



**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

SINGLE AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2001



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Lima City School District, Allen County, (the District) as of and for the year ended June 30, 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

As described in Note 4, during the year ended June 30, 2001, the District adopted Governmental Accounting Standards Board Statements 33 and 36.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the District, as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund types and non-expendable trust funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2002, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

We performed our audit to form an opinion on the general-purpose financial statements of the District taken as a whole. The accompanying schedule of federal awards expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

Jim Petro
Auditor of State

April 19, 2002

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**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
AS OF JUNE 30, 2001**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
ASSETS AND OTHER DEBITS				
Assets:				
Equity in Cash and Cash Equivalents	\$5,191,347	\$2,435,550	\$482,123	\$5,028,354
Restricted Cash	300,149			
Investments				24,382,811
Receivables:				
Taxes	7,765,819	125,304	1,205,966	146,027
Accounts	7,553	449		
Intergovernmental	33,153	610,577		78,075,314
Due from Other Funds	290,752			
Materials and Supplies Inventory	58,043			
Inventory Held for Resale				
Fixed Assets (Net, where applicable, of Accumulated Depreciation)				
Amount Available in Debt Service Fund				
Amount to be Provided for Retirement of General Long-Term Debt				
	<hr/>	<hr/>	<hr/>	<hr/>
Total Assets and Other Debits	<u>13,646,816</u>	<u>3,171,880</u>	<u>1,688,089</u>	<u>107,632,506</u>
LIABILITIES, FUND EQUITY AND OTHER CREDITS				
Liabilities:				
Accounts Payable	108,001	150,183		89,757
Accrued Salaries and Benefits	3,669,859	766,802		
Due to Other Funds		116,943		
Intergovernmental Payable	573,095	62,629		
Due to Students				
Compensated Absences Payable	520,394	240		
Retirement Incentive Payable				
Deferred Revenue	6,930,195	617,772	1,205,966	78,210,263
Bonds Payable				
Notes Payable				
	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities	<u>11,801,544</u>	<u>1,714,569</u>	<u>1,205,966</u>	<u>78,300,020</u>
Fund Equity and Other Credits:				
Investment in General Fixed Assets				
Retained Earnings				
Fund Balance:				
Reserved for Encumbrances	680,342	181,877		27,539,946
Reserved for Inventory	58,043			
Reserved for Property Taxes	835,624			
Reserved for Principal				
Reserved for Debt Service			482,123	
Reserved for Budget Stabilization	300,149			
Unreserved	(28,886)	1,275,434		1,792,540
	<hr/>	<hr/>	<hr/>	<hr/>
Total Fund Equity and Other Credits	<u>1,845,272</u>	<u>1,457,311</u>	<u>482,123</u>	<u>29,332,486</u>
Total Liabilities, Fund Equity and Other Credits	<u>\$13,646,816</u>	<u>\$3,171,880</u>	<u>\$1,688,089</u>	<u>\$107,632,506</u>

The accompanying notes to the general-purpose financial statements are an integral part of this statement.

<u>Proprietary Fund Types</u>		<u>Fiduciary</u>	<u>Account Groups</u>		<u>(Memorandum Only)</u>
<u>Enterprise</u>	<u>Internal Service</u>	<u>Trust and Agency</u>	<u>Fixed Assets</u>	<u>Long-Term Obligations</u>	
\$81,780	\$469	\$272,096			\$13,491,719 300,149 24,382,811
					9,243,116
42,598		2,237			52,837
201,354					78,920,398
					290,752
8,234					66,277
33,912					33,912
104,365			\$30,444,367		30,548,732
				\$482,123	482,123
				23,241,940	23,241,940
<u>472,243</u>	<u>469</u>	<u>274,333</u>	<u>30,444,367</u>	<u>23,724,063</u>	<u>181,054,766</u>
1,899		539			350,379
112,249					4,548,910
173,809					290,752
113,186		809		246,273	995,992
		48,175			48,175
69,942				5,318,976	5,909,552
				197,060	197,060
23,935					86,988,131
				16,753,766	16,753,766
				1,207,988	1,207,988
<u>495,020</u>		<u>49,523</u>		<u>23,724,063</u>	<u>117,290,705</u>
			30,444,367		30,444,367
(22,777)	469				(22,308)
					28,402,165
					58,043
					835,624
		151,392			151,392
					482,123
					300,149
		73,418			3,112,506
<u>(22,777)</u>	<u>469</u>	<u>224,810</u>	<u>30,444,367</u>		<u>63,764,061</u>
<u>\$472,243</u>	<u>\$469</u>	<u>\$274,333</u>	<u>\$30,444,367</u>	<u>\$23,724,063</u>	<u>\$181,054,766</u>

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND SIMILAR FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	Governmental Fund Types				Fiduciary	
					Fund Type	Totals
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	(Memorandum Only)
Revenues:						
Taxes	\$7,305,027	\$126,107	\$1,160,186	\$302,420		\$8,893,740
Tuition and Fees	112,118					112,118
Intergovernmental	23,741,588	8,012,738	120,930	13,424,906		45,300,162
Interest	654,966	26,678		1,018,570	\$553	1,700,767
Extracurricular Activities		287,819				287,819
Customer Services	30,023					30,023
Gifts and Donations		35,184			2,341	37,525
Rent	1,960					1,960
Miscellaneous	175,248	70,232	4,886	23,385		273,751
Total Revenues	32,020,930	8,558,758	1,286,002	14,769,281	2,894	56,637,865
Expenditures:						
Current:						
Instruction:						
Regular	15,252,153	2,393,730		179,788		17,825,671
Special	3,285,008	2,345,959				5,630,967
Vocational	1,668,350	53,892				1,722,242
Adult/Continuing	151,295	55,530				206,825
Other	305,568					305,568
Support Services:						
Pupils	1,390,815	1,761,324				3,152,139
Instruction	751,243	597,272				1,348,515
Board of Education	40,649					40,649
Administration	3,806,462	230,579		43		4,037,084
Fiscal	575,691	5,853	22,675	5,886		610,105
Business	265,658	61,363				327,021
Operation and Maintenance	4,215,288	13,558		20,741		4,249,587
Transportation	422,655	7,395				430,050
Central Services	281,016	55,335		12,000		348,351
Non-Instructional Services		752,121			3,186	755,307
Extracurricular Activities	606,540	231,297				837,837
Capital Outlay	248			3,903,814		3,904,062
Debt Service:						
Principal			1,131,000			1,131,000
Interest			1,389,797			1,389,797
Total Expenditures	33,018,639	8,565,208	2,543,472	4,122,272	3,186	48,252,777
Excess of Revenues Over (Under) Expenditures	(997,709)	(6,450)	(1,257,470)	10,647,009	(292)	8,385,088
Other Financing Sources (Uses):						
Operating Transfers In		4,006	992,457			996,463
Other Financing Sources		500				500
Operating Transfers Out	(1,006,463)					(1,006,463)
Total Other Financing Sources (Uses)	(1,006,463)	4,506	992,457			(9,500)
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(2,004,172)	(1,944)	(265,013)	10,647,009	(292)	8,375,588
Fund Balances at Beginning of Year - Restated	3,849,444	1,459,255	747,136	18,685,477	17,757	24,759,069
Fund Balances at End of Year	\$1,845,272	\$1,457,311	\$482,123	\$29,332,486	\$17,465	\$33,134,657

The accompanying notes to the general-purpose statements are an integral part of this statement.

