bonds	1,295,000	0	800,000	495,000	110,000
Asbestos Removal Loan 0%	303,769	0	45,377	258,392	45,377
Total Governmental Activities					
Long-Term Obligations	<u>\$1,598,769</u>	<u>\$0</u>	<u>\$845,377</u>	<u>\$753,392</u>	<u>\$155,377</u>

Construction General Obligation Bonds - On February 1, 1998, the School District issued \$5,000,000 in voted general obligation bonds for the construction of additions to existing instructional buildings. The bonds were issued for a nine year period, with final maturity on December 1, 2006. The bonds were fully retired in fiscal year 2007 from the Bond Retirement debt service fund, with the proceeds of a .7 mill voted property tax levy.

Library Construction General Obligation Bonds - On June 1, 2000, the School District issued \$999,900 in voted general obligation bonds for the construction of an addition to the existing community library. The bonds were issued for an eleven year period, with final maturity on December 1, 2010. The bonds are being retired from the Bond Retirement debt service fund, with the proceeds of a .6 mill voted property tax levy.

**ST. MARYS CITY SCHOOL DISTRICT
AUGLAIZE COUNTY**

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

12. LONG-TERM OBLIGATIONS (Continued)

Asbestos Removal Loan - On October 21, 1994, the School District obtained a loan, in the amount of \$816,777, for providing asbestos removal under the authority of Section 3317.22 of the Ohio Revised Code. The loan was issued for a twenty-three year period, with final maturity during fiscal year 2013. The loan is being retired from the Bond Retirement debt service fund, with transfers from the General Fund.

The School District's overall debt margin was \$19,142,033 with an unvoted debt margin of \$218,189 at June 30, 2007.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2007, were as follows:

<u>Fiscal Year Ending June 30,</u>	<u>General Obligation Bonds</u>		<u>Asbestos Removal Loan</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
2008	\$ 110,000	\$29,480	\$ 45,377
2009	120,000	21,775	45,377
2010	125,000	13,568	45,377
2011	140,000	4,690	45,377
2012	0	0	45,377
2013	0	0	31,507
Totals	<u>\$495,000</u>	<u>\$69,513</u>	<u>\$258,392</u>

13. SET ASIDES

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

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2007.

	<u>Textbooks</u>	<u>Capital Improvements</u>
Balance June 30, 2006	(\$58,016)	\$ 0
Current Year Set Aside Requirement	359,357	359,357
Qualifying Expenditures	(341,711)	0
Current Year Offsets	0	359,357
Balance June 30, 2007	<u>(\$ 40,370)</u>	<u>\$ 0</u>

The School District had qualifying expenditures during the fiscal year that reduced the textbook set-aside amount below zero. This amount may be used to reduce the set aside requirement of future fiscal years.

**ST. MARYS CITY SCHOOL DISTRICT
AUGLAIZE COUNTY**

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

14. INTERFUND TRANSFERS

During fiscal year 2007, the General Fund made transfers to the Bond Retirement debt service fund, in the amount of \$45,377, to pay the principal on the asbestos removal loan.

15. DONOR RESTRICTED ENDOWMENTS

The School District's private purpose trust fund includes donor restricted endowments. Endowments, in the amount of \$129,580, represent the principal portion. The amount of net appreciation in donor restricted investments that is available for expenditure by the School District is \$16,372 and is included as held in trust for scholarships. State law permits the School District to appropriate, for purposes consistent with the endowment's intent, net appreciation, realized and unrealized, unless the endowment terms specify otherwise. The endowment indicates that the interest should be used to provide a scholarship each year.

16. JOINTLY GOVERNED ORGANIZATIONS

A. West Central Ohio Regional Professional Development Center

The West Central Ohio Regional Professional Development Center (Center) is a jointly governed organization among the school districts located in Allen, Auglaize, Hancock, Hardin, Mercer, Paulding, Putnam, and Van Wert Counties. The organization was formed to establish an articulated regional structure for professional development in which school districts, the business community, higher education, and other groups cooperatively plan and implement effective professional development activities that are tied directly to school improvement, and in particular, to improvements in instructional programs. The Center is governed by a fifty-two member board made up of representatives from the participating school districts, the business community, and two institutions of higher learning. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from the Hancock County Educational Service Center, 7746 County Road 140, Findlay, Ohio 45840.

B. West Central Ohio Special Education Regional Resource Center

The West Central Ohio Special Education Regional Resource Center (SERRC) is a jointly governed organization formed to initiate, expand, and improve special education programs and services for children with disabilities and their parents. The SERRC is governed by a fifty-two member board consisting of the superintendent from the fifty participating school districts, one representative from a non-public school, and one representative from Wright State University. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from the Auglaize County Educational Service Center, 1045 Dearbaugh Avenue, Suite 2, Wapakoneta, Ohio 45895.

