

Lima City School District

Allen County, Ohio

Single Audit

July 1, 2005 through June 30, 2006

Fiscal Year Audited Under GAGAS: 2006

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Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Lima City School District, Allen County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 10, 2007

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**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Independent Auditor's Report

Lima City School District
Allen County, Ohio
515 South Calumet Avenue
Lima, Ohio 45801

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

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

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


In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective cash-basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2006, and the respective changes in cash-basis financial position thereof, and the respective budgetary comparison of the General Fund and the Poverty Based Assistance fund for the year then ended in conformity with the accounting basis described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2007, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

As described in Note 3, the District implemented GASB Statement No 46, *Net Assets Restricted by Enabling Legislation*.



Balestra, Harr & Scherer, CPAs, Inc.
February 8, 2007

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

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

This discussion and analysis provides key information from management highlighting the financial performance of the Lima City School District for the year ended June 30, 2006. This is meant to be an easily readable summary of the most important financial information regarding the accompanying financial statements. Please read it in conjunction with the District's basic financial statements and notes to the basic financial statements.

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

Financial Highlights

Key financial highlights for 2006 are as follows:

Overall:

- For governmental activities, net assets increased \$1.5 million, which represents a 16 percent increase from 2005.
- General receipts accounted for \$47.6 million in receipts or 71 percent of all governmental receipts. Program specific receipts in the form of charges for services and sales and operating and capital grants and contributions accounted for \$18.9 million or 29 percent of total governmental receipts of \$66.5 million.
- The District had \$64.9 million in disbursements related to governmental activities; only \$18.9 million of these disbursements were offset by program specific charges for services and sales and operating and capital grants and contributions. General receipts (primarily grants and entitlements) of \$47.6 million were adequate to provide for these programs.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

LIMA CITY SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2006
Unaudited

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

A. Cash Balances at year-end

The District's cash balances at June 30, 2006 were as follows:

Governmental Activities	\$11,540,231
Fiduciary Activities	288,890

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

B. Change in Net Assets

The following table presents a condensed summary of the District's fiscal year 2006 and 2005 and the resulting change in net assets.

	Governmental Activities	
	FY2006	FY2005
RECEIPTS		
Program Receipts:		
Charges for Services and Sales	\$ 2,245,465	\$ 2,039,390
Operating Grants and Contributions	16,101,582	15,325,894
Capital Grants and Contributions	564,842	8,799,971
Total Program Receipts	18,911,889	26,165,255
General Receipts:		
Property Taxes	10,042,574	9,194,125
Grants and Entitlements	26,086,332	24,682,332
Gifts and Donations	16,017	0
Miscellaneous	126,061	154,106
Investment Earnings	406,538	233,809
Rent	20,960	18,847
Proceeds from Sale of Capital Assets	954,020	40,121

LIMA CITY SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2006
Unaudited

B. Change in Net Assets (Continued)

General Receipts (Continued)

Refunding Bonds Issued	\$9,004,990	\$0
Premium on Refunding Bonds Issued	994,593	0
Total General Receipts	<u>47,652,085</u>	<u>34,323,340</u>
Total Program and General Receipts	<u>66,563,974</u>	<u>60,488,595</u>

DISBURSEMENTS

Instruction:		
Regular	17,721,979	17,184,142
Special	5,502,870	5,614,283
Vocational	1,717,533	1,851,670
Adult/Continuing	209,901	214,499
Other	5,291,812	4,302,065
Support Services:		
Pupils	3,438,912	3,397,975
Instructional Staff	2,434,538	2,330,803
Board of Education	176,297	184,182
Administration	4,463,759	4,393,212
Fiscal	867,893	844,614
Business	196,978	282,017
Operation and Maintenance of Plant	4,834,042	4,970,433
Pupil Transportation	532,289	562,890
Central	515,691	1,804,486
Operation of Non-Instructional Services	3,508,995	3,683,434
Extracurricular Activities	629,436	632,985
Capital Outlay	1,293,618	16,570,483
Debt Service:		
Principal	735,000	675,000
Interest and Fiscal Charges	930,666	1,026,614
Refunding Bond Issuance Costs	171,863	0
Payment to Refunded Bond Escrow Agent	9,825,593	0
Total Program Expenses	<u>64,999,665</u>	<u>70,525,787</u>
Increase (Decrease) in Net Assets	<u>1,564,309</u>	<u>(\$10,037,192)</u>
Net Assets Beginning of Year (Restated)	<u>9,975,922</u>	<u>20,013,114</u>
Net Assets End of Year	<u>\$11,540,231</u>	<u>\$9,975,922</u>

Of the total governmental activities receipts of \$66,563,974, \$18,911,889 (28.4%) is from program receipts. This means that the government relies on general receipts to fund the majority of the cost of services provided to the citizens. Of those general receipts, 21% (\$10,042,574) comes from property tax levies and 54.74% (\$26,086,332) is from state and federal funding. The District's operations are reliant upon its property tax levy and the state's foundation program. In FY2006, capital grants and contributions and capital outlay were significantly less than in FY2005 due to the progression of the District building project.

LIMA CITY SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2006
Unaudited

C. Governmental Activities

The following table presents the total disbursements of each of the government's primary services, and the comparative net after deducting the receipts generated by each function. Approximately 29.0% of the disbursements of the general government programs were recouped in program receipts. Instruction costs were \$30,444,095, but program receipts contributed to fund 31.1% of those costs. Thus, general revenues of \$20,985,894 were used to support the remainder of the instruction costs.

	<u>Total Cost Of Services</u>	<u>Net Cost of Services</u>
Instruction:		
Regular	\$17,721,979	\$13,679,154
Special	5,502,870	1,250,096
Vocational	1,717,533	863,692
Adult/Continuing	209,901	144,925
Other	5,291,812	5,048,027
Support Services:		
Pupils	3,438,912	1,673,570
Instructional Staff	2,434,538	568,196
Board of Education	176,297	170,030
Administration	4,463,759	3,882,293
Fiscal	867,893	767,627
Business	196,978	141,137
Operation and Maintenance of Plant	4,834,042	4,510,965
Pupil Transportation	532,289	(47,175)
Central	515,691	460,105
Operation of Non-Instructional Services	3,508,995	(47,026)
Extracurricular Activities	629,436	381,783
Capital Outlay	1,293,618	977,255
Debt Service:		
Principal	735,000	735,000
Interest and Fiscal Charges	930,666	930,666
Refunding Bond Issuance Cost	171,863	171,863
Payments to Refunded Bond Escrow Agent	9,825,593	9,825,593
Total Program Expenses	<u>\$64,999,665</u>	<u>\$46,087,776</u>

FINANCIAL ANALYSIS OF THE DISTRICT'S INDIVIDUAL FUNDS

Governmental Funds

The District has five major governmental funds: the General, Bond Retirement, Permanent Improvement, Building Construction Project and Poverty Based Assistance Funds. Receipts of these funds comprise \$44,691,336 (80.4%) of the total \$55,610,371 governmental funds receipts.