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LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL
ALL GOVERNMENTAL FUND TYPES AND SIMILAR FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	Governmental Fund Types					
	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Taxes	\$7,339,084	\$7,558,128	\$219,044	\$60,611	\$126,107	\$65,496
Tuition and Fees	89,005	110,123	21,118			
Intergovernmental	23,647,476	23,781,029	133,553	9,085,125	8,314,389	(770,736)
Interest	542,677	684,445	141,768	26,678	26,678	
Rent	9,460	9,460				
Extracurricular Activities				300,091	287,545	(12,546)
Gifts and Donations				30,284	35,184	4,900
Customer Services	29,655	30,023	368			
Miscellaneous	40,075	51,570	11,495	54,161	70,057	15,896
Total Revenues	31,697,432	32,224,778	527,346	9,556,950	8,859,960	(696,990)
Expenditures:						
Current:						
Instruction:						
Regular	16,242,073	14,496,091	1,745,982	3,510,818	2,273,906	1,236,912
Special	3,616,275	3,173,768	442,507	2,977,770	2,262,134	715,636
Vocational	1,688,446	1,633,088	55,358	102,449	102,449	
Adult/Continuing	164,625	150,694	13,931	93,199	56,663	36,536
Other	403,440	300,616	102,824			
Support Services:						
Pupils	1,503,192	1,410,919	92,273	2,292,832	1,776,341	516,491
Instruction	891,476	745,503	145,973	881,246	603,292	277,954
Board of Education	61,671	58,126	3,545			
Administration	3,909,109	3,756,386	152,723	276,166	223,278	52,888
Fiscal	663,343	588,320	75,023	17,025	5,616	11,409
Business	290,180	264,872	25,308	108,458	68,406	40,052
Operation and Maintenance	4,597,212	4,331,526	265,686	13,558	13,558	
Transportation	838,353	811,266	27,087	7,307	7,178	129
Central Services	863,125	284,963	578,162	57,292	57,292	
Non-Instructional Services				943,688	774,522	169,166
Extracurricular Activities	605,822	584,505	21,317	270,468	249,306	21,162
Capital Outlay	243	243				
Debt Service:						
Principal						
Interest						
Total Expenditures	36,338,585	32,590,886	3,747,699	11,552,276	8,473,941	3,078,335
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(4,641,153)</u>	<u>(366,108)</u>	<u>4,275,045</u>	<u>(1,995,326)</u>	<u>386,019</u>	<u>2,381,345</u>
Other Financing Sources (Uses):						
Operating Transfers In				4,006	4,006	
Refund of Prior Year Expenditures	118,120	118,120				
Advances In	246,000	246,057	57	95,085	94,803	(282)
Other Financing Sources				500	500	
Refund of Prior Year Receipts				(118)	(236)	(118)
Operating Transfers Out	(1,099,655)	(1,006,463)	93,192			
Advances Out	<u>(328,612)</u>	<u>(328,612)</u>		<u>(36,057)</u>	<u>(36,057)</u>	
Total Other Financing Sources (Uses)	(1,064,147)	(970,898)	93,249	63,416	63,016	(400)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(5,705,300)	(1,337,006)	4,368,294	(1,931,910)	449,035	2,380,945
Prior Year Encumbrances Appropriated	631,222	631,222		210,640	210,640	
Fund Balances (Deficit) at Beginning of Year - Restated	<u>5,454,029</u>	<u>5,454,029</u>		<u>1,450,327</u>	<u>1,450,327</u>	
Fund Balances (Deficit) at End of Year	<u>\$379,951</u>	<u>\$4,748,245</u>	<u>\$4,368,294</u>	<u>(\$270,943)</u>	<u>\$2,110,002</u>	<u>\$2,380,945</u>

The accompanying notes to the general-purpose financial statements are an integral part of this statement.

Governmental Fund Types						Fiduciary Fund Type		
Debt Service Fund			Capital Projects Funds			Expendable Trust Fund		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$1,132,500	\$1,160,186	\$27,686	\$291,001	\$302,420	\$11,419			
120,930	120,930		36,517,086	13,413,828	(23,103,258)			
			1,079,001	1,049,926	(29,075)	\$531	\$553	\$22
						2,241	2,341	100
	4,886	4,886	23,267	23,267				
1,253,430	1,286,002	32,572	37,910,355	14,789,441	(23,120,914)	2,772	2,894	122
			269,213	261,831	7,382			
			50	43	7			
22,949	22,671	278	8,199	5,887	2,312			
			287,970	282,923	5,047			
			447,400	432,549	14,851			
			522,800	522,580	220	3,298	3,186	112
			7,608	7,514	94			
			31,434,596	30,196,092	1,238,504			
17,997,000	17,997,000							
1,389,804	1,389,797	7						
19,409,753	19,409,468	285	32,977,836	31,709,419	1,268,417	3,298	3,186	112
(18,156,323)	(18,123,466)	32,857	4,932,519	(16,919,978)	(21,852,497)	(526)	(292)	234
992,457	992,457							
992,457	992,457							
(17,163,866)	(17,131,009)	32,857	4,932,519	(16,919,978)	(21,852,497)	(526)	(292)	234
			1,278,329	1,278,329				
17,613,133	17,613,133		17,457,957	17,457,957		17,756	17,756	
\$449,267	\$482,124	\$32,857	\$23,668,805	\$1,816,308	(\$21,852,497)	\$17,230	\$17,464	\$234