C. Northwest Ohio Area Computer Services Cooperative

The School District is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC), which is a computer consortium. NOACSC is an association of educational entities within the boundaries of Allen, Hancock, Mercer, Paulding, Putnam, and Van Wert Counties, and the Cities of St. Marys and Wapakoneta. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member educational entities.

**ST. MARYS CITY SCHOOL DISTRICT
AUGLAIZE COUNTY**

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

16. JOINTLY GOVERNED ORGANIZATIONS (Continued)

The governing board of NOACSC consists of two representatives from each county elected by majority vote of all charter member educational entities within each county. During fiscal year 2007, the School District paid \$18,974 to NOACSC for various services. Financial information can be obtained from the Northwest Ohio Area Computer Services Cooperative, 645 South Main Street, Lima, Ohio 45804.

D. Auglaize County Educational Academy

The School District is a participant in the Auglaize County Educational Academy (ACEA), which is a community school. The ACEA is an association of the school districts within Auglaize County to provide general curricular education for kindergarten through twelfth grade students for gifted, regular, and special education instruction through the use of a virtual curriculum. The governing board of the ACEA consists of the superintendents from each of the participating school districts. Financial information can be obtained from the Auglaize County Educational Service Center, 1045 Dearbaugh Avenue, Suite 2, Wapakoneta, Ohio 45895.

E. Auglaize County Special Needs School

The School District is a participant in the Auglaize County Special Needs School (ACSNS), which is a community school. The ACSNS is an association of the school districts within Auglaize County to provide a special education program for kindergarten through twelfth grade students with multiple handicapped, emotionally disturbed, or autistic needs. The governing board of the ACSNS consists of the superintendents from each of the participating school districts. Financial information can be obtained from the Auglaize County Educational Service Center, 1045 Dearbaugh Avenue, Suite 2, Wapakoneta, Ohio 45895.

17. INSURANCE POOLS

A. Mercer Auglaize School Employee Benefit Trust

The School District participates in a public entity shared risk pool consisting of eleven local school districts and two educational service centers. The Mercer Auglaize School Employee Benefit Trust (Trust) is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, and vision benefits to the employees of the participants. Each participant's superintendent is appointed to an Administrative Committee which advises the Trustee, Sky Bank, concerning aspects of the administration of the Trust.

Each participant decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from JM Consulting, 3547 Beechway Boulevard, Toledo, Ohio 43614.

B. Southwestern Ohio Educational Purchasing Council Insurance Program

The School District participates in a public entity shared risk pool consisting of thirty-two school districts. The Southwestern Ohio Educational Purchasing Council Insurance Program provides for property and liability insurance coverage.

**ST. MARYS CITY SCHOOL DISTRICT
AUGLAIZE COUNTY**

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

17. INSURANCE POOLS (Continued)

The Program's business and affairs are conducted by an Executive Council of seven participating school administrators. Participation in the Program is by written application subject to acceptance by the Executive Council and the payment of the annual premium. The Administrator of the Program is Public Entity Marsh which coordinates the management, administration, claims management, and actuarial studies of the Program. Insurance premiums are paid to the Purchasing Council. Financial information can be obtained from Public Entity Marsh, 525 Vine Street, Cincinnati, Ohio 45202.

18. RELATED ORGANIZATION

The St. Marys Community Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the St. Marys City School District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel, and does not depend on the School District for operational subsidies. Although the School District serves as the taxing authority, its role is limited to a ministerial function. The determination to request approval of a tax, the rate, and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the St. Marys Community Public Library, 140 South Chestnut Street, St. Marys, Ohio 45855.

19. CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2007.

B. Litigation

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

20. SUBSEQUENT EVENTS

The School District issued bond anticipation notes, in the amount of \$14,900,000, on December 27, 2007, with an interest rate of 3.75 percent. The School District also issued bond anticipation notes on January 15, 2008, in the amount of \$10,850,000, with an interest rate of 3.75 percent. Both notes mature on June 10, 2008.