General Fund. Fund cash balance at June 30, 2006 was \$1,668,363, which was \$301,079 more than the cash balance at June 30, 2005. The change in the General Fund cash balance is due to the passage of a tax levy.

LIMA CITY SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2006
Unaudited

Bond Retirement Fund. Fund cash balance at June 30, 2006 was \$785,325, which was \$117,692 more than the cash balance at June 30, 2005. The change in the Bond Retirement Fund cash balance is due to the interest savings realized from the bond refunding.

Permanent Improvement Fund. Fund cash balance at June 30, 2006 was \$2,196,754, which was \$1,063,423 more than the cash balance at June 30, 2005. The change in the Permanent Improvement Fund is mainly due to the sale of school real property during the year.

Building Construction Project Fund. Fund cash balance at June 30, 2006 was \$2,191,423, which was \$963,341 less than the cash balance at June 30, 2005. The change in the Building Construction Fund cash balance is due to the progression of the District building project. As of June 30, 2006 all buildings were occupied and in the close out phase of the project.

Poverty Based Assistance Fund. Fund cash balance at June 30, 2006 was \$1,388,973, which was \$1,388,973 more than the cash balance at June 30, 2005, since it was a new fund for fiscal year 2006.

GENERAL FUND BUDGETARY HIGHLIGHTS

The statement comparing the District's General Fund original and final budgets and actual results are included on Page 13. The original budget for a fiscal year is prepared in June each year when the Board adopts the first permanent appropriations to start the fiscal year that starts July 1. The final budget is adopted and approved by the Board at its June Board meeting each year to close out the year. Each month, when the Board adopts the month end financial reports, it also adopts amended appropriations for activity as needed. The Board also adopts (at least twice a year) a five-year forecast for the current year and the proceeding four years; this document is the working copy of the District's budget for the general fund and emergency levy fund. The District did approve the final forecast in May, 2006. There were no material variances in actual compared to final budget, requiring explanation.

During the course of 2006, the District amended its general fund budget revenues. For the General Fund, original budget revenues and other financing sources were \$38,011,403, whereas final budget revenues and other financing sources were \$39,549,188. This represents a \$1,537,785 increase over original budgeted revenues.

General Fund original budget expenditures and other financing uses (original appropriations plus prior year encumbrances appropriated) totaled \$39,066,763. Final budget expenditures and other financing uses (final appropriations plus prior year encumbrances appropriated) were \$39,735,597, which were \$668,834 more than original budgeted expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

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

Debt. The District issued debt during the year ended June 30, 2006. The District paid principal of \$9,714,871 on four bond issues. The District does not record debt balances outstanding on the financial statements. See Note 11 to the financial statements for additional information regarding debt.

LIMA CITY SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2006
Unaudited

CURRENT ISSUES AFFECTING FINANCIAL CONDITIONS

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

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

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

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

Due to the unsettled issues in the school funding, management is required to plan carefully and prudently to provide the resources to meet student needs over the next several years.

REQUESTS FOR ADDITIONAL INFORMATION

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

Lima City School District
Statement of Net Asset - Cash Basis
June 30, 2006

	<u>Governmental</u> <u>Activities</u>
ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 11,540,231
<i>Total Assets</i>	<u>11,540,231</u>
NET ASSETS:	
Restricted for Debt Service	785,325
Restricted for Capital Outlay	5,165,387
Restricted for Other Purposes	3,921,156
Unrestricted	<u>1,668,363</u>
<i>Total Net Assets</i>	<u>\$ 11,540,231</u>

See accompanying notes to the basic financial statements

Lima City School District
Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2006

	<u>Disbursements</u>	<u>Charges for Services and Sales</u>	<u>Program Receipts</u>		<u>Net (Disbursements) Receipts and Changes in Net Assets</u>	
			<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	
Governmental Activities:						
Instruction:						
Regular	\$ 17,721,979	\$ 519,584	3,473,961	49,280	\$ (13,679,154)	
Special	5,502,870	130,069	4,122,705	-	(1,250,096)	
Vocational	1,717,533	86,941	766,900	-	(863,692)	
Adult/Continuing	209,901	5,292	59,684	-	(144,925)	
Other	5,291,812	188,419	55,366	-	(5,048,027)	
Support Services:						
Pupils	3,438,912	68,377	1,696,965	-	(1,673,570)	
Instructional Staff	2,434,538	28,270	1,838,072	-	(568,196)	
Board of Education	176,297	6,267	-	-	(170,030)	
Administration	4,463,759	144,413	437,053	-	(3,882,293)	
Fiscal	867,893	27,434	66,415	6,417	(767,627)	
Business	196,978	40,136	15,705	-	(141,137)	
Operation and Maintenance of Plant	4,834,042	164,924	14,042	144,111	(4,510,965)	
Pupil Transportation	532,289	19,084	560,380	-	47,175	
Central	515,691	16,850	33,000	5,736	(460,105)	
Operation of Non-Instructional Services	3,508,995	591,767	2,961,094	3,160	47,026	
Extracurricular Activities	629,436	207,638	240	39,775	(381,783)	
Capital Outlay	1,293,618	-	-	316,363	(977,255)	
Debt Service:						
Principal	735,000	-	-	-	(735,000)	
Interest and Fiscal Charges	930,666	-	-	-	(930,666)	
Refunding Bond Issuance Cost	171,863	-	-	-	(171,863)	
Payment to Refunded Bond Escrow Agent	9,825,593	-	-	-	(9,825,593)	
Total Governmental Activities	\$ 64,999,665	\$ 2,245,465	\$ 16,101,582	\$ 564,842	\$ (46,087,776)	