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**COMBINED STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN FUND EQUITY
ALL PROPRIETARY FUND TYPES AND SIMILAR FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Non-Expendable Trust</u>	
Operating Revenues:				
Sales	\$802,763			\$802,763
Interest			\$7,225	7,225
Other Revenue	3,787		333	4,120
Contributions and Donations			9,284	9,284
	<hr/>	<hr/>	<hr/>	<hr/>
Total Operating Revenue	806,550		16,842	823,392
Operating Expenses:				
Salaries	867,135			867,135
Fringe Benefits	211,749			211,749
Purchased Services	139,109			139,109
Materials and Supplies	265,780			265,780
Cost of Sales	921,909			921,909
Depreciation	16,300			16,300
Capital Outlay	1,039			1,039
Other	743		9,340	10,083
	<hr/>	<hr/>	<hr/>	<hr/>
Total Operating Expenses	2,423,764		9,340	2,433,104
Operating Income (Loss)	<u>(1,617,214)</u>		<u>7,502</u>	<u>(1,609,712)</u>
Non-Operating Revenues (Expenses):				
Federal Donated Commodities	174,486			174,486
Federal and State Subsidies	1,452,305			1,452,305
Transfer In	10,000			10,000
	<hr/>	<hr/>	<hr/>	<hr/>
Total Non-Operating Revenues and (Expenses)	1,636,791			1,636,791
Net Income	19,577		7,502	27,079
Retained Earnings/Fund Balance (Deficit) at Beginning of Year - Restated	<u>(42,354)</u>	<u>\$469</u>	<u>199,843</u>	<u>157,958</u>
Retained Earnings/Fund Balance (Deficit) at End of Year	<u>(\$22,777)</u>	<u>\$469</u>	<u>\$207,345</u>	<u>\$185,037</u>

The accompanying notes to the general-purpose financial statements are an integral part of this statement.

LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY

**COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND SIMILAR FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	Fiduciary			Totals (Memorandum Only)
	Proprietary Fund Types		Fund Type	
	Enterprise	Internal Service	Non Expendable	
Increase (Decrease) in Cash and Cash Equivalents:				
Cash Flows from Operating Activities:				
Cash Received from Customers	\$814,182			\$814,182
Cash Payments to Suppliers for Goods and Services	(1,157,725)			(1,157,725)
Cash Payments to Employees for Services	(870,692)			(870,692)
Cash Payments for Employee Benefits	(230,165)			(230,165)
Interest Receipts			\$7,225	7,225
Other Cash Received	3,787		9,284	13,071
Other Cash Payments			(9,340)	(9,340)
Net Cash Provided by (Used for) Operating Activities	(1,440,613)		7,169	(1,433,444)
Cash Flows from Noncapital Financing Activities:				
Operating Grants Received	1,250,951			1,250,951
Transfer In	10,000			10,000
Advances In	173,809			173,809
Advances Out	(150,000)			(150,000)
Net Cash Provided from Noncapital Financing Activities	1,284,760			1,284,760
Cash Flows from Capital and Related Financing Activities:				
Acquisition of Capital Assets	(9,075)			(9,075)
Net Increase (Decrease) in Cash and Cash Equivalents	(164,928)		7,169	(157,759)
Cash and Cash Equivalents at Beginning of Year	246,708	469	199,843	447,020
Cash and Cash Equivalents at End of Year	81,780	469	207,012	289,261
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:				
Operating Income (Loss)	(1,617,214)		7,502	(1,609,712)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:				
Depreciation	16,300			16,300
Donated Commodities Used During Year	174,486			174,486
Changes in Assets and Liabilities:				
(Increase)/Decrease in Accounts Receivable	11,419		(333)	11,086
(Increase)/Decrease in Inventory Held for Resale	(643)			(643)
(Increase)/Decrease in Materials and Supply Inventory	(2,594)			(2,594)
(Increase)/Decrease in Prepaid Items	62			62
Increase/(Decrease) in Accounts Payable	(570)			(570)
Increase/(Decrease) in Accrued Wages	(6,870)			(6,870)
Increase/(Decrease) in Compensated Absences Payable	264			264
Increase/(Decrease) in Intergovernmental Payable	(15,253)			(15,253)
Total Adjustments	176,601		(333)	176,268
Net Cash Provided by Operating Activities	(\$1,440,613)	\$0	\$7,169	(\$1,433,444)
Reconciliation of Nonexpendable Trust Fund Cash Balance as of June 30, 2001				
Total Cash and Cash Equivalents per Balance Sheet, Trust and Agency Funds				\$272,096
Cash and Cash Equivalents - Expendable Trust Funds and Agency Funds				65,084
Cash and Cash Equivalents - Nonexpendable Trust Funds as of June 30, 2001				\$207,012

The accompanying notes to the general-purpose financial statements are an integral part of this statement.

LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY

**COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL
ALL PROPRIETARY FUND TYPES AND SIMILAR FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	Proprietary Fund Types Enterprise Funds			Proprietary Fund Types Internal Service Funds			Fiduciary Fund Type Non-Expendable Trust Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:									
Sales	\$785,084	\$814,182	\$29,098						
Federal and State Subsidies	1,249,981	1,250,951	970						
Interest							\$7,464	\$7,225	(\$239)
Contributions and Donations							6,550	9,284	2,734
Other Revenue	3,598	3,787	189						
Total Revenues	2,038,663	2,068,920	30,257				14,014	16,509	2,495
Expenses:									
Salaries	874,551	873,692	859						
Fringe Benefits	235,315	233,678	1,637						
Purchased Services	148,337	148,258	79						
Material and Supplies	1,046,796	1,041,678	5,118						
Other	956	744	212				9,340	9,340	
Capital Outlay	10,114	10,114							
Total Expenses	2,316,069	2,308,164	7,905				9,340	9,340	
Excess (Deficiency) of Revenues Over (Under) Expenses	(277,406)	(239,244)	38,162				4,674	7,169	2,495
Other Financing Sources (Uses):									
Operating Transfers In		10,000	10,000						
Advances In		173,809	173,809						
Advances Out	(150,000)	(150,000)							
Total Other Financing Sources (Uses)	(150,000)	33,809	183,809						
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenses and Other Financing Uses	(427,406)	(205,435)	221,971				4,674	7,169	2,495
Prior Year Encumbrances Appropriated	49,141	49,141							
Fund Balance Beginning of Year	197,567	197,567		\$469	\$469		199,843	199,843	
Fund Balance End of Year	(\$180,698)	\$41,273	\$221,971	\$469	\$469	\$0	\$204,517	\$207,012	\$2,495

The accompanying notes to the general-purpose financial statements are an integral part of this statement.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The District was established in 1856 through the consolidation of existing land areas and school districts. The District is the 58th largest in the State of Ohio (among 628 school districts) in terms of enrollment. It is staffed by 330 non-certificated employees and 570 certificated full-time teaching personnel who provide services to 5,721 students and other community members. The District currently operates fourteen instructional/support facilities and one administrative center.