**ST. MARYS CITY SCHOOL DISTRICT
AUGLAIZE COUNTY**

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

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
(Passed through Ohio Department of Education)						
Food Donation	N/A	10.550		\$82,363		\$82,363
Nutrition Cluster:						
School Breakfast Program	05PU-2006	10.553	\$1,806		\$1,806	
	05PU-2007		13,190		13,190	
Total School Breakfast Program			<u>14,996</u>		<u>14,996</u>	
National School Lunch Program	LLP4-2006	10.555	33,072		33,072	
	LLP4-2007		162,901		162,901	
Total National School Lunch			<u>195,973</u>		<u>195,973</u>	
Total Nutrition Cluster			<u>210,969</u>		<u>210,969</u>	
Total U.S. Department of Agriculture			210,969	82,363	210,969	82,363
U.S. DEPARTMENT OF EDUCATION						
(Passed through Ohio Department of Education)						
Adult Education State Grant Program	ABS1-2006	84.002	5,778		5,778	
	ABS1-2007		43,642		43,642	
Total Adult State Grant Program			<u>49,420</u>		<u>49,420</u>	
Title 1 Grants to Local Educational Agencies	C1S1-2006	84.010	23,986		21,511	
	C1S1-2007		219,534		227,397	
Total Title 1 Grants to Local Educational Agencies			<u>243,520</u>		<u>248,908</u>	
Education Technology State Grants	TJS1-2006	84.318	(72)			
	TJS1-2007		2,465		2,301	
Total Education Technology State Grants			<u>2,393</u>		<u>2,301</u>	
Special Education Grants to States	6BSF-2006	84.027	76,260		101,173	
	6BSF-2007		526,537		524,637	
Total Special Education Grants to States			<u>602,797</u>		<u>625,810</u>	
State Grants for Innovative Programs	C2S1-2006	84.298	1,863		2,638	
	C2S1-2007		3,512		3,512	
Total State Grants for Innovative Programs			<u>5,375</u>		<u>6,150</u>	
Safe and Drug Free Schools and Communities Grants	DRS1-2006	84.186	(182)			
	DRS1-2007		7,037		6,559	
Total Safe and Drug Free School Grants			<u>6,855</u>		<u>6,559</u>	
Improving Teacher Quality State Grants	TRS1-2006	84.367	(5,386)			
	TRS1-2007		77,597		72,388	
Total Improving Teacher Quality State Grants			<u>72,211</u>		<u>72,388</u>	
Vocational Education Basic Grants to States	20A0-2005	84.048	10,000		10,000	
Total U.S. Department of Education			<u>992,571</u>		<u>1,021,536</u>	
Total Federal Assistance			<u><u>\$1,203,540</u></u>	<u><u>\$82,363</u></u>	<u><u>\$1,232,505</u></u>	<u><u>\$82,363</u></u>

See accompanying notes to the schedule of federal awards receipts and expenditures.

**ST. MARYS CITY SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
JUNE 30, 2007**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – FOOD DONATION PROGRAM

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

NOTE C - NUTRITION CLUSTER

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

NOTE D - 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.

NOTE E - TRANSFER OF FUNDS BETWEEN SPECIAL COST CENTERS

The following transfers between fund cost centers were approved by the Ohio Department of Education.

Grant, CFDA #, Fund, and Cost Center	Transfer Out	Transfer In
Adult State Grant Program #84.002		
501-9506	(\$3,105)	
501-9607		\$3,105
Special Education Grants to States #84.027		
516-9506	(597)	
516-9607		597
Grants to Local Educational Agencies #84.010		
572-9506	(2,243)	
572-9607		2,243
Drug Free Schools #84.186		
584-9506	(182)	
584-9607		182
Improving Teacher Quality #84.367		
590-9506	(5,386)	
590-9607		5,386
Education Technology Grants #84.318		
599-9506	(72)	
599-9607		72

NOTE F - PASS THROUGH FUNDS

Idea Preschool Grant For The Handicapped – CFDA# 84.173 – During fiscal year 2007, the School District received Preschool grant funding administered on their behalf by the Auglaize County Educational Service Center. For fiscal year 2007, the District's allocation was \$33,009 which was spent by fiscal year end.



Mary Taylor, CPA

Auditor of State

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

St. Marys City School District
Auglaize County
101 West South Street
St. Marys, Ohio 45885

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the St. Marys City School District, Auglaize County, (the School District), as of and for the fiscal year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 29, 2008, wherein we noted the School District uses a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the School District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in 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 School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the School District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2007-001.

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

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the School District's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the 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 the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We do not believe the significant deficiency described above is a material weakness.

We also noted certain internal control matters that we reported to the School District's management in a separate letter dated January 29, 2008.

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2007-002.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the School District's management in a separate letter dated January 29, 2008.

The School District's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the School District's responses and, accordingly, we express no opinion on them.

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



Mary Taylor, CPA
Auditor of State

January 29, 2008



Mary Taylor, CPA

Auditor of State

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

St. Marys City School District
Auglaize County
101 West South Street
St. Marys, Ohio 45885

To the Board of Education:

Compliance

We have audited the compliance of the St. Marys City School District, Auglaize County, (the School District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that apply to its major federal program for the fiscal year ended June 30, 2007. The summary of auditor's results section of the accompanying schedule of findings identifies the School District's major federal program. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, the School District, complied, in all material respects, with the requirements referred to above that apply to its major federal program for the fiscal year ended June 30, 2007.

Internal Control Over Compliance

The School District's management 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 School District's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our 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 School District's internal control over compliance.

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

**Internal Control Over Compliance
(Continued)**

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the School District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of 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.