Totals

General Receipts:	
Grants and Entitlements not Restricted to Specific Programs	26,086,332
Gifts and Donations	16,017
Investment Earnings	406,538
Miscellaneous	126,061
Property and Other Local Taxes :	
Levied for General Purposes	8,408,323
Levied for Debt Services	1,508,127
Levied for Other Purposes	126,124
Rent	20,960
Refunding Bonds Issued	9,004,990
Premium on Refunding Bonds Issued	994,593
Proceeds from Sale of Capital Assets	954,020
Total General Receipts	<u>47,652,085</u>
Change in Net Assets	1,564,309
Net Assets Beginning of Year (Restated, see Note 3)	<u>9,975,922</u>
Net Assets End of Year	<u>\$ 11,540,231</u>

See accompanying notes to the basic financial statements

Lima City School District
Statement of Assets and Fund Balances - Cash Basis
Governmental Funds
June 30, 2006

	<u>General Fund</u>	<u>Bond Retirement Fund</u>	<u>Permanent Improvement Fund</u>	<u>Building Construction Project Fund</u>	<u>Poverty Based Assistance Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:							
Equity in Pooled Cash and Cash Equivalents	\$ 1,668,363	\$ 785,325	\$ 2,196,754	\$ 2,191,423	\$ 1,388,973	\$ 3,309,393	\$ 11,540,231
<i>Total Assets</i>	<u>1,668,363</u>	<u>785,325</u>	<u>2,196,754</u>	<u>2,191,423</u>	<u>1,388,973</u>	<u>3,309,393</u>	<u>11,540,231</u>
Equity:							
FUND BALANCES:							
Reserved:							
Reserved for Encumbrances	412,661	-	895,148	509,270	-	507,517	2,324,596
Reserved for Unclaimed Monies	3,773	-	-	-	-	-	3,773
Unreserved, Undesignated, Reported in:							
General Fund	1,251,929	-	-	-	-	-	1,251,929
Special Revenue Funds	-	-	-	-	1,388,973	2,024,666	3,413,639
Debt Service Funds	-	785,325	-	-	-	-	785,325
Capital Projects Funds	-	-	1,301,606	1,682,153	-	777,210	3,760,969
<i>Total Fund Balances</i>	<u>\$ 1,668,363</u>	<u>\$ 785,325</u>	<u>\$ 2,196,754</u>	<u>\$ 2,191,423</u>	<u>\$ 1,388,973</u>	<u>\$ 3,309,393</u>	<u>\$ 11,540,231</u>

See accompanying notes to the basic financial statements

Lima City School District
Statement of Cash Receipts, Disbursements, and Changes in Fund Balances - Cash Basis
Governmental Funds
For the Fiscal Year Ended June 30, 2006

	<u>General Fund</u>	<u>Bond Retirement Fund</u>	<u>Permanent Improvement Fund</u>	<u>Building Construction Project</u>	<u>Poverty Based Assistance</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
CASH RECEIPTS:							
Property and Other Local Taxes	\$ 8,408,323	\$ 1,508,127	\$ -	\$ -	\$ -	\$ 126,124	\$ 10,042,574
Intergovernmental	29,210,116	162,228	-	265,562	2,960,758	9,605,407	42,204,071
Interest	268,430	-	45,060	79,435	-	13,613	406,538
Tuition and Fees	1,213,435	-	-	-	-	33,243	1,246,678
Rent	20,960	-	-	-	-	-	20,960
Extracurricular Activities	-	-	-	-	-	227,852	227,852
Gifts and Donations	-	-	250,000	-	-	314,702	564,702
Customer Sales and Services	179,168	-	-	-	-	591,767	770,935
Miscellaneous	119,734	-	-	-	-	6,327	126,061
<i>Total Cash Receipts</i>	<u>39,420,166</u>	<u>1,670,355</u>	<u>295,060</u>	<u>344,997</u>	<u>2,960,758</u>	<u>10,919,035</u>	<u>55,610,371</u>
CASH DISBURSEMENTS:							
Current:							
Instruction:							
Regular	14,356,751	-	-	-	952,839	2,412,389	17,721,979
Special	3,630,421	-	-	-	63,760	1,808,689	5,502,870
Vocational	1,652,316	-	-	-	-	65,217	1,717,533
Adult/Continuing	147,665	-	-	-	-	62,236	209,901
Other	5,262,389	-	-	-	29,423	-	5,291,812
Support Services:							
Pupils	1,910,265	-	-	-	460,097	1,068,550	3,438,912
Instructional Staff	787,894	-	-	-	65,666	1,580,978	2,434,538
Board of Education	176,297	-	-	-	-	-	176,297
Administration	4,031,626	-	-	-	-	432,133	4,463,759
Fiscal	765,753	29,624	650	5,259	-	66,607	867,893
Business	154,365	-	-	-	-	42,613	196,978
Operation and Maintenance of Plant	4,594,080	-	18,723	4,150	-	217,089	4,834,042
Pupil Transportation	527,224	-	-	-	-	5,065	532,289
Central	469,887	-	-	12,804	-	33,000	515,691
Operation of Non-Instructional Services	-	-	-	23,306	-	3,485,689	3,508,995
Extracurricular Activities	421,320	-	4,908	-	-	203,208	629,436
Capital Outlay	3,762	-	7,636	1,262,819	-	19,401	1,293,618
Debt Service:							
Principal	-	735,000	-	-	-	-	735,000
Interest	-	930,666	-	-	-	-	930,666
<i>Total Cash Disbursements</i>	<u>38,892,015</u>	<u>1,695,290</u>	<u>31,917</u>	<u>1,308,338</u>	<u>1,571,785</u>	<u>11,502,864</u>	<u>55,002,209</u>
<i>Excess of Cash Receipts over Cash Disbursements</i>	528,151	(24,935)	263,143	(963,341)	1,388,973	(583,829)	608,162
OTHER FINANCING SOURCES AND USES:							
Transfers In	-	140,500	-	-	-	240,312	380,812
Refunding Bonds Issued	-	9,004,990	-	-	-	-	9,004,990
Premium on Refunding Bonds Issued	-	994,593	-	-	-	-	994,593
Proceeds from Sale of Capital Assets	153,740	-	800,280	-	-	-	954,020
Transfers Out	(380,812)	-	-	-	-	-	(380,812)
Refunding Bond Issuance Costs	-	(171,863)	-	-	-	-	(171,863)
Payment to Refunded Bond Escrow Agent	-	(9,825,593)	-	-	-	-	(9,825,593)
<i>Total Other Financing Sources and Uses</i>	<u>(227,072)</u>	<u>142,627</u>	<u>800,280</u>	<u>-</u>	<u>-</u>	<u>240,312</u>	<u>956,147</u>
<i>Net Change in Fund Balances</i>	301,079	117,692	1,063,423	(963,341)	1,388,973	(343,517)	1,564,309
<i>Fund Balance at Beginning of Year (Restated, see Note 3)</i>	<u>1,367,284</u>	<u>667,633</u>	<u>1,133,331</u>	<u>3,154,764</u>	<u>-</u>	<u>3,652,910</u>	<u>9,975,922</u>
<i>Fund Balance at End of Year</i>	<u>\$ 1,668,363</u>	<u>\$ 785,325</u>	<u>\$ 2,196,754</u>	<u>\$ 2,191,423</u>	<u>\$ 1,388,973</u>	<u>\$ 3,309,393</u>	<u>\$ 11,540,231</u>