A. Reporting Entity

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

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. The District does not have any component units.

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

The District is associated with three jointly governed organizations and two insurance pools. These organizations include the Northwest Ohio Area Computer Services Cooperative, the West Central Ohio Special Education Regional Resource Center, the West Central Ohio Regional Professional Development Center, the Allen County Schools Health Benefit Plan, and the Northwest Ohio Area Computer Service Cooperative Workers' Compensation Group Rating Program. These organizations are presented in Notes 20 and 21 to the general purpose financial statements.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the District's accounting policies are described below.

A. Basis Of Presentation - Fund Accounting

The District uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain District functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net available expendable resources. For financial statement presentation purposes, the various funds of the District are grouped into the following generic fund types under the broad fund categories governmental, proprietary, and fiduciary.

1. Governmental Fund Types:

Governmental funds are those through which most governmental functions of the District are financed. The acquisition, use, and balances of the District's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds and trust funds) are accounted for through governmental funds. The following are the District's governmental fund types:

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

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

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest, and related costs.

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

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Proprietary Fund Types:

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

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

Internal Service Funds - Internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the District on a cost reimbursement basis.

3. Fiduciary Fund Types:

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

Expendable trust funds are accounted for in essentially the same manner as governmental funds. Nonexpendable trust funds are accounted for in essentially the same manner as proprietary funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

4. Account Groups:

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - This account group is established to account for all fixed assets of the District, other than those accounted for in the proprietary funds.

General Long-Term Obligations Account Group - This account group is established to account for all long-term obligations of the District except those accounted for in the proprietary funds.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds and nonexpendable trust funds are accounted for using a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. The District does not possess any contributed capital. Operating statements of these funds present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental fund types and agency funds. The full accrual basis of accounting is followed for the proprietary fund types and nonexpendable trust funds.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from income taxes is recognized in the period in which the income is earned. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered both measurable and available: at fiscal year end: property taxes available as an advance, income taxes, payment in lieu of taxes, grants, interest, tuition, and student fees.

The District reports deferred revenues on its combined balance sheet. Deferred revenues arise when assets are recognized before revenue recognition criteria has been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2001, but which were levied to finance fiscal year 2002 operations, are recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On the modified accrual basis, revenues that are not collected within the available period are recorded as deferred revenue.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported on the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the fund/function/object level. Any budgetary modifications at this level may only be made by resolution of the Board of Education. Advances in and Advances out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

1. Tax Budget:

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

2. Estimated Resources:

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure.

On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2001.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund, function, and object level of expenditures, which are the legal levels of budgetary control.

Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within a function, must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, several supplemental appropriation resolutions were legally enacted; however, none of these amendments were significant.

The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions.

4. Encumbrances:

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds and reported in the notes to the financial statements for enterprise funds.

5. Lapsing of Appropriations:

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash and Cash Equivalents

To improve cash management, cash received by the District is pooled, except for specific investments made for the Capital Project funds. Money from all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Cash and Cash Equivalents" on the combined balance sheet.

During fiscal year 2001, investments were limited to certificates of deposit, no load money market mutual funds, Federal National Mortgage Association, Federal Home Loan Bank, United States Treasuries and StarOhio.

StarOhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. StarOhio 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 StarOhio are valued at StarOhio's share price, which is the price the investment could be sold for on June 30, 2001.

Except for nonparticipation investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

Under existing Ohio statutes, all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. The District allocates interest according to State statutes. Interest revenue credited to the General Fund during fiscal year 2001 was \$654,966.

For purposes of the Combined Statement of Cash Flows and for presentation on the Combined Balance Sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months, not purchased from the pool, are reported as investments.

E. Inventory

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

Inventories of enterprise funds consist of donated food, purchased food, and school supplies held for resale and are expensed when purchased.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets represent amounts required by state statute to be set aside for the refunds from the Bureau of Workers' Compensation. Of this amount, \$3,388 was received during fiscal year 2001. See note 18 for the calculation of the year-end restricted assets balance and the corresponding fund balance reserves.

G. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Fixed assets utilized in the proprietary funds are capitalized in the fund. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five hundred dollars.

The District does not have any infrastructure.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Improvements are capitalized. Improvements to fund fixed assets are depreciated over the remaining useful lives of the related fixed assets.

Assets in the general fixed assets account group are not depreciated. Depreciation of furniture and equipment in the enterprise funds is computed using the straight-line method over an estimated useful life of five to twenty years.

H. Interfund Assets/Liabilities

Receivables and payables resulting from transactions between funds for services provided or goods received are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables" and "interfund payables". Long-term interfund loans are classified as "advances to/from other funds" and are equally offset by a fund balance reserve account which indicates that they do not constitute available expendable resources since they are not a component of net current assets.

I. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Other than commodities, grants and entitlements for proprietary fund operations are recognized as non-operating revenues in the accounting period in which they are earned and become measurable.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The District currently participates in several State and Federal programs, categorized as follows:

Entitlements

General Fund

- State Foundation Program
- State Property Tax Relief
- School Bus Subsidy

Non-Reimbursable Grants

Special Revenue Funds

- Venture Capital
- Professional Development Block Grant
- Education Management Information Systems
- Disadvantaged Pupil Impact Aid
- Title I
- Title VI
- Title VI-B
- Title VI-B Preschool
- Title VI-R
- Even Start Literacy
- OhioReads
- Summer School Subsidy
- Alternative Education
- Extended Learning
- Continuous Improvement
- Network Connectivity
- Comprehensive School Reform
- Raising the Bar
- Stars
- Wellness Block
- School Readiness
- Teen Pregnancy Intervention
- Teen Parent Mentor
- Juvenile Justice
- Drug-Free School Grant
- Eisenhower Math and Science
- Adult Basic Education
- Vocational Education
- Goals 2000
- SchoolNet Professional Development
- Equity in Technology
- Mobility in Assistance

Capital Projects Funds

- SchoolNet Grant
- Classroom Facilities
- Technology Equity Grant

Reimbursable Grants

General Fund

- Driver Education

Enterprise Funds

- National School Lunch Program
- National School Breakfast Program
- Summer Food Program
- Government Donated Commodities

Grants and entitlements amounted to approximately 80 percent of the District's governmental revenue during the 2001 fiscal year, of which 24 percent was through the classroom facilities construction program.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the District's past experience of making termination payments.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

K. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions that will be paid with governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Bonds are reported as a liability of the general long-term obligations account group until due.

