



Mary Taylor, CPA
Auditor of State

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

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of St. Marys City School District, Auglaize County, (the School District), as of and for the fiscal 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

Ohio Administrative Code § 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 1, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School District, as of June 30, 2006, and the respective changes in cash financial position and the respective budgetary comparison for the General Fund thereof for the fiscal year then ended in conformity with the basis of accounting Note 1 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2007, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

Mary Taylor, CPA
Auditor of State

February 6, 2007

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

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

The discussion and analysis of St. Marys City School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2006, within the limitations of cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Highlights

Highlights for fiscal year 2006 are as follows:

- The School District closed operations at Moulton Elementary School during fiscal year 2004 and sold the building during fiscal year 2005. The building was originally constructed during 1937 with an addition constructed during 1954. The operational cost per pupil was the highest within the School District, mostly due to heating costs.
- The School District closed operations at Noble Elementary School during fiscal year 2005. This building was also constructed during 1937. The operating cost per pupil was \$6,996, which was the second highest in the School District. All kindergarten students were moved to East Elementary School and all students in grades four through six were moved to West Elementary School for fiscal year 2006.
- Part of the increase in net assets, in the amount of \$2,274,982, can be attributed to the cost savings of no longer operating either of these two buildings.
- The School District passed a 7.9 mill 5-year emergency levy for operations during March 2004. Collection of the property taxes started January 1, 2005. The emergency levy is estimated to generate \$1,838,898 in additional revenues per year. The School District received a full year of collections during fiscal year 2006.
- In addition to the above, unrestricted net assets also increased due to reductions outlined within the School District's budget reduction plan. During fiscal year 2005, five full-time equivalent elementary aides were eliminated. Library staff was reduced by one certified librarian, .5 non-certified librarians, and a .5 library aide/clerk. Disbursements for library materials and supplies were cut in half. The high school and junior high school reduced staffing levels by 1.5 teachers and .5 secretaries. Reductions of one full-time and two part-time custodial employees were also made. The reduction in staff continued through fiscal year 2006.
- After the closing of the two elementary schools, the School District had moved those employees to the remaining instructional buildings. As these employees have terminated their employment, the School District has not replaced these positions.

Using the Basic Financial Statements

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

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

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

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

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

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

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

Reporting the School District as a Whole

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2006, within the limitations of cash basis accounting. The statement of net assets presents the cash balance of the governmental activities of the School District at fiscal year end. The statement of activities compares cash disbursements with program receipts for each function or program of the School District's governmental activities. A function is a group of related activities designed to accomplish a major service or regulatory program for which the School District is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the School District's general receipts.

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

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

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

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

Reporting the School District's Most Significant Funds

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

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

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

The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2006 and fiscal year 2005:

**Table 1
Net Assets**

	Governmental Activities	
	2006	2005
Assets:		
Cash and Cash Equivalents	\$6,800,942	\$4,525,960
Net Assets:		
Restricted	1,797,011	1,763,148
Unrestricted	5,003,931	2,762,812
Total Net Assets	\$6,800,942	\$4,525,960

As mentioned previously, total net assets increased \$2,274,982, or 50 percent. The primary reasons contributing to the increase in cash balances are as follows:

- The School District sold the Noble Elementary School building.
-
- The continued savings from no longer operating Mouton Elementary School.
- The School District received a full year's collection on the new tax levy that was voted in March 2004.
- Tier III reductions within the budget reduction plan continued to generate a savings of approximately \$560,734.

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

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

Table 2 reflects the change in net assets for fiscal year 2006 and fiscal year 2005.

**Table 2
Change in Net Assets**

	Governmental Activities	
	2006	2005
Receipts:		
Program Receipts		
Charges for Services	\$1,190,644	\$1,190,820
Operating Grants, Contributions, and Interest	2,424,211	2,570,473
Capital Grants and Contributions	86,922	17,025
Total Program Receipts	<u>3,701,777</u>	<u>3,778,318</u>
General Receipts		
Property Taxes Levied for General Purposes	7,978,390	6,303,545
Property Taxes Levied for Debt Service	711,541	995,431
Property Taxes Levied for Permanent Improvements	451,944	414,686
Payment in Lieu of Taxes	21,630	5,000
Grants and Entitlements	9,812,516	9,673,544
Interest	251,913	117,124
Sale of Capital Assets	65,000	105,000
Miscellaneous	134,882	133,290
Total General Receipts	<u>19,427,816</u>	<u>17,747,620</u>
Total Receipts	<u>23,129,593</u>	<u>21,525,938</u>
Disbursements:		
Instruction:		
Regular	8,742,468	9,075,221
Special	1,580,680	1,494,326
Vocational	1,454,423	1,175,484
Adult/Continuing	70,721	57,632
Support Services:		
Pupils	1,404,338	1,376,852
Instructional Staff	863,847	886,759
Board of Education	89,013	16,900
Administration	1,160,370	1,234,320
Fiscal	471,583	392,925
Business	236,931	245,708
Operation and Maintenance of Plant	1,443,664	1,432,560
Pupil Transportation	590,336	623,344
Central	6,812	7,042
Non-instructional Services	691,907	741,497
Extracurricular Activities	599,914	556,031
Capital Outlay	508,262	371,476
Debt Service:		
Principal Retirement	845,377	785,377
Interest and Fiscal Charges	93,965	130,705
Total Disbursements	<u>20,854,611</u>	<u>20,604,159</u>
Increase in Net Assets	2,274,982	921,779
Net Assets at Beginning of Year	4,525,960	3,604,181
Net Assets at End of Year	<u>\$6,800,942</u>	<u>\$4,525,960</u>

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

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

Program receipts represent 16 percent of total receipts, a decrease of 2 percent from the prior year, and are primarily represented by restricted intergovernmental receipts, charges for tuition, fees, sports-related activity fees, and food service sales.