See accompanying notes to the basic financial statements

Lima City School District
Statement of Receipts, Disbursement, and Changes
In Fund Balance - Budget and Actual (Budgetary Basis)
GENERAL FUND
For the Fiscal Year Ended June 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES:				
Property and Other Local Taxes	\$ 7,742,244	\$ 8,367,141	\$ 8,408,323	\$ 41,182
Intergovernmental	28,598,681	29,260,129	29,210,116	(50,013)
Interest	140,078	235,078	268,430	33,352
Tuition and Fees	1,017,000	1,201,000	1,213,435	12,435
Rent	18,847	18,847	20,960	2,113
Customer Sales and Services	170,712	180,887	179,168	(1,719)
Miscellaneous	103,229	131,107	119,734	(11,373)
Total Revenues	37,790,791	39,394,189	39,420,166	25,977
EXPENDITURES:				
Current:				
Instruction:				
Regular	14,424,625	14,395,888	14,395,888	0
Special	3,520,324	3,635,258	3,635,258	0
Vocational	1,610,509	1,661,153	1,661,153	0
Adult/Continuing	163,079	147,665	147,665	0
Other	4,366,756	5,281,440	5,281,440	0
Support Services:				
Pupils	1,984,431	1,926,037	1,926,037	0
Instructional Staff	839,786	820,984	820,984	0
Board of Education	230,313	179,229	179,229	0
Administration	4,087,420	4,050,740	4,050,640	100
Fiscal	795,088	832,304	782,162	50,142
Business	175,360	156,154	156,154	0
Operation and Maintenance of Plant	5,030,607	4,735,563	4,735,546	17
Pupil Transportation	541,771	547,032	547,032	0
Central	588,639	560,406	560,406	0
Extracurricular Activities:				
Academic Oriented Activities	61,040	52,588	52,588	0
Sport Oriented Activities	289,955	284,382	284,509	(127)
School and Public Service Co-Curricular Activities	102,060	84,200	84,223	(23)
Capital Outlay:				
Building Acquisition and Construction Services		336	336	0
Other Facilities Acquisition and Construction	5,000	3,426	3,426	0
Total Expenditures	38,816,763	39,354,785	39,304,676	50,109
Excess of Revenues Over (Under) Expenditures	(1,025,972)	39,404	115,490	76,086
OTHER FINANCING SOURCES AND USES:				
Proceeds from Sale of Capital Assets	220,612	154,999	153,740	(1,259)
Transfers Out	(250,000)	(380,812)	(380,812)	0
Total Other Financing Sources and Uses	(29,388)	(225,813)	(227,072)	(1,259)
Net Change in Fund Balances	(1,055,360)	(186,409)	(111,582)	74,827
Fund Balance (Deficit) at Beginning of Year	1,062,764	1,062,764	1,062,764	0
Prior Year Encumbrances Appropriated	304,520	304,520	304,520	0
Fund Balance (Deficit) at End of Year	\$ 311,924	\$ 1,180,875	\$ 1,255,702	\$ 74,827

See accompanying notes to the basic financial statements

Lima City School District
Statement of Receipts, Disbursements, and Changes
In Fund Balance - Budget and Actual(Budgetary Basis)
POVERTY BASED ASSISTANCE FUND
For the Fiscal Year Ended June 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES:				
Intergovernmental	\$ 3,195,633	\$ 2,960,758	\$ 2,960,758	\$ -
EXPENDITURES:				
Current:				
Instruction:				
Regular	909,784	1,127,099	952,839	174,260
Special	139,623	73,301	63,760	9,541
Other	244,842	153,929	29,423	124,506
Support Services:				
Pupils	380,140	572,786	460,097	112,689
Instructional Staff	61,003	89,028	65,666	23,362
Total Expenditures	<u>1,735,392</u>	<u>2,016,143</u>	<u>1,571,785</u>	<u>444,358</u>
Excess of Revenues Over (Under) Expenditures	1,460,241	944,615	1,388,973	444,358
OTHER FINANCING SOURCES AND USES:				
Other Financing Uses	<u>(1,460,241)</u>	<u>(944,615)</u>	-	<u>944,615</u>
Net Change in Fund Balances	-	-	1,388,973	1,388,973
Fund Balance (Deficit) at Beginning of Year	-	-	-	-
Prior Year Encumbrances Appropriated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance (Deficit) at End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,388,973</u>	<u>\$ 1,388,973</u>

See accompanying notes to the basic financial statements

Lima City School District
Statement of Fiduciary Net Assets - Cash Basis
Fiduciary Funds
June 30, 2006

	<u>Private</u> <u>Purpose Trust</u> <u>Fund</u>	<u>Agency Fund</u>
ASSETS:		
Equity in Pooled Cash and Cash Equivalents	\$ 256,220	\$ 32,670
<i>Total Assets</i>	256,220	32,670
NET ASSETS:		
Held in Trust for Scholarships	256,220	-
Unrestricted	-	32,670
<i>Total Net Assets</i>	\$ 256,220	\$ 32,670

See accompanying notes to the basic financial statements

Lima City School District
Statement of Changes in Fiduciary Net Assets - Cash Basis
Fiduciary Fund
For the Fiscal Year Ended June 30, 2006

	<u>Private</u> <u>Purpose Trust</u> <u>Funds</u>
ADDITIONS:	
Gifts and Contributions	\$ 176,894
Interest	<u>6,091</u>
<i>Total Additions</i>	182,985
DEDUCTIONS:	
Payments in Accordance with Trust Agreements	<u>63,603</u>
<i>Total Deductions</i>	<u>63,603</u>
<i>Change in Net Assets</i>	119,382
<i>Net Assets Beginning of Year</i>	<u>136,838</u>
<i>Net Assets End of Year</i>	<u><u>\$ 256,220</u></u>

See accompanying notes to the basic financial statements

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

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

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The District was established in 1856 through the consolidation of existing land areas and school districts. The District is the 58th largest in the State of Ohio (among 628 school districts) in terms of enrollment. It is staffed by 221 non-certificated employees and 468 certificated full-time teaching personnel who provide services to 5,071 students and other community members. The District currently operates fourteen instructional/support facilities and one administrative center.