Long-term debt and other obligations financed by enterprise funds are reported as liabilities in the appropriate enterprise funds. Under Ohio law, a debt service fund must be created and used for the payment of tax and revenue anticipation notes. Generally accepted accounting principles requires the reporting of the liability in the funds that received the proceeds.

L. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

M. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Fund Balance Reserves

The District records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods.

Fund equity reserves are established for encumbrances, inventories of materials and supplies, property taxes, debt service, budget stabilization and principal contributions to the nonexpendable trust fund that must be kept intact. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

The reserve for budget stabilization represents the workmens compensation portion of money required to be set aside by state statute.

O. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Total - (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

3. CHANGES IN ACCOUNTING PRINCIPLE

For fiscal year 2001, the District has implemented Governmental Accounting Standards Board Statement (GASB) No. 33, "*Accounting and Financial Reporting for Nonexchange Transactions*" and GASB Statement No. 36, "*Recipient Reporting for Certain Shared Nonexchange Revenues.*"

GASB Statement No. 33 and 36 establish accounting and financial reporting standards for nonexchange transactions involving financial or capital resources. The timing of recognition of assets, liabilities, and expenditures/expenses resulting from nonexchange transactions will be the same whether the accrual or the modified accrual basis of accounting is required. However, for revenue recognition to occur on the modified accrual basis, the criteria established in GASB Statement No. 33 for accrual-basis recognition will have been met and the revenues will be available.

Implementing GASB Statement No. 33 and 36 had a material effect on the financial statements for the recognition of the remainder receivable of the Ohio School Facilities Commission award in the amount of \$78,064,236. This receivable has an offset to deferred revenue, indicating this receivable has not been earned.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

4. RESTATEMENT OF FUND EQUITY

The fund equity of the General, Special Revenue, Debt Service and Expendable Trust fund types have been restated. The change in accounting principles, and the restatements had the following effect on the excess of revenues and other financing sources over (under) expenditures and other financing uses as previously reported for the fiscal year ended June 30, 2000.

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Expendable Trust</u>	<u>Enterprise</u>
Excess as previously reported	\$956,600	\$331,014	\$622,004	\$ 216	\$22,602
Posting error			125,132		
Reclassification of E-Rate fund	33,444	(33,444)			
Unrecorded Fixed Assets					42,918
GASB 33 and 36 Restatement		419,760			
Reclassification of Trust funds		<u>6,908</u>		<u>(6,908)</u>	
Restated amount for the fiscal year ended June 30, 2000	<u>\$990,044</u>	<u>\$724,238</u>	<u>\$747,136</u>	<u>(\$6,692)</u>	<u>\$65,520</u>

The change in accounting principles, and the restatements had the following effect on fund balances as previously reported as of June 30, 2000.

	<u>General</u>	<u>Special Revenue</u>	<u>Debt</u>	<u>Expendable Trust</u>	<u>Enterprise</u>
Prior year fund balances	\$3,816,000	\$1,066,031	\$622,004	\$24,665	(\$85,272)
Posting error			125,132		
Reclassification of E-Rate fund	33,444	(33,444)			
Unrecorded Fixed Assets					42,918
GASB 33 and 36 Restatement		419,760			
Reclassification of Trust funds		<u>6,908</u>		<u>(6,908)</u>	
Restated amount for the fiscal year ended June 30, 2000	<u>\$3,849,444</u>	<u>\$1,459,255</u>	<u>\$747,136</u>	<u>\$17,757</u>	<u>(\$42,354)</u>

5. ACCOUNTABILITY AND COMPLIANCE

A. Accountability

The following funds had a deficit fund equity balance, which is the result of the application of generally accepted accounting principles.

	Deficit Balance
Vocational Education	\$25,231
Food Service	81,547

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

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

5. ACCOUNTABILITY AND COMPLIANCE (Continued)

B. Compliance

Appropriations exceeded Certified Resources for the following funds:

Local Grants	\$ 32,634
Venture Capital	25,044
Disadvantaged Pupil Impact Aid	644,466
Food Service	178,725
Uniform School Supply	1,973

Other compliance issues included:

- a) deficit cash balances in various funds throughout the year;
- b) an amended certificate of estimated resources was not obtained for additional money received and expended;
- c) appropriations were increased without Board authorization and approval; and,
- d) expenditures exceeded appropriations throughout the year in various funds.

6. BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations, and changes in fund balances/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual - All Governmental Fund Types and Similar Fiduciary Fund and the Combined Statement of Revenues, Expenses and Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual - All Proprietary Fund Types and Similar Fiduciary Fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

- a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- b) Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
- c) Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosure in the proprietary fund type (GAAP basis).
- d) For proprietary funds, the acquisition and construction of capital assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).
- e) Principal payments on bond anticipation notes are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).

**LIMA CITY SCHOOL DISTRICT
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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

6. BUDGETARY BASIS OF ACCOUNTING (Continued)

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type.

**Excess of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses
All Governmental Fund Types and Similar Fiduciary Fund**

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>
GAAP basis	(\$2,004,172)	(\$1,944)	(\$265,013)	\$10,647,009	(\$292)
Adjustments:					
Revenue accruals	321,968	301,202		20,160	
Expenditure accruals	1,171,005	416,579		7,715	
Advances In	246,057	94,803			
Advances Out	(328,612)	(36,057)			
Debt Retirement			(16,865,996)		
Encumbrances Outstanding	<u>(743,252)</u>	<u>(325,548)</u>	<u> </u>	<u>(27,594,862)</u>	<u> </u>
Budget basis	(\$1,337,006)	\$449,035	(\$17,131,009)	(\$16,919,978)	(\$292)

**Net Income/Excess of Revenues and Other Financing
Sources Over Expenses and Other Financing Uses
All Proprietary Fund Types and Similar Fiduciary Fund**

	<u>Enterprise</u>	<u>Non-Expendable Trust</u>
GAAP basis	\$19,577	\$7,502
Adjustments:		
Revenue accruals	(364,421)	(333)
Expense accruals	156,107	
Advances In	173,809	
Advances Out	(150,000)	
Encumbrances Outstanding (Budget basis)	<u>40,507</u>	<u> </u>
Budget basis	<u>(\$205,435)</u>	<u>\$7,169</u>

7. DEPOSITS AND INVESTMENTS

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

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

**LIMA CITY SCHOOL DISTRICT
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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

7. DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

- a. United States treasury notes, bills, bonds, or other obligations or security issued by the United States or any other obligation guaranteed as to principal and interest by the United States;
- b. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal securities shall be direct issuances of federal government agencies or instrumentalities;
- c. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- d. Bonds and other obligations of the State of Ohio;
- e. No load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
- f. The State Treasurer's investment pool (STAR Ohio).