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



Mary Taylor, CPA
Auditor of State

January 29, 2008

**ST. MARYS CITY SCHOOL DISTRICT
AUGLAIZE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FOR THE YEAR ENDED JUNE 30, 2007**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant deficiencies in internal control 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 § .510?	No
(d)(1)(vii)	Major Programs (list):	CFDA #84.027: Special Education Grants to States
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

FINDING NUMBER - 2007-001

Significant Deficiency - Accountability for Student Activity Fundraisers

To help provide proper accountability over fundraising activity, each student activity club should maintain documentation to support amounts donated, product discarded, and reductions in selling price. Monitoring procedures should be performed on the fundraising records by someone independent of the student activity.

The Future Farmers of American (FFA) participated in a fruit and nut sale fundraiser. The students and the School District offices obtained orders from individuals on individual order forms. The FFA advisor then totaled the orders by student and office on separate computerized spreadsheets. The product was ordered to fill these orders plus an extra 15 percent for direct sales. At the end of the fruit and nut sale, approximately 12 percent of the product remained.

Some of the remaining product was donated to a local food bank organization, used at the annual FFA banquet, or given to students in the class to consume. The value of the donated products at the original sales prices totaled \$2,320. Since this is a rather large dollar amount, written documentation should have been obtained for the donations to the various organizations as evidence that the amounts were actually donated. There was also spoilage involved with the fruit fundraiser, but there was only an estimate of the spoilage calculated by the club, with no record of actual items written off as spoilage. Documentation of the actual amounts of spoilage should be maintained and compared to the estimates for reasonableness. With the exception of the potential loss of revenue from donations and spoilage, the revenue from the products actually sold was collected and paid into the School District Treasurer.

During fiscal year 2007, the concession stand inventory activity was handled by the Distributive Education Clubs of America (DECA) student organization. DECA purchased all concession stand inventory and then sold the inventory at a slight markup to the various other clubs that operated the concession stand for an event. Each student activity club that operated the concession stand completed a "Concession Expense Form" which indicated the amount and type of inventory used, along with the cost charged by DECA for the product. This form was used to invoice each student activity account.

The DECA club allowed the Rider Rooters (a parent club) to purchase drink products through DECA's account at cost with no markup; however there were no forms completed indicating how much and what types of drink products were purchased. A discrepancy existed between expected revenue and what was collected based on the purchases made through the DECA concession account. Some inventory was allegedly discarded during the year that had expired, or was not sold (popcorn, hot dogs, etc.): however, there were no records maintained to support the disposals nor for donations made to coaches and referees. The remaining inventory at the end of the year was sold at discounted prices, but no records were kept as to the products or the amounts at which they were sold. The estimated value of the unaccounted products was \$1,714. With the exception of the potential loss of revenue from donations, spoilage, and price reductions, the revenue from the product actually sold was collected and paid into the School District Treasurer.

Record keeping procedures should be adopted to account for all products donated, sold or sold at a discounted price. If excess products are on hand, the distribution of these products should be authorized by someone independent of the student activity. Evidence should be obtained that indicates how much was donated and the value, with the signature of the accepting party. The DECA club should document all amounts invoiced to other clubs, including the Rider Rooters. In addition, the price reductions on excess products should be approved by someone independent of the club and noted in the activity records.

**FINDING NUMBER 2007-001
(Continued)**

Monitoring procedures should be developed to assure adequate records are maintained by the student activity for each fundraiser. If a discrepancy does arise, it should be investigated and reported to the Board. Future discrepancies in the amount of sales collected could result in possible findings for recovery.

Official's Response

We will inform our activity advisors of your finding and will ask them to provide additional documentation with respect to donated and/or disposed of items.

FINDING NUMBER 2006-002

Noncompliance - Financial Reporting

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

Ohio Adm. Code Section 117-2-03 (B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP).

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

The School District should prepare their financial statements in accordance with generally accepted accounting principles.

Official's Response

The Board of Education of St. Marys City Schools has opted to prepare its' financial statements using the "look alike" OCBOA presentation. The driving force behind this option is financial. The preparation costs, as well as the auditing costs, are considerably less with this OCBOA presentation than with a GAAP presentation. In addition, the AICPA has interpreted that this type of "look alike" OCBOA presentation is acceptable.

3. FINDINGS FOR FEDERAL AWARDS

None

**ST. MARYS CITY SCHOOL DISTRICT
AUGLAIZE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2006-001	ORC Sec. 117.38 & OAC Sec. 117-2-03(B) – Failed to prepare financial statements in accordance with Generally Accepted Accounting Principles	No	Repeated as Finding Number 2007-002
2006-002	Student Activity Fundraiser Accountability	No	Repeated as Finding Number 2007-001



Mary Taylor, CPA
Auditor of State

ST MARYS CITY SCHOOL DISTRICT

AUGLAIZE 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
MARCH 20, 2008**