Reporting Entity

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

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

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

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

The District is associated with four jointly governed organizations, two group purchasing pools and a related organization. These organizations include the Northwest Ohio Area Computer Services Cooperative, the West Central Ohio Special Education Regional Resource Center, the West Central Ohio Regional Professional Development Center, the Northwestern Ohio Educational Research Council, Inc., the Allen County Schools Health Benefit Plan, the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan, and the Lima Public Library. These organizations are presented in Notes 15, 16 and 17 to the financial statements.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

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

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

B. Basis of Presentation

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

1. Government-Wide Financial Statements

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

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

2. Fund Financial Statements

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

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

C. Fund Accounting

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

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Accounting (Continued)

1. Governmental Funds:

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

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

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

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

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

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

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

2. Fiduciary Funds:

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

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process

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

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

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

E. Cash and Investments

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

During fiscal year 2006, investments were limited to Federal National Mortgage Association, Federal Home Loan Bank, US Treasury money market funds, Sky money market funds, and STAR Ohio. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2006.

Following Ohio Statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2006 was \$268,430.

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

F. Capital Assets

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

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Compensated Absences

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

H. Long-Term Liabilities

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

I. Interfund Activity

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

J. Net Assets

Net cash assets represent cash assets held by the District at year-end. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. Restricted for Other Purposes is comprised of net assets restricted for grants. The District applies restricted resources when a cash disbursement is made for purposes for which both restricted and unrestricted net assets are available. As of June 30, 2006, of the District's \$9,871,868 restricted net assets, \$0 was restricted by enabling legislation.

3. CHANGE IN ACCOUNTING PRINCIPLE/RESTATEMENT OF FUND BALANCES AND NET ASSETS

For the fiscal year 2006, the School District implemented GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*. GASB Statement No. 46 requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. The application of this new standard did not have a material effect on the financial statements, nor did its implementation require a restatement of prior year balances.

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, and GASB Statement No. 47, *Accounting for Termination Benefits*, were also issued by the Governmental Accounting Standards Board. GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets. GASB Statement No. 47 establishes accounting standards for termination benefits. Since the School District reports on the cash basis of accounting, these standards do not apply to the School District.

The restated fund balance amount for governmental funds and the restated net asset amount for government programs and fiduciary funds reflects the change in net assets for governmental funds at June 30, 2005 and were due to the reclassification of funds from special revenue funds to a private purpose trust fund, a reclassification of a special revenue fund to the general fund, and the reclassification of an agency fund to the general fund. These changes had the following effects on beginning fund balances/net assets.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

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

3. CHANGE IN ACCOUNTING PRINCIPLE/RESTATEMENT OF FUND BALANCES AND NET ASSETS (Continued)

	General Fund	Permanent Improvement Fund	Building Construction Project Fund	All Other Governmental Funds	Total
Fund Balances, June 30, 2005	\$ 1,363,487	\$ 1,133,331	\$ 3,154,764	\$ 4,457,945	\$ 10,109,527
Fund Reclassification from Agency	3,233	-	-	-	3,233
Other Fund Reclassifications	564	-	-	(137,402)	(136,838)
Restated Fund Balances, June 30, 2005	<u>\$ 1,367,284</u>	<u>\$ 1,133,331</u>	<u>\$ 3,154,764</u>	<u>\$ 4,320,543</u>	<u>\$ 9,975,922</u>

	Fiduciary Funds
	Private Purpose Trust Fund
Net Assets, June 30, 2005	\$ -
Net Asset Reclassification	136,838
Restated Net Assets, June 30, 2005	<u>\$ 136,838</u>

	Total Governmental Activities
Net Assets, June 30, 2005	\$ 10,109,527
Fund Reclassification from Agency	\$ 3,233
Private Purpose Trust Fund Reclassification	(136,838)
Restated Net Assets, June 30, 2005	<u>\$ 9,975,922</u>

4. COMPLIANCE

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

5. DEPOSITS AND INVESTMENTS

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

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

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

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

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

5. DEPOSITS AND INVESTMENTS (Continued)

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

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

- a. United States treasury notes, bills, bonds, or other obligations or security issued by the United States or any other obligation guaranteed as to the payment of principal and interest by the United States;
- b. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Mortgage Association. All federal securities shall be direct issuances of federal government agencies or instrumentalities;
- c. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- d. Bonds and other obligations of the State of Ohio, its political subdivisions, or other units or agencies of this State or its political subdivisions;
- e. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
- f. No load money market mutual funds consisting exclusively of obligations described in division (a) or (b) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
- g. The State Treasurer's investment pool (STAR Ohio);
- h. Securities lending agreements in which the District lends securities and the eligible institution agrees to exchange either securities described in division (a) or (b), or cash, or both securities and cash, equal value for equal value;
- i. High grade commercial paper in an amount not to exceed five percent of the District's total average portfolio;
- j. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the District's total average portfolio.

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

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

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

5. 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 District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At fiscal year end, the District had \$200 in undeposited cash on hand which is included on the statement of assets and fund balances of the District as part of "Equity in Pooled Cash and Cash Equivalents".

B. Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, the carrying amount of the District's deposits was \$6,167,669 and the bank balance was \$7,108,602. Of the bank balance, \$300,000 was covered by federal depository insurance and \$6,808,602 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

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

C. Investments

The District's investments are categorized below to give an indication of the level of risk assumed by the District at fiscal year end.

Description	Market Value	Investment Maturities (in years)		Credit Rating S&P
		Less than 1	1-5	
June 30, 2006:				
Sky Money Market Funds	\$ 263,084	\$ 263,084	-	
Federal Home Loan Bank	394,093	-	394,093	AAA
Federal National Mortgage Association	249,266	49,680	199,586	AAA
US Treasury Money Market Funds	1,270,328	1,270,328	-	AAA
STAR Ohio	3,484,481	3,484,481	-	AAAm
Total Investments	<u>\$ 5,661,252</u>	<u>\$ 5,067,573</u>	<u>\$ 593,679</u>	

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

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

5. DEPOSITS AND INVESTMENTS (Continued)

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

Interest Rate Risk – Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. In practice, the District manages its exposure to declines in fair values by limiting the maximum maturity of its investment portfolio to five years.