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

7. DEPOSITS AND INVESTMENTS (Continued)

A. Cash on Hand

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

B. Deposits

At fiscal year end, the carrying amount of the District's deposits was \$4,189,293, and the bank balance was \$4,601,779. Of the bank balance, \$246,485 was covered by federal depository insurance and the remaining amounts were uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

C. Investments

The District's investments are categorized below to give an indication of the level of risk assumed by the District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the District's name.

	Category 2	Carrying Value	Fair Value
Treasury Securities	13,494,516	13,494,516	13,494,516
Money Market Mutual Funds	8,579,848	8,579,848	8,579,848
Federal National Mortgage Association	994,600	994,600	994,600
Federal Home Loan Bank	4,335,197	4,335,197	4,335,197
STAR Ohio		6,580,925	6,580,925
Totals		<u>\$33,985,086</u>	<u>\$33,985,086</u>

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust funds and Governmental Entities That Use Proprietary Fund Accounting."

A reconciliation between the classification of cash and cash equivalents and investments on the combined financial statements and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

7. DEPOSITS AND INVESTMENTS (Continued)

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$13,791,868	\$24,382,811
Cash on Hand	(300)	
Investments:		
United States Treasuries	(259,891)	259,891
Money Market Mutual Funds	(2,761,459)	2,761,459
StarOhio	<u>(6,580,925)</u>	<u>6,580,925</u>
GASB Statement No. 3	<u>\$ 4,189,293</u>	<u>\$33,985,086</u>

8. PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2001 represent the collection of calendar year 2000 taxes. Real property taxes for calendar year 2001 are levied after April 1, 2000, on the assessed values as of January 1, 2000, the lien date.

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

Public utility real and tangible personal property taxes for calendar year 2001 were levied after April 1, 2000, on the assessed values as of December 31, 1999, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously. Tangible personal property tax revenues received in calendar year 2001 (other than public utility property) represent the collection of calendar year 2001 taxes. Tangible personal property taxes for calendar year 2001 were levied after April 1, 2001, on the value as of December 31, 2001.

Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The District receives property taxes from Allen County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2001, are available to finance fiscal year 2001 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

8. PROPERTY TAXES (Continued)

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2001. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations.

The amount available as an advance at June 30, 2001, was \$835,624 in the General Fund. The amount available as an advance at June 30, 2000, was \$1,088,725 in the General Fund.

The assessed values upon which the fiscal year 2001 taxes were collected are:

	2000 Second- Half Collections		2001 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$204,872,250	74.34%	\$216,485,060	74.86%
Public Utility	29,468,940	10.70%	26,907,050	9.44%
Tangible Personal	41,246,712	14.96%	41,970,930	15.70%
Total Assessed Value	<u>\$275,587,902</u>	<u>100.00%</u>	<u>\$285,363,040</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$40.23		\$40.23	

9. RECEIVABLES

Receivables at June 30, 2001, consisted of property taxes, accounts, intergovernmental and interfund receivables. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes and the stable condition of State programs.

10. FIXED ASSETS

A summary of the enterprise funds' fixed assets at June 30, 2001, follows:

Furniture and Fixtures	\$821,106
Vehicles	20,845
Less Accumulated Depreciation	<u>(737,586)</u>
Net Book Value	<u>\$104,365</u>

A summary of the changes in general fixed assets during fiscal year 2001 follows:

Asset Category	Balance at 6/30/2000	Additions	Reductions	Balance at 6/30/2001
Land and Improvements	\$1,072,305	\$1,845,352	\$0	\$2,917,657
Buildings and Improvements	17,633,716	1,439,096	0	19,072,812
Furniture, Fixtures, and Equipment	7,141,230	615,699	0	7,756,929
Vehicles	686,019	10,950	0	696,969
Totals	<u>\$26,533,270</u>	<u>\$3,911,097</u>	<u>\$0</u>	<u>\$30,444,367</u>

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

11. RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts; theft of, or damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. During fiscal year 2001, the District contracted with Indiana Insurance for property and general liability and boiler and machinery insurance. Boiler and machinery coverage has a \$5,000 deductible per occurrence. Professional liability is protected by Nationwide Insurance Company with \$2,000,000 each occurrence, \$5,000,000 aggregated limit.

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

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

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

B. Workers' Compensation

The District participates in the Northwest Ohio Area Computer Services Cooperative Workers' Compensation Group Rating Program (the Program), an insurance purchasing pool (Note 21). The Program is intended to reduce premiums for the participants.

The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Program. Each participant pays its workers compensation premium to the State based on the rate for the Program rather than its individual rate. Participation in the Plan is limited to educational entities that can meet the Plan's selection criteria. Each participant must apply annually.

The Plan provides the participants with a centralized program for the processing, analysis and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment or other fees, and perform its obligations in accordance with the terms of the agreement.

C. Health Insurance

The District participates in the Allen County Schools Health Benefit Plan (the Trust), a public entity shared risk pool consisting of the school districts within Allen County. The District pays monthly premiums to the Trust for employee medical and dental benefits. 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 Plan liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

12. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan 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, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 4.2 percent was the portion used to fund pension obligations for fiscal year 2001. For fiscal year 2000, 5.5 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 District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2001, 2000, and 1999, were \$232,307, \$275,673 and \$379,230, respectively; 51.01 percent has been contributed for fiscal year 2001 and 100 percent for fiscal years 2000 and 1999. The unpaid contribution for fiscal year 2001, in the amount of \$113,800, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

The 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, annual cost-of-living adjustments, and death benefits to members and 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.