Property taxes and grants and entitlements basically make up the balance of the School District's general receipts. A significant increase occurred from the School District receiving a full year's collection in a tax levy passed by the voters during November 2004. Income earned from investments increased from the availability of cash to be invested.

The major program disbursements for governmental activities are for instruction, which continues to account for 57 percent of all governmental disbursements. Regular instruction decreased from the discontinued operations of Noble Elementary School and employees retiring and not being replaced. Special instruction increased from students being placed in the community schools operated by the Auglaize County Educational Service Center. Vocational instruction increased from the employment of a GRADS coordinator, along with increased costs for Tri-Star vocational compact operated through Celina City School District.

Other programs which support the instruction process, including pupils, instructional staff, administration, operation and maintenance of plant, and transportation account for 26 percent of governmental disbursements.

Fiscal support service disbursements increased by an increase in auditor and treasurer fees from the collection of property taxes and the costs associated with an interim treasurer for six months.

A school bus was purchased during fiscal year 2005, in the amount of \$53,000. After reducing fiscal year 2005 disbursements from the purchase, transportation support service disbursements increased principally from the cost of fuel.

The sale of Noble Elementary School decreased the cafeteria costs reported in non-instructional disbursements.

Overall, the School District's total disbursements increased by 1.2 percent.

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

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

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

**Table 3
Governmental Activities**

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Instruction:				
Regular	\$8,742,468	\$9,075,221	\$8,351,303	\$8,646,775
Special	1,580,680	1,494,326	(450)	(112,488)
Vocational	1,454,423	1,175,484	982,307	674,951
Adult/Continuing	70,721	57,632	(39,831)	(41,306)
Support Services:				
Pupils	1,404,338	1,376,852	1,396,177	1,366,357
Instructional Staff	863,847	886,759	849,937	886,759
Board of Education	89,013	16,900	89,013	16,900
Administration	1,160,370	1,234,320	1,160,370	1,234,320
Fiscal	471,583	392,925	471,583	392,925
Business	236,931	245,708	155,648	157,526
Operation and Maintenance of Plant	1,443,664	1,432,560	1,383,664	1,431,530
Pupil Transportation	590,336	623,344	522,219	549,183
Central	6,812	7,042	6,812	7,042
Non-instructional Services	691,907	741,497	(60,286)	(26,539)
Extracurricular Activities	599,914	556,031	436,764	354,348
Capital Outlay	508,262	371,476	508,262	371,476
Debt Service:				
Principal Retirement	845,377	785,377	845,377	785,377
Interest and Fiscal Charges	93,965	130,705	93,965	130,705
Total Disbursements	<u>\$20,854,611</u>	<u>\$20,604,159</u>	<u>\$17,152,834</u>	<u>\$16,825,841</u>

Instructional activities were supported by tax receipts and unrestricted grants and entitlements by 78 percent. Special and adult/continuing instruction activities are provided for through operating grants. During fiscal year 2006, the School District had received a greater amount in operating grants than disbursed for special and adult/continuing instruction.

Non-instructional services include food service activities. All non-instructional services were covered by program receipts for fiscal year 2006 and fiscal year 2005. The majority of the program receipts associated with non-instructional services includes cafeteria sales and state and federal subsidies for food service.

The School District's Funds

The School District's governmental funds are accounted for using the cash basis of accounting. The General Fund reported a positive change in fund balance in fiscal year 2006 by receiving a full year of property taxes on the 7.9 mill levy and continued to see a cost savings from the implementation the third tier of budget cuts as outlined in the School District's budget reduction plan adopted by the Board of Education on January 23, 2004.

The Auglaize County Auditor reduced the amount of property tax collections for future debt service due to the available cash balance within the Bond Retirement debt service fund.

A donation, along with the sale of the Noble Elementary School building, generated sufficient money for capital needs within the School District.

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

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

Budgeting Highlights

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

During fiscal year 2006, the School District amended its General Fund budget as needed. The School District amended budgeted operating receipts for property tax receipts. The change from final budgeted receipts to actual receipts, \$1,276,778, was significant. Total tax-related receipts were greater than anticipated in fiscal year 2006 from the collection on the property tax levy passed in March 2004.

The School District amended its appropriations by almost 7 percent; however, these changes were not significant.

Actual General Fund receipts were greater than disbursements by \$2,064,248. A full year's collection of the voted property tax passed in November 2004, along with the cuts in personnel and related fringe benefits that occurred during fiscal year 2005 continued to provide the positive excess amount.