Credit Risk – Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District limits their investments to Federal National Mortgage Association, Federal Home Loan Bank, Federal Home Loan Mortgage Corp, Money Market Mutual Funds and STAR Ohio.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The District’s investment policy allows investments in Repurchase Agreements, US Government Securities and Instrumentalities, Money Market Mutual Funds and STAR Ohio and allowable investments as defined by Ohio Revised Code Sections 133 and 135. The District has invested 5% in Federal National Mortgage Association, 7% in Federal Home Loan Bank, 22% in US Treasury Money Market Funds, and 62% in Star Ohio.

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

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

	Cash and Cash	
	<u>Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$11,829,121	\$ 0
Cash on Hand	(200)	
Investments:		
Federal National Mortgage Association	(249,266)	249,266
Federal Home Loan Bank	(394,093)	394,093
Sky Bank Money Market Funds	(263,084)	263,084
US Treasury Money Market Funds	(1,270,328)	1,270,328
STAR Ohio	<u>(3,484,481)</u>	<u>3,484,481</u>
GASB Statement No. 40	<u>\$ 6,167,669</u>	<u>\$5,661,252</u>

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

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

6. PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal property (used in business) located in the District. Real and public utility property tax revenues received in calendar year 2006 represent the collection of calendar year 2005 taxes. Real property taxes for calendar year 2006 are levied after April 1, 2005, on the assessed values as of January 1, 2005, the lien date.

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

Public utility property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2005. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The District receives property taxes from Allen County. The County Auditor periodically advances to the District its portion of the taxes collected.

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

	2005 Second- Half Collections		2006 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$266,331,870	81.82%	\$281,861,730	82.83%
Public Utility	20,902,630	6.42%	19,017,700	5.59%
Tangible Personal	<u>38,277,190</u>	<u>11.76%</u>	<u>39,425,484</u>	<u>11.58%</u>
Total Assessed Value	<u>\$325,511,690</u>	<u>100.00%</u>	<u>\$340,304,914</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$44.36		\$43.22	

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

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

7. RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts; theft of, or damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the District contracted with Indiana Insurance for property and general liability, boiler and machinery insurance and builders risk insurance. Boiler and machinery and builders risk insurance coverage has a \$25,000 and \$5,000 deductible per occurrence, respectively. Professional liability is protected by Indiana Insurance Company with \$1,000,000 each occurrence, \$5,000,000 aggregated limit.

Vehicles are covered by Indiana Insurance Company and are fully covered for comprehensive and \$1,000 deductible for collisions. Automobile liability has a \$2,000,000 combined single limit of liability.

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

Public officials' bond insurance is provided by Ohio Casualty Group for a total of \$160,000.

B. Workers' Compensation

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

C. Health Insurance

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

8. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614)222-5853.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

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

8. DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employees Retirement System (Continued)

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. For fiscal year 2006, 11.7% was the portion allocated to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the years ended June 30, 2006, 2005, and 2004 were \$776,326, \$662,405, and \$549,646, respectively. 44.8% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$428,390 represents the unpaid contribution for fiscal year 2006.

B. State Teachers Retirement System

The District contributed to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer defined benefit pension plan. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported in whole or in part, by the state or any political subdivision thereof. STRS Ohio provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

Plan Options – Effective July 1, 2001, two new plan options were offered to selected members. New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

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

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

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

8. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

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

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

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance. Benefits are increased annually by 3% of the original base amount.

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

A Defined Benefit or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

For fiscal year 2006 plan members are required to contribute 10% of their annual covered salaries. The District was required to contribute 14%, 13% of which was the portion used to fund pension obligations. Contribution rates are established by STRS Ohio, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004 were \$3,060,746, \$2,896,088, and \$2,886,676, respectively; 83.7% has been contributed for fiscal year 2006 and 100% for fiscal years 2005 and 2004. \$499,746 represents the unpaid contribution for fiscal year 2006.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

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

8. DEFINED BENEFIT PENSION PLANS (Continued)

C. Social Security System

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

9. POST RETIREMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14% of covered payroll. For the fiscal year 2006, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$235,442 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, the most recent year available, the balance in the Fund was \$3.3 billion. For the year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 eligible benefit recipients.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 2.3 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 2005, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$252,588.

The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005, the latest year available, were \$178,221,113. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168% of next year's projected net health care costs of \$158,776,151. As of June 30, 2005, SERS had approximately 58,123 participants receiving health care benefits.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

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

10. OTHER EMPLOYEE BENEFITS

Compensated Absences

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

11. LONG-TERM DEBT OBLIGATIONS

Under the cash basis of accounting, debt obligations are not reported as a liability in the accompanying basic financial statements. However, information regarding such changes in the District's general long-term obligations (excluding capital leases and compensated absences) during 2006 is as follows:

<u>General Long-Term Obligations:</u>	Principal Outstanding 6/30/05 <u>*Restated</u>	<u>Additions</u>	<u>Deletions</u>	Principal Outstanding 6/30/06	Due Within one year
General Obligation Bonds - 2000 School Facilities-Variou Purpose - Serial and Term Bonds 5-6%	\$5,355,000	\$0	\$4,205,000	\$1,150,000	\$255,000
Capital Appreciation Bonds 9.99%	300,997	0	0	300,997	0
General Obligation Bonds - 2000 School Facilities Serial and Term Bonds 4.7-5.5%	8,025,000	0	5,400,000	2,625,000	385,000
Capital Appreciation Bonds 10.73%	384,999	0	0	384,999	0
General Obligation Bonds- Various Purpose - 2001 Serial and Term Bonds 5.0%	1,445,000	0	70,000	1,375,000	75,000
General Obligation Bonds - 2003 School Improvement Serial and Term Bonds 2 -4.8%	4,634,996	0	65,000	4,569,996	55,000
Capital Appreciation Bonds 24.578%	89,996	0	0	89,996	0
General Obligation Bonds - 2005 School Facilities Refunding Serial and Term Bonds 3-5%	0	8,540,000	0	8,540,000	95,000
Capital Appreciation Bonds 24.33%	<u>0</u>	<u>464,990</u>	<u>0</u>	<u>464,990</u>	<u>0</u>
Total Long-Term Obligations	<u>\$20,235,988</u>	<u>\$9,004,990</u>	<u>\$9,740,000</u>	<u>\$19,500,978</u>	<u>\$865,000</u>

* **Restated** – the Capital Appreciation Bonds for all issues were restated to their original issue amounts. There is no effect on the accompanying financial statements on the cash basis of accounting.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

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

11. LONG-TERM DEBT OBLIGATIONS (Continued)

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

Generally, the District repays the State for its contribution by levying an additional property tax of one-half mill for a twenty-three period. The total budget for the project is \$104,029,247, of which \$92,663,247 was awarded in school facilities monies and \$11,366,000 is the District's share of the project. In fiscal year 2006, the District received \$265,562 in school facilities monies. If the District's three-year average adjusted valuation per pupil increases above the state-wide median three-year adjusted valuation per pupil, the District may become responsible for repayment of a portion of the State's contribution. Based on the District's adjusted valuation relative to the state-wide median adjusted valuation, this possibility appears remote. This debt is not reflected in the general long-term obligations schedule above.