Plan members are required to contribute 9.3 percent of their annual covered salary and the District is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations for fiscal year 2001. For fiscal year 2000, 6 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 District's required contribution for pension obligations to STRS for the fiscal years ended June 30, 2001, 2000, and 1999, were \$2,118,145, \$1,259,660, and \$1,167,876, respectively; 82.96 percent has been contributed for fiscal year 2001 and 100 percent for fiscal years 2000 and 1999. The unpaid contribution for fiscal year 2001, in the amount of \$361,022, is recorded as a liability within the respective funds.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

12. DEFINED BENEFIT PENSION PLANS

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by a State Retirement System have an option to choose Social Security or the appropriate State Retirement System. As of December 31, 2001, one member of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

13. POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2001, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$1,003,332. STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3,419 million at June 30, 2000 (the latest information available). For the fiscal year ended June 30, 2000, net health care costs paid by STRS were \$283,137,000, and STRS had 99,011 eligible benefit recipients.

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

For the fiscal year ended June 30, 2001, employer contributions to fund health care benefits were 9.8 percent of covered payroll, an increase of 1.3 percent from fiscal year 2000. 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 2001, the minimum pay was established at \$12,400. For the District, the amount to fund health care benefits, including the surcharge, was \$625,869 for fiscal year 2001.

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 for the fiscal year ended June 30, 2000 (the latest information available), were \$140,696,340, and the target level was \$211 million. At June 30, 2000, SERS had net assets available for payment of health care benefits of \$252.3 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

14. EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn up to twenty days of vacation per year, depending upon length of service. Vacation days are credited to classified employees on the anniversary of their employment and must be used within the next twenty-four months. Accumulated, unused vacation time is paid to, or used by, classified employees upon termination or separation from employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month which is 15 days annually. For teachers, such days shall accumulate equal to the number of days contracted for plus thirty-five days. For administrators and classified employees, such days shall accumulate to an unlimited number. Vested sick leave is accumulated and, if unused, is paid upon retirement at the rate of one fourth of the first one hundred and twenty days plus one seventh of any days in excess of one hundred and twenty days (300 days maximum for classified employees) at the daily rate of pay being received at the time of final service.

Accumulated vacation and sick leave of governmental fund type employees meeting the eligibility requirements have been recorded in the appropriate Governmental Fund as a current liability to the extent that the amounts are expected to be payable within the current period. The balance of the liability is recorded in the General Long-Term Debt Account Group. Vacation and sick leave for employees paid from the Proprietary Funds is recorded as an expense and fund liability when earned.

B. Augmented Retirement Incentive

As outlined in the negotiated agreement, an employee can currently retire from the State Teachers Retirement System (STRS) using three windows: 1) 30 years at any age, 2) 25 years at age 55, and 3) 5 years at age 60. If an employee chooses to retire in the school year he or she first becomes eligible for service retirement under guidelines established by the STRS, a bonus equal to thirty percent of his or her final year base salary shall be paid.

If an employee chooses to retire when he or she first becomes eligible for service retirement in a second window, a bonus equal to twenty-five percent of his or her final base salary shall be paid. If an employee chooses to retire when he or she first becomes eligible for service retirement in a third window, a bonus of twenty percent of his or her final year base salary will be paid. No Augmented Retirement Incentive will be available to any employee who chooses not to retire during the school year he or she first becomes eligible for STRS service retirement with thirty years of service at any age.

C. Health Care Benefits

The District provides life insurance and accidental death and dismemberment insurance to most employees through the Health Benefit Plan disclosed in Note 20. The employees share the cost of the monthly premium with the Board. The premium varies with employee depending on the terms of the union contract. Dental insurance is provided by the District to most employees through the Plan which is administered by CoreSource.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

15. NOTES PAYABLE

A summary of notes payable for the year ended June 30, 2001 follows:

	Balance 6/30/00	Additions	Reductions	Balance 6/30/0100
<u>General Obligation Notes</u>				
School Improvement Note - 4.65%	\$10,000,000	\$0	\$10,000,000	\$0
Various Purpose Note - 4.55%	<u>6,866,000</u>	<u>0</u>	<u>6,866,000</u>	<u>0</u>
Total General Obligation Notes	<u>\$16,866,000</u>	<u>\$0</u>	<u>\$16,866,000</u>	<u>\$0</u>

By Ohio law, notes can be issued in anticipation of bond proceeds, special assessment bond proceeds and levies, or for up to 50% of anticipated revenue collections. The District has issued bond anticipation notes which will be repaid at maturity with bond proceeds. The notes were redeemed on July 31, 2000.

16. LONG-TERM OBLIGATIONS

Changes in the long-term obligations of the District during fiscal year 2001 were as follows:

	Principal Outstanding 6/30/00	Additions	Deletions	Principal Outstanding 6/30/01
General Long-Term Obligations:				
General Obligation Bonds-School Building Construction				
Interest Rate-Variou	\$515,000	\$	\$250,000	\$265,000
General Obligation Notes- Energy Note	1,418,988		211,000	1,207,988
General Obligation Bonds- Academy of Learning	225,000		25,000	200,000
General Obligation Bonds- Classroom Facilities-Various Purpose				
Serial and Term Bonds 5-6%	6,565,000		365,000	6,200,000
Capital Appreciation Bonds 10.73%	300,997	28,928		329,925
General Obligation Bonds- Classroom Facilities				
Serial and Term Bonds 4.7-5.5%	9,615,000		280,000	9,335,000
Capital Appreciation Bonds 9.86%	<u>384,999</u>	<u>38,842</u>	<u>280,000</u>	<u>423,841</u>
Total General Long-Term Obligations	19,024,984	67,770	1,131,000	17,961,754
Compensated Absences	5,526,820		207,844	5,318,976
Retirement Incentive Payable		197,060		197,060
Intergovernmental Payable	<u>308,448</u>	<u>246,273</u>	<u>308,448</u>	<u>246,273</u>
Total Long-Term Obligations	<u>\$24,860,252</u>	<u>\$ 511,103</u>	<u>\$1,647,292</u>	<u>\$23,724,063</u>

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

16. LONG-TERM OBLIGATIONS (Continued)

General Obligation Bonds - On June 1, 1991, Lima City School District issued \$2,050,000 in unvoted general obligation bonds for the purpose of providing energy conservation measures for the District, under the authority of Ohio Revised Code Section 3317.22. The bonds were issued for a ten-year period with final maturity during fiscal year 2001. The bonds will be retired from the debt service fund.

Energy Conservation Notes - On July 31, 1995, Lima City School District issued \$2,012,209 in unvoted general obligation notes for the purpose of providing energy conservation measures for the District, under the authority of Ohio Revised Code Section 3317.22. The notes issued for a ten-year period with final maturity during fiscal year 2005. The notes will be retired from the debt service fund.

General Obligation Bonds - On September 25, 1998, the Lima City School District issued \$250,000 in unvoted general obligation bonds for the purpose of acquiring the Academy of Learning building, under the authority of the Ohio Revised Code Section 133.06. The bonds were issued for a five-year period with final maturity during fiscal year 2004. The bonds will be retired from the debt service fund.