Debt Administration

At June 30, 2006, the School District's outstanding debt included general obligation bonds for construction of additions to the facilities and asbestos removal loans, in the amount of \$1,598,769. For further information regarding the School District's debt, refer to Note 12 to the basic financial statements.

Current Issues

The School District was notified by the Ohio Department of Education that the School District received an "Excellent" rating for fiscal year 2006.

Architectural services have been retained to assist the School District in updating the facilities master plan and aid in the process of seeking community input for future facility needs.

The School District is slated to be eligible for the Ohio School Facilities Plan during 2008.

Services have also been retained for the development of a Strategic Plan for the School District. The Strategic Plan is to identify the internal strengths and weaknesses of the School District, along with the external factors that affect the School District in either a positive or negative way, and to implement guidelines on objectives and strategies on correcting any critical issues.

Contacting the School District's Financial Management

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

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ST. MARYS CITY SCHOOL DISTRICT
AUGLAIZE COUNTY

STATEMENT OF NET ASSETS - CASH BASIS
JUNE 30, 2006

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>\$6,800,942</u>
Net Assets:	
Restricted for:	
Debt Service	699,575
Capital Projects	774,333
Food Service	172,845
Other Purposes	150,258
Unrestricted	<u>5,003,931</u>
Total Net Assets	<u><u>\$6,800,942</u></u>

See accompanying notes to the basic financial statements.

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

**STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Program Cash Receipts</u>			Net (Disbursement) Receipt and Change in Net Assets	
	<u>Disbursements</u>	<u>Charges for Services</u>	<u>Operating Grants, Contributions, and Interest</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities					
Instruction:					
Regular	\$8,742,468	\$247,074	\$138,456	\$5,635	(\$8,351,303)
Special	1,580,680		1,580,987	143	450
Vocational	1,454,423	271,915	190,946	9,255	(982,307)
Adult/Continuing	70,721		110,552		39,831
Support Services:					
Pupils	1,404,338		8,161		(1,396,177)
Instructional Staff	863,847		13,210	700	(849,937)
Board of Education	89,013				(89,013)
Administration	1,160,370				(1,160,370)
Fiscal	471,583				(471,583)
Business	236,931	81,283			(155,648)
Operation and Maintenance of Plant	1,443,664			60,000	(1,383,664)
Pupil Transportation	590,336		56,928	11,189	(522,219)
Central	6,812				(6,812)
Noninstructional Services	691,907	427,222	324,971		60,286
Extracurricular Activities	599,914	163,150			(436,764)
Capital Outlay	508,262				(508,262)
Debt Service:					
Principal Retirement	845,377				(845,377)
Interest and Fiscal Charges	93,965				(93,965)
Total Governmental Activities	<u>\$20,854,611</u>	<u>\$1,190,644</u>	<u>\$2,424,211</u>	<u>\$86,922</u>	<u>(17,152,834)</u>

General Receipts

Property Taxes Levied for:	
General Purposes	7,978,390
Debt Service	711,541
Permanent Improvements	451,944
Payment in Lieu of Taxes	21,630
Grants and Entitlements Not Restricted to Specific Programs	9,812,516
Interest	251,913
Sale of Capital Assets	65,000
Miscellaneous	134,882
Total General Receipts	<u>19,427,816</u>
 Change in Net Assets	 2,274,982
 Net Assets at Beginning of Year	 <u>4,525,960</u>
 Net Assets at End of Year	 <u><u>\$6,800,942</u></u>

See accompanying notes to the basic financial statements.

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

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2006**

	<u>General</u>	<u>Bond Retirement</u>	<u>Permanent Improvement</u>	<u>Other Governmental</u>	<u>Total</u>
Assets					
Equity in Pooled Cash and Cash Equivalents	\$5,003,931	\$699,575	\$774,333	\$323,103	\$6,800,942
Fund Balances					
Reserved for Encumbrances	205,976		66,297	97,305	369,578
Unreserved, Reported in					
General Fund	4,797,955				4,797,955
Special Revenue Funds				225,798	225,798
Debt Service Fund		699,575			699,575
Capital Projects Fund			708,036		708,036
Total Fund Balances	<u>\$5,003,931</u>	<u>\$699,575</u>	<u>\$774,333</u>	<u>\$323,103</u>	<u>\$6,800,942</u>

See accompanying notes to the basic financial statements.