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

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

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

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

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

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

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

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

11. LONG-TERM DEBT OBLIGATIONS (Continued)

School Facilities Advance Refunding Bonds – On November 10, 2005, the District issued \$8,540,000 in serial and term bonds and \$464,990 in capital appreciation bonds to provide resources to purchase U.S. Government Securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the following debt. The District placed \$9,825,593 with the refunding bond escrow agent to advance refund \$3,970,000 of the School Facilities Bonds – Various Purpose dated June 1, 2000 and maturing on December 1, 2022 and \$5,035,000 of the School Facilities Bonds – Classroom Facilities dated June 15, 2000 and maturing on December 1, 2022. The bonds were issued for a seventeen-year period with final maturity December 1, 2022. The bonds are being retired from the Debt Service Fund. The amounts of each of the bond issues which were advance refunded are considered defeased and as such are not shown in the accompanying schedule of changes in general long-term obligations.

The capital appreciation bonds issued on June 1, 2000 are not subject to redemption prior to scheduled maturity. The capital appreciation bonds will mature in fiscal years 2010 through 2012. The maturity amount of the bonds is \$915,000. However, under the cash basis of accounting, the outstanding balance in the schedule of changes in general long-term obligations is recorded at the original issue amount and no accretion is reported.

The capital appreciation bonds issued on June 15, 2000 are not subject to redemption prior to scheduled maturity. The capital appreciation bonds will mature in fiscal years 2012 through 2014. The maturity amount of the bonds is \$1,560,000. However, under the cash basis of accounting, the outstanding balance in the schedule of changes in general long-term obligations is recorded at the original issue amount and no accretion is reported.

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

<u>Year</u>	<u>Principal Amount to be Redeemed</u>
2004	\$40,000
2006	55,000
2007	60,000
2008	65,000
2010	95,000
2013	140,000
2020	275,000
2021	285,000
2022	300,000
2023	310,000

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

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

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

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

11. LONG-TERM DEBT OBLIGATIONS (Continued)

Principal and interest requirements to retire the bonds outstanding at June 30, 2006 are as follows:

Fiscal Year Ending	Principal	Interest	Total
2007	\$ 865,000	\$ 790,225	\$ 1,655,225
2008	1,065,000	745,204	1,810,204
2009	1,120,000	693,878	1,813,878
2010	1,123,201	697,230	1,820,431
2011	1,055,253	786,312	1,841,565
2012-2016	3,292,036	5,102,418	8,394,454
2017-2021	5,875,617	2,588,349	8,463,966
2022-2026	4,005,000	554,396	4,559,396
2027-2029	<u>1,099,871</u>	<u>82,440</u>	<u>1,182,311</u>
Total	<u>\$19,500,978</u>	<u>\$12,040,452</u>	<u>\$31,541,430</u>

12. INTERFUND ACTIVITY

The following interfund activity occurred during the fiscal year:

Interfund Transfers	Transfers In	Transfers Out
General Fund	\$ -	\$ 380,812
Non-Major Special Revenue Funds		
Truancy Prevention	2,554	
Severance Incentive	<u>237,758</u>	-
Total Non-Major Special Revenue Funds	240,312	-
Debt Service Fund		
Bond Retirement	<u>140,500</u>	-
Total Debt Service Fund	<u>140,500</u>	-
Total Governmental Funds	380,812	380,812
 Total Transfers In/Out	 <u>\$ 380,812</u>	 <u>\$ 380,812</u>

General Fund (Major fund) transfers were made to the Truancy Prevention Fund (Non-Major Special Revenue Fund), Severance Incentive Fund (Non-Major Special Revenue Fund) and the Bond Retirement Fund (Major Debt Service Fund). These transfers are routine and were made for the District's match obligation of a grant, severance payouts and the retirement of debt.

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

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

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

13. STATUTORY RESERVES

The District is required by state law to set aside certain general fund revenue amounts, as defined, into various reserves. For fiscal year ended June 30, 2006, the reserve activity was as follows:

	Textbooks	Capital Acquisition
Set-aside Cash Balance as of June 30, 2005	(\$832,991)	(\$20,683,992)
Current Year Set-aside Requirement	753,042	753,042
Current Year Offsets	0	0
Qualifying Disbursements	(<u>673,686</u>)	(<u>212,507</u>)
Total	(<u>\$753,635</u>)	(<u>\$20,143,457</u>)

Qualifying expenditures for the textbook reserve exceeded the required set aside by \$753,635 and can be carried forward to future years. Accumulated set-aside requirements from bond or note proceeds in the capital improvements set aside may be carried forward to offset future years' requirements. The total reserve cash balance for the two set-asides at the end of the fiscal year was \$0.

14. CONTRACTUAL COMMITMENTS

As of June 30, 2006, the District had a contractual commitment to Tuttle Barton Malow for engineering fees in the amount of \$321,045.

15. JOINTLY GOVERNED ORGANIZATIONS

Northwest Ohio Area Computer Services Cooperative - The District is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC) which is a computer consortium. NOACSC is an association of public school districts within the boundaries of Allen, Putnam, Mercer, Hancock, Van Wert, and Paulding Counties and Cities of Wapakoneta and St. Marys. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. Financial information can be obtained from Michael Wildermuth, who serves as director, at 645 South Main Street, Lima, Ohio 45804.