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

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>General</u>	<u>Bond Retirement</u>	<u>Permanent Improvement</u>	<u>Other Governmental</u>	<u>Total</u>
Receipts					
Property Taxes	\$7,978,390	\$711,541	\$451,944		\$9,141,875
Payment in Lieu of Taxes	21,630				21,630
Intergovernmental	10,722,184	123,497	44,908	1,347,605	12,238,194
Interest	191,612	28,661	29,787	8,724	258,784
Tuition and Fees	518,989				518,989
Charges for Services				427,222	427,222
Extracurricular Activities				163,150	163,150
Gifts and Donations	10,208		60,000	8,376	78,584
Miscellaneous	170,344			45,821	216,165
Total Receipts	<u>19,613,357</u>	<u>863,699</u>	<u>586,639</u>	<u>2,000,898</u>	<u>23,064,593</u>
Disbursements					
Current:					
Instruction:					
Regular	8,533,035			209,433	8,742,468
Special	944,682			635,998	1,580,680
Vocational	1,454,423				1,454,423
Adult/Continuing				70,721	70,721
Support Services:					
Pupils	1,284,256			120,082	1,404,338
Instructional Staff	805,959			57,888	863,847
Board of Education	89,013				89,013
Administration	1,154,452			5,918	1,160,370
Fiscal	443,542	16,737	11,304		471,583
Business	236,931				236,931
Operation and Maintenance of Plant	1,383,955		55,161	4,548	1,443,664
Pupil Transportation	588,731			1,605	590,336
Central	6,812				6,812
Noninstructional Services				691,907	691,907
Extracurricular Activities	406,342			193,572	599,914
Capital Outlay			507,195	1,067	508,262
Debt Service:					
Principal Retirement		845,377			845,377
Interest and Fiscal Charges		93,965			93,965
Total Disbursements	<u>17,332,133</u>	<u>956,079</u>	<u>573,660</u>	<u>1,992,739</u>	<u>20,854,611</u>
Excess of Receipts Over (Under) Disbursements	<u>2,281,224</u>	<u>(92,380)</u>	<u>12,979</u>	<u>8,159</u>	<u>2,209,982</u>
Other Financing Sources (Uses)					
Sale of Capital Assets			65,000		65,000
Advances In	7,772			2,500	10,272
Advances Out	(2,500)			(7,772)	(10,272)
Transfers In		45,377			45,377
Transfers Out	(45,377)				(45,377)
Total Other Financing Sources (Uses)	<u>(40,105)</u>	<u>45,377</u>	<u>65,000</u>	<u>(5,272)</u>	<u>65,000</u>
Changes in Fund Balances	2,241,119	(47,003)	77,979	2,887	2,274,982
Fund Balances at Beginning of Year	<u>2,762,812</u>	<u>746,578</u>	<u>696,354</u>	<u>320,216</u>	<u>4,525,960</u>
Fund Balances at End of Year	<u>\$5,003,931</u>	<u>\$699,575</u>	<u>\$774,333</u>	<u>\$323,103</u>	<u>\$6,800,942</u>

See accompanying notes to the basic financial statements.

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

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Receipts				
Property Taxes	\$5,989,229	\$7,935,479	\$7,978,390	\$42,911
Payment in Lieu of Taxes	5,000	20,000	21,630	1,630
Intergovernmental	10,555,649	9,686,000	10,722,184	1,036,184
Interest	104,197	54,000	191,612	137,612
Tuition and Fees	468,024	487,000	518,989	31,989
Gifts and Donations	52,835	15,000	10,208	(4,792)
Miscellaneous	149,513	139,100	170,344	31,244
Total Receipts	17,324,447	18,336,579	19,613,357	1,276,778
Disbursements				
Current:				
Instruction:				
Regular	8,614,654	8,481,117	8,559,277	(78,160)
Special	909,276	978,253	946,746	31,507
Vocational	1,121,714	1,382,469	1,493,107	(110,638)
Other		306,000		306,000
Support Services:				
Pupils	1,205,296	1,341,264	1,294,233	47,031
Instructional Staff	846,922	941,398	865,342	76,056
Board of Education	80,627	159,727	89,450	70,277
Administration	1,219,125	1,255,814	1,175,195	80,619
Fiscal	360,731	467,108	448,653	18,455
Business	245,972	270,264	237,325	32,939
Operation and Maintenance of Plant	1,365,409	1,482,080	1,420,564	61,516
Pupil Transportation	639,088	655,810	593,568	62,242
Central	7,042	13,000	7,916	5,084
Extracurricular Activities	378,372	430,032	406,733	23,299
Total Disbursements	16,994,228	18,164,336	17,538,109	626,227
Excess of Receipts Over Disbursements	330,219	172,243	2,075,248	1,903,005
Other Financing Sources (Uses)				
Advances In	4,773		7,772	7,772
Advances Out	(14,407)		(2,500)	(2,500)
Transfers Out	(45,377)	(45,377)	(45,377)	
Total Other Financing Sources (Uses)	(55,011)	(45,377)	(40,105)	5,272
Changes in Fund Balance	275,208	126,866	2,035,143	1,908,277
Fund Balance at Beginning of Year	2,519,481	2,519,481	2,519,481	
Prior Year Encumbrances Appropriated	243,331	243,331	243,331	
Fund Balance at End of Year	\$3,038,020	\$2,889,678	\$4,797,955	\$1,908,277

See accompanying notes to the basic financial statements.

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

**STATEMENT OF CASH BASIS FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Private Purpose Trust</u>	<u>Agency</u>
Assets		
Equity in Pooled Cash and Cash Equivalents	\$144,778	\$75,827
Cash and Cash Equivalents in Segregated Accounts		3,133
	<hr/>	<hr/>
Total Assets	<u>\$144,778</u>	<u>\$78,960</u>
Net Assets:		
Endowments	129,580	
Held in Trust for Scholarships	15,198	
Held for Student Activities		68,346
Undistributed Assets		10,614
	<hr/>	<hr/>
Total Net Assets	<u>\$144,778</u>	<u>\$78,960</u>

See accompanying notes to the basic financial statements.

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

**STATEMENT OF CHANGES IN CASH BASIS FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Receipts	
Interest	\$5,580
Miscellaneous	<u>2,683</u>
Total Receipts	8,263
Disbursements	
Noninstructional Services	<u>11,000</u>
Change in Net Assets	(2,737)
Net Assets at Beginning of Year	<u>147,515</u>
Net Assets at End of Year	<u><u>\$144,778</u></u>

See accompanying notes to the basic financial statements.

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

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

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1862 through the consolidation of existing land areas and school districts. The School District serves an area of approximately eighty-two square miles. It is located in Auglaize County, and includes all of the City of St. Marys and portions of Logan, Moulton, Noble, Salem, St. Marys, and Washington Townships. The School District is the 209th largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by seventy-six classified employees, one hundred sixty-three certified teaching personnel, and seventeen administrative employees who provide services to 2,363 students and other community members. The School District currently operates four school buildings and a service building.

A. Reporting Entity

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

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

The following activities are included within the reporting entity:

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

1. Government-Wide Financial Statements

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

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

2. Fund Financial Statements

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting

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

1. Governmental Funds

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

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

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

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

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

2. Fiduciary Funds

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

C. Basis of Accounting

The School District's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the School District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

D. Budgetary Process

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

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

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

E. Cash and Investments

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

During fiscal year 2006, the School District's investments included nonnegotiable certificates of deposit, federal agency securities, mutual funds, and STAR Ohio. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2006.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2006 was \$191,612, which included \$8,139 assigned from other School District funds.

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

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

F. Capital Assets

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

G. Interfund Balances

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

H. Compensated Absences

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

I. Long-Term Obligations

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

J. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for adult education programs, vocational programs, and federal and state grants restricted to expenditure for specified purposes. The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. At June 30, 2006, net assets restricted by enabling legislation was \$1,332,179.

K. Fund Balance Reserves

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Interfund Activity

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

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

3. DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;

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

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

3. DEPOSITS AND INVESTMENTS (Continued)

4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time; and
9. Under limited circumstances, corporate debt interests rated in either of the two highest rated classifications by at least two nationally recognized rating agencies.

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

A. Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$135,440 of the School District's bank balance of \$362,163 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, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

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

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

3. DEPOSITS AND INVESTMENTS (Continued)

B. Investments

As of June 30, 2006, the School District had the following investments.

	Carrying Value	Maturity
Federal National Mortgage Association Notes	\$ 421,675	July 21, 2006
Federal Home Loan Mortgage Corporation Notes	732,371	November 28, 2006
Federal Home Loan Bank Bonds	949,984	April 30, 2007
Mutual Funds	6	36 Days
STAR Ohio	4,934,101	34.8 Days
Total Investments	<u>\$7,038,137</u>	

The School District's investment policy does not address any restriction on investments relating to interest rate, credit, or custodial credit risk. The investment policy restricts the Treasurer from investing in any securities other than those identified in the Ohio Revised Code, except that all investments must mature within five years from the date of investment unless they are matched to a specific obligation or debt of the School District.

The Federal National Mortgage Association notes, Federal Home Loan Mortgage Corporation notes, and Federal Home Loan Bank bonds carry a rating of Aaa by Moodys. STAR Ohio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

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

	Carrying Value	Percentage of Portfolio
Federal National Mortgage Association Notes	\$421,675	5.99%
Federal Home Loan Mortgage Corporation Notes	732,371	10.41
Federal Home Loan Bank Bonds	949,984	13.50

4. PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received during calendar year 2006 represent the collection of calendar year 2005 taxes. Real property taxes received during calendar year 2006 were 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.

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

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

4. PROPERTY TAXES (Continued)

Public utility property tax revenues received in calendar year 2006 represent the collection of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien on December 31, 2004, were levied after April 1, 2005, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received during calendar year 2006 (other than public utility property) represent the collection of calendar year 2006 taxes. Tangible personal property taxes received during calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2005. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Auglaize County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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

	2005 Second- Half Collections		2006 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$190,959,180	79.97%	\$214,568,520	84.58%
Public Utility	7,905,800	3.31	8,420,330	3.32
Tangible Personal	39,922,170	16.72	30,700,525	12.10
Total Assessed Value	<u>\$238,787,150</u>	<u>100.00%</u>	<u>\$253,689,375</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$56.40		\$53.00	

The levy for the retirement of the construction general obligation bonds was reduced from 4.1 mills to .7 mills for fiscal year 2006.

5. PAYMENT IN LIEU OF TAXES

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

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

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

6. INTERFUND BALANCES

At June 30, 2006, the General Fund had an unpaid interfund cash advance, in the amount of \$2,500, to other governmental funds to provide cash flow resources until the receipt of grant monies.

7. RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006, the School District contracted with the Southwestern Ohio Educational Purchasing Council Insurance Program for the following insurance coverage.

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

General Liability	
Per Occurrence	\$1,000,000
Aggregate	3,000,000
Automobile Liability	1,000,000

Coverage provided by Westchester Insurance Company is as follows:

Excess Liability	\$5,000,000
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Coverage provided by Travelers Insurance Company is as follows:

Building	\$54,866,683
Contents	7,411,284

Coverage provided by Federal Insurance Company is as follows:

Boiler and Machinery	\$50,000,000
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Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from the prior fiscal year.

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

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

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

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

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

8. CONTRACTUAL COMMITMENTS

As of June 30, 2006, the School District had contractual commitments as follows:

<u>Company</u>	<u>Project</u>	<u>Amount Remaining on Contract</u>
Buehler Asphalt	McBroom Lot Repair	\$1,500
Secor Communication, Inc.	Surveillance	10,500
Moran Refrigeration	Walk In Freezer	14,274
Roberts Floor Company	McBroom and Cook Gymnasiums	11,789
Kerns Ford	Van	18,499
Delphos Restaurant Equipment	Convection Oven	11,141
H. D. Dorsten	Waterproofing	11,545
Education Management System	Linker Software	11,180
TSC	Cable in West Elementary Classrooms	8,428

9. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

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

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

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

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

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

9. DEFINED BENEFIT PENSION PLANS (Continued)

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The School District's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2006, 2005, and 2004 was \$1,213,644, \$1,215,694, and \$1,143,642, respectively; 81 percent has been contributed for fiscal year 2006 and 100 percent has been contributed for fiscal years 2005 and 2004. Contributions for the DCP and CP for the fiscal year ended June 30, 2006, were \$3,630 made by the School District and \$10,202 made by plan members.

B. School Employees Retirement System

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute an actuarially determined rate. The rate for fiscal year 2006 was 14 percent of annual covered payroll; 11.7 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 was \$229,269, \$203,565, and \$182,731, respectively; 48 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

C. Social Security System

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

10. POST-EMPLOYMENT BENEFITS

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

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

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

10. POST-EMPLOYMENT BENEFITS (Continued)

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2006, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount was \$93,636.

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

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All members must pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

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 2006, the minimum pay was established at \$35,800. For the School District, the amount to fund health care benefits, including the surcharge, was \$74,463 for fiscal year 2006.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2005 (the latest available information), were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has 58,123 participants currently receiving health care benefits.

11. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits is derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. All two hundred sixty day administrative personnel earn twenty days of vacation per contract period. Accumulated unused vacation time is paid to classified employees and two hundred sixty day administrative personnel upon termination of employment. Teachers do not earn vacation time.

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

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

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

11. OTHER EMPLOYEE BENEFITS (Continued)

B. Health Care Benefits

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

C. Retirement Incentive

Through the fiscal year 2006 employee contract year, the School District has provided for a retirement incentive to eligible certified and classified employees. A certified full-time employee with ten or more years of service with the School District and who retires after May 31 in the year of initial eligibility will be paid an additional forty-five days of severance.

Through June 30, 2006, bus drivers with ten or more years of service with the School District and who retires after May 31 in the year of initial eligibility will be paid an additional \$1,250 severance payment.

12. LONG-TERM OBLIGATIONS

Changes in the School District's long-term obligations during fiscal year 2006 were as follows:

	Balance at 6/30/05	Additions	Reductions	Balance at 6/30/06	Amounts Due Within One Year
Governmental Activities					
General Obligations Bonds					
1998 Construction 3.65 - 5%	\$1,400,000	\$0	\$700,000	\$700,000	\$700,000
2000 Library Construction 6.7%	695,000	0	100,000	595,000	100,000
Total General Obligation Bonds	<u>2,095,000</u>	<u>0</u>	<u>800,000</u>	<u>1,295,000</u>	<u>800,000</u>
Asbestos Removal Loan 0%	349,146	0	45,377	303,769	45,377
Total Governmental Activities					
Long-Term Obligations	<u>\$2,444,146</u>	<u>\$0</u>	<u>\$845,377</u>	<u>\$1,598,769</u>	<u>\$845,377</u>

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

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

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

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

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

12. LONG-TERM OBLIGATIONS (Continued)

The School District's overall debt margin was \$22,236,619 with an unvoted debt margin of \$253,689 at June 30, 2006.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2006, were as follows:

Fiscal Year Ending June 30,	General Obligation Bonds		Asbestos Removal Loan
	Principal	Interest	Principal
2006	\$ 800,000	\$ 54,015	\$ 45,377
2007	110,000	29,480	45,376
2008	120,000	21,775	45,377
2009	125,000	13,568	45,376
2010	140,000	4,690	45,377
2011-2013	0	0	76,886
Totals	<u>\$1,295,000</u>	<u>\$123,528</u>	<u>\$303,769</u>

13. SET ASIDES

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

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2006.