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

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

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

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

15. JOINTLY GOVERNED ORGANIZATIONS (Continued)

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

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

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

16. GROUP PURCHASING POOLS

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

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

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

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

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

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

17. RELATED ORGANIZATION

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

18. CONTINGENCIES

A. Grants

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

B. Litigation

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

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Federal Grantor/ Pass-Through Grantor/ Program Titles	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. Department of Education						
<i>Passed through the Ohio Department of Education</i>						
<i>Special Education Cluster:</i>						
Special Education - Grants to States	6BSF	84.027	\$ 1,367,770	\$ -	\$ 1,275,490	\$ -
Special Education - Preschool Grants	PGS1	84.173	54,831	-	58,272	-
Total Passed Through the Ohio Department of Educaiton			1,422,601	-	1,333,762	-
<i>Passed through the West Central Ohio Educational Resource Center</i>						
Special Education - Grants to States	N/A	84.027	7,000	-	2,385	-
Total Special Education Cluster			1,429,601	-	1,336,147	-
<i>Passed through the Ohio Department of Education</i>						
Title I Grants to Local Educational Agencies	C1S1 & C1SK	84.010	2,946,090	-	2,503,658	-
Innovative Education Programs Strategies	C2S1	84.298	23,805	-	30,206	-
Adult Education - State Grant Program	ABS1	84.002	115,912	-	120,856	-
Vocational Education - Basic Grants to States	20C1	84.048	184,092	-	184,171	-
Safe and Drug-Free Schools and Communities - National	T4S1	84.184	8,515	-	4,351	-
Safe and Drug-Free Schools and Communities - State Grant	DRS1	84.186	50,687	-	53,377	-
Educational Technology State Grants	TJS1 & TJSL	84.318	221,408	-	245,852	-
Advanced Placement Program	AVTF	84.330	2,905	-	2,905	-
Comprehensive School Reform Demonstration	RFK1, RFK2,	84.332	63,883	-	79,099	-
Twenty-First Century Community Learning Centers	T1S1	84.287	462,684	-	459,261	-
Improving Teacher Quality - State Grants	TRS1	84.367	545,216	-	551,708	-
Education for Homeless Children and Youth	HCS1	84.196	28,935	-	26,299	-
Hurricane Education Recovery	HR01	84.938	17,000	-	14,749	-
<i>Passed through the Rhodes Technical College</i>						
Vocational Education - Basic Grants to States	N/A	84.048	7,834	-	11,007	-
<i>Direct from Federal Government</i>						
Comprehensive School Reform Demonstration	N	84.332	128,725	-	121,672	-
Total U.S. Department of Education			6,237,292	-	5,745,318	-
U.S. Department of Health and Human Services						
<i>Passed through the Ohio Department of Mental Retardation and Developmental Disabilities</i>						
Medical Assistance Program (CAFS)	N/A	93.778	130,154	-	130,154	-
State Children's Insurance Program (SCHIP)	N/A	93.767	11,254	-	11,254	-
Total U.S. Department of Health and Human Services			141,408	-	141,408	-
U.S. Department of Agriculture						
<i>Passed through the Ohio Department of Education</i>						
<i>Child Nutrition Cluster:</i>						
School Breakfast Program	05PU	10.553	741,895	-	741,895	-
National School Lunch Program	LLP1 & LLP4	10.555	1,276,997	-	1,276,997	-
Summer Food Service Program for Children	23PU & 24PU	10.559	30,112	-	30,112	-
Total Child Nutrition Cluster			2,049,004	-	2,049,004	-
Team Nutrition Training Grant	TWNT	10.574	980	-	880	-
Food Distribution	N/A	10.550	-	279,283	-	279,283
Fresh Fruit & Vegetable Grant	N/A	10.582	7,547	-	7,547	-
Total U.S. Department of Agriculture			2,057,531	279,283	2,057,431	279,283
Total Federal Financial Assistance			\$ 8,436,231	\$ 279,283	\$ 7,944,157	\$ 279,283

N/A - Pass through entity number was not provided

N - Direct Grant

See accompanying notes to the schedule of federal awards expenditures

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – FOOD DISTRIBUTION

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

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

NOTE C – MATCHING REQUIREMENTS

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

BALESTRA, HARR & SCHERER CPAs, INC.

528 South West Street, P.O. Box 687
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Ohio Society of Certified Public Accountants

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

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Lima City School District (the District), Allen County, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 8, 2007, wherein we noted the District uses a comprehensive basis of accounting other than generally accepted accounting principles, and implemented GASB Statement No. 46. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contract and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Findings and Questioned Costs as item 2006-001.

Members of the Board
Lima City School District
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance With *Government Auditing Standards*
Page 2

We noted certain matters that we reported to the management of the District in a separate letter dated February 8, 2007.

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

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

Balestra, Harr & Scherer, CPAs, Inc.

February 8, 2007

BALESTRA, HARR & SCHERER CPAs, INC.

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Piketon, Ohio 45661

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

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

Compliance

We have audited the compliance of Lima City School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the Lima City School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

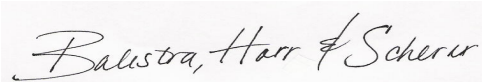
Internal Control Over Compliance

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

Internal Control Over Compliance (Continued)

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

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

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

Balestra, Harr & Scherer, CPAs, Inc.

February 8, 2007

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.505
JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Nutrition Cluster : CFDA # 10.553, 10.555, 10.559 Title I Grants to Local Education Agencies: CFDA #84.010
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006
(Continued)

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

FINDING NUMBER 2006-001

Noncompliance Citation

Ohio Revised Code § 117.38 provides that each public office shall file a financial report for each fiscal year. The official statement for the 2001 Various Purpose bond issue also requires the financial statements to be filed in accordance with Ohio Revised Code Section 117.38.

The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code § 117-2-03 further clarifies the requirements of Ohio Revised Code § 117.38.

Ohio Administrative Code § 117-2-03(B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. The District prepares its financial statements in accordance with the cash basis of accounting in a report format similar to the requirements of Governmental Accounting Standards Board Statement 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. This presentation differs from accounting principles generally accepted in the United States of America (GAAP). There would be variances on the financial statements between this accounting practice and GAAP that, while presumably material, cannot be reasonably determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

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

Client Response:

The District believes reporting on the cash basis of accounting is more cost efficient.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

Lima City School District
Allen County, Ohio
Schedule of Prior Audit Findings
OMB Circular A-133 Section .315(b)
For the Fiscal Year Ended June 30, 2006

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2005-001	Ohio Administrative Code § 117-2-03(B) Failure to report under GAAP	No	Not corrected; Reissued as Finding # 2006-001
2005-002	Ohio Revised Code (ORC) Section 5705.39. Appropriations Exceeding Estimated Resources	Yes	



Mary Taylor, CPA
Auditor of State

LIMA CITY SCHOOL DISTRICT

ALLEN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 10, 2007**