	Textbooks	Capital Improvements
Balance June 30, 2005	(\$170,943)	\$ 0
Current Year Set Aside Requirement	355,239	355,239
Qualifying Expenditures	(242,312)	0
Current Year Offsets	0	355,239
Balance June 30, 2006	<u>(\$ 58,016)</u>	<u>\$ 0</u>

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

14. INTERFUND TRANSFERS

During fiscal year 2006, the General Fund made transfers to the Bond Retirement debt service fund, in the amount of \$45,377, to pay principal on the asbestos removal loan.

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

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

15. DONOR RESTRICTED ENDOWMENTS

The School District's private purpose trust fund includes donor restricted endowments. Endowments, in the amount of \$129,580, represent the principal portion. The amount of net appreciation in donor restricted investments that is available for expenditure by the School District is \$15,198 and is included as held in trust for scholarships. State law permits the School District to appropriate, for purposes consistent with the endowment's intent, net appreciation, realized and unrealized, unless the endowment terms specify otherwise. The endowment indicates that the interest should be used to provide a scholarship each year.

16. JOINTLY GOVERNED ORGANIZATIONS

A. West Central Ohio Regional Professional Development Center

The West Central Ohio Regional Professional Development Center (Center) is a jointly governed organization among the school districts located in Allen, Auglaize, Hancock, Hardin, Mercer, Paulding, Putnam, and Van Wert Counties. The organization was formed to establish an articulated regional structure for professional development in which school districts, the business community, higher education, and other groups cooperatively plan and implement effective professional development activities that are tied directly to school improvement, and in particular, to improvements in instructional programs.

The Center is governed by a fifty-two member board made up of representatives from the participating school districts, the business community, and two institutions of higher learning. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from the Hancock County Educational Service Center, 7746 County Road 140, Findlay, Ohio 45840.

B. West Central Ohio Special Education Regional Resource Center

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

C. Northwest Ohio Area Computer Services Cooperative

The School District is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC), which is a computer consortium. NOACSC is an association of educational entities within the boundaries of Allen, Hancock, Mercer, Paulding, Putnam, and Van Wert Counties, and the Cities of St. Marys and Wapakoneta. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member educational entities. The governing board of NOACSC consists of two representatives from each county elected by majority vote of all charter member educational entities within each county. During fiscal year 2006, the School District paid \$18,397 to NOACSC for various services. Financial information can be obtained from the Northwest Ohio Area Computer Services Cooperative, 645 South Main Street, Lima, Ohio 45804.

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

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

16. JOINTLY GOVERNED ORGANIZATIONS (Continued)

D. Auglaize County Educational Academy

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

E. Auglaize County Special Needs School

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

17. INSURANCE POOLS

A. Mercer Auglaize School Employee Benefit Trust

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

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

B. Southwestern Ohio Educational Purchasing Council Insurance Program

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

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

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

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

18. RELATED ORGANIZATION

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

19. CONTINGENCIES

A. Grants

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

B. Litigation

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

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

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

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
(Passed through Ohio Department of Education)						
Nutrition Cluster:						
Food Donation	N/A	10.550		\$67,400		\$67,400
School Breakfast Program	05PU-2005 05PU-2006	10.553	1,974		1,974	
			16,770		16,770	
Total School Breakfast Program			18,744		18,744	
National School Lunch Program	LLP4-2005 LLP4-2006	10.555	31,977		31,977	
			168,700		168,700	
Total National School Lunch			200,677		200,677	
Total U.S. Department of Agriculture - Nutrition Cluster			219,421	67,400	219,421	67,400
U.S. DEPARTMENT OF EDUCATION						
(Passed through Ohio Department of Education)						
Adult State Grant Program	ABS1-2005 ABS1-2006	84.002	3,118		3,118	
			52,178		52,178	
Total Adult State Grant Program			55,296		55,296	
Title 1 Grants to Local Educational Agencies	C1S1-2005 C1S1-2006	84.010	20,674		25,798	
			200,936		203,410	
Total Total 1 Grants to Local Educational Agencies			221,610		229,208	
Education Technology State Grants	TJS1-2005 TJS1-2006	84.318	(11)		0	
			4,161		4,089	
Total Education Technology State Grants			4,150		4,089	
Special Education Grants to States	6BSF-2005 6BSF-2006	84.027	7,673		31,696	
			505,412		480,499	
Total Special Education Grants to States			513,085		512,195	
State Grants for Innovative Programs	C2S1-2005 C2S1-2006	84.298	(421)		0	
			5,638		4,862	
Total State Grants for Innovative Programs			5,217		4,862	
Safe and Drug Free Schools and Communities State Grants	DRS1-2006	84.186	9,938		9,756	
Improving Teacher Quality State Grants	TRS1-2005 TRS1-2006	84.367	5,659		8,607	
			86,945		81,559	
Total Improving Teacher Quality State Grants			92,604		90,166	
Vocational Education Basic Grants to States	20A0-2005	84.048	10,000		10,000	
Total U.S. Department of Education			911,900		915,572	
Total Federal Assistance			<u>\$1,131,321</u>	<u>\$67,400</u>	<u>\$1,134,993</u>	<u>\$67,400</u>

See accompanying notes to the schedule of federal awards expenditures.

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

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 2006
(Continued)**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - NUTRITION CLUSTER

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

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.

NOTE D - TRANSFER OF FUNDS BETWEEN SPECIAL COST CENTERS

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

Grant, CFDA #, Fund, and Cost Center	Transfer Out	Transfer In
Adult State Grant Program #84.002		
501-9405	(\$5,765)	
501-9506		\$5,765
Grants to Local Educational Agencies #84.010		
572-9205	(\$8,009)	
572-9306		\$8,009
Special Education Grants to States #84.027		
516-9405	(\$3,955)	
516-9506		\$3,955
State Grants for Innovative Programs - #84.298		
573-9405	(\$421)	
573-9506		\$421
Title II-D #84.318		
590-9305	(\$11)	
590-9406		\$11

NOTE E - PASS THROUGH FUNDS

Idea Preschool Grant For The Handicapped – CFDA# 84.173 – During fiscal year 2006, the District received Preschool grant funding administered on their behalf by the Auglaize County Educational Service Center. For fiscal year 2006, the District's allocation was \$30,858 which was spent by fiscal year end.



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the St. Marys City School District, Auglaize County, (the School District), as of and for the fiscal year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 6, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2006-002.

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 material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the School District's management dated February 6, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2006-001. In a separate letter to the School District's management dated February 6, 2007, we reported other matters related to noncompliance we deemed immaterial.

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

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

Mary Taylor, CPA
Auditor of State

February 6, 2007



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

Compliance

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

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

In our opinion, the School District, complied, in all material respects, with the requirements referred to above that apply to its major federal program for the fiscal year ended June 30, 2006.

Internal Control Over Compliance

The District's management 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 directly and materially affect a major federal program 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.

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402

Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688

www.auditor.state.oh.us

**Internal Control Over Compliance
(Continued)**

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, regulations, 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 timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

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

Mary Taylor, CPA
Auditor of State

February 6, 2007

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FOR THE YEAR ENDED JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

FINDING NUMBER 2006-001

Noncompliance Citation

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

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

To help provide the users with more meaningful financial statements, the School District should prepare their financial statements according to generally accepted accounting principles.

OFFICIAL'S RESPONSE

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

FINDING NUMBER 2006-002

Reportable Condition

Accountability for Student Activity Fundraisers

To help ensure accountability over fund raisers, an entity should maintain documentation to support the amounts donated and to whom, and selling price reductions for fundraisers. Monitoring procedures should be performed on the fundraising records by someone independent of the fundraiser.

The Future Farmers of America (FFA) Student Activity participated in a fundraiser during the fall of 2005. The students and School District offices received orders from individuals and documented these orders on order forms. These forms were submitted to the FFA advisor who in turn, documented order totals, by student and office, on separate computerized spreadsheets. After all the orders were delivered the excess product was either donated or sold to students. The amount donated was documented on the "2005 St. Marys FFA Sales Proposal/Report" but there was no indication to whom it was donated.

**FINDING NUMBER 2006-002
(Continued)**

When recalculating the amount of product sold from this fundraiser less the amount that was still owed by students, as reported on the computerized spreadsheet maintained by the FFA advisor, there was a shortage of \$111. The FFA advisor's explanation for this shortage was that there was some duplication of sales between the "office" spreadsheet and the "student" spreadsheet. In addition the selling price for the excess product sold to students was incorrect on the computerized spreadsheet maintained by the FFA advisor. When these errors were taken into account the shortage was \$76. In addition when comparing the amount of product ordered, less the amount pre-sold, sold to students, and donated, the remaining value of product not accounted for was \$571. With the exception of the potential loss of revenue from donating all excess products, the revenue from the products actually sold was collected and paid into the School District Treasurer.

Various Student Activity groups participated in running the concession stand at school athletic events. When recalculating the expected amount of revenue from the concession stand for the FFA, National Honor Society, Student Council, and Class of 2007 student activity groups, there were variances between what was expected and what was actually collected. The various student activity advisors indicated that leftover food was either given away or disposed of at the end of the evening or retained for use as class prizes. However documentation for what was given away, disposed of, or retained was not maintained. The estimated value of the products that were given away by these activity groups was \$1,390. With the exception of the potential loss of revenue from donating all excess products, the revenue from the product actually sold was collected and paid into the School District Treasurer.

The School District should develop record keeping procedures to account for all products sold or donated by student activities. If excess products are on hand, the distribution of these products should be authorized by someone independent of the student activity. Records should be maintained that show how much was donated and who received the donated products. In addition price reductions on excess products should be approved by someone independent of the fund raiser and be correctly identified in the activity records. The School District's Board of Education should develop monitoring procedures to help assure adequate records are maintained for each fund raiser. If a discrepancy does arise, it should be investigated and reported to the Board.

OFFICIAL'S RESPONSE

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

3. FINDINGS FOR FEDERAL AWARDS

None

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

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	ORC Sec. 117.38 & OAC Sec. 117-2-03(B) – Failed to prepare financial statements in accordance with Generally Accepted Accounting Principles	No	Repeated as Finding Number 2006-001



Mary Taylor, CPA
Auditor of State

ST. MARYS CITY SCHOOL DISTRICT

AUGLAIZE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 8, 2007**