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

Generally, the District repays the State for its contribution by levying an additional property tax of one-half mill for a twenty-three period. The total budget for the project is \$104,029,247, of which \$92,663,247 was awarded in school facilities monies and \$11,366,000 is the District's share of the project. In fiscal year 2001, the District received \$12,992,876 in school facilities monies.

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

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

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

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

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

16. LONG-TERM OBLIGATIONS (Continued)

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

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

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

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

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

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

The capital appreciation bonds are not subject to redemption prior to scheduled maturity. The capital appreciation bonds will mature in fiscal years 2010 through 2012. The maturity amount of the bonds is \$915,000. The accreted amount for fiscal year 2001, was \$28,928.

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

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

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

16. LONG-TERM OBLIGATIONS (Continued)

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

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

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

The capital appreciation bonds are not subject to redemption prior to scheduled maturity. The capital appreciation bonds will mature in fiscal years 2012 through 2014. The maturity amount of the bonds is \$1,560,000. The accreted amount for fiscal year 2001, was \$38,842.

Compensated absences and the accrued benefits will be paid from the fund from which the employee is paid. Intergovernmental payables are pension obligations that are classified as long-term and will be paid from the fund from which the person is paid. The change in compensated absences is presented net because it is not practical to determine the actual increase and decrease.

Principal and interest requirements to retire the notes and bonds outstanding at June 30, 2001 are as follows:

Fiscal Year Ending	Principal	Interest	Total
2002	\$ 1,011,000	\$ 905,775	\$ 1,916,775
2003	783,000	859,358	1,642,358
2004	950,000	819,938	1,769,938
2005	833,000	772,860	1,605,860
2006	850,988	730,288	1,581,276
2007-2011	3,350,462	3,293,666	6,644,128
2012-2016	2,613,304	4,053,417	6,666,721
2017-2021	5,095,000	1,463,912	6,558,912
2022-2023	<u>2,475,000</u>	<u>143,300</u>	<u>2,618,300</u>
Total	<u>\$17,961,754</u>	<u>\$13,042,514</u>	<u>\$31,004,268</u>

The District's overall legal debt margin was \$9,193,908, with an unvoted debt margin of \$85,363, at June 30, 2001.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

17. INTERFUND TRANSACTIONS

Interfund balances at June 30, 2001, consist of the following individual fund receivables and payables:

Interfund Receivable/Payable	Receivable	Payable
General	\$290,752	\$ 0
Special Revenue		
Miscellaneous State Grants		51,724
Vocational Education		65,219
Enterprise		
Food Service		<u>173,809</u>
Total	<u>\$290,752</u>	<u>\$290,752</u>

18. RESERVATIONS OF FUND BALANCE

The 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 year-end or offset by similarly restricted resources received during the year must be held in cash at year-end. These amounts must be carried forward to be used for the same purposes in future years.

In prior years, the District was also required to set aside money for budget stabilization. For fiscal year 2001, only the unspent portion of certain workers' compensation refunds continues to be set aside at fiscal year end. The following cash basis information describes the change in the year-end set-aside amounts for textbooks, capital acquisition, and budget stabilization.

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Cash Balance as of June 30, 2000	(\$146,466)	\$0	\$480,329
Current Year Set-aside Requirement	638,297	638,297	0
Legislative Reduction	0	0	(180,180)
Current Year Offsets	0	(428,528)	0
Qualifying Disbursements	<u>(605,987)</u>	<u>(1,342,826)</u>	<u>0</u>
Total	<u>(\$114,156)</u>	<u>(\$1,133,057)</u>	<u>\$300,149</u>

Qualifying expenditures for the textbook reserve exceeded the required set aside by \$114,156 and can be carried forward to future years. The off-set for the capital reserve exceeded the required set aside by \$1,133,057 and can be carried forward to future years. The total reserve balance for the three set-asides at the end of the fiscal year was \$300,149.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

19. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The District maintains two enterprise funds to account for the operations of food service and uniform school supplies. The table below reflects in a summarized format the more significant financial data relating to the enterprise funds of the District as of and for the fiscal year ended June 30, 2001.

	Food Service	Uniform School Supplies	Total Enterprise Funds
Operating Revenues	\$ 782,444	\$24,106	\$ 806,550
Operating Expenses			
Less Depreciation	2,371,004	36,460	2,407,464
Depreciation Expense	16,300	0	16,300
Operating Income (Loss)	(1,604,860)	(12,354)	(1,617,214)
Donated Commodities	174,486	0	174,486
Operating Grants	1,452,305	0	1,452,305
Net Income (Loss)	21,931	(2,354)	19,577
Net Working Capital	(2,785)	58,770	55,985
Total Assets	413,473	58,770	472,243
Total Equity	(81,547)	58,770	(22,777)
Encumbrances Outstanding at June 30, 2001	\$ 40,507	\$ 0	\$ 40,507

20. JOINTLY GOVERNED ORGANIZATIONS

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

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

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

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

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

20. JOINTLY GOVERNED ORGANIZATIONS (Continued)

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

Financial information may be obtained by contacting Dorothy Oldham, Treasurer, Hancock County Educational Service Center, 604 Lima Avenue, Findlay, Ohio 45840-3087.

21. GROUP PURCHASING POOLS

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

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

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

Northwest Ohio Area Computer Service Cooperative Workers' Compensation Group Rating Program - The District participates in the Northwest Ohio Area Computer Service Cooperative Workers' Compensation Group Rating Program (the Program), and insurance purchasing pool. The Program's business and affairs are conducted by a twenty-five member Board of directors consisting of two representatives from each county elected by a majority vote of all charter member schools within each county plus one representative from the fiscal agency A-site. The treasurer of Findlay City Schools serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the Program to cover the costs of administering the program and its financial operations.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

22. CONTRACTUAL COMMITMENTS

On March 27, 2001, the District entered into a contract with Lima Contracting Co., Inc. in the amount of \$1,416,320, for general trade work for renovations to North Middle School.

On March 27, 2001, the District entered into a contract with Tilton Corporation in the amount of \$1,192,415, for mechanical work, with Smith-Boughan, Inc. in the amount of \$1,101,625, for plumbing work, and with Thomas and Marker Construction Company, in the amount of \$4,456,000, for sitework, masonry and general trade work for the new West Middle School.

On March 27, 2001, the District entered into a contract with Smith-Boughan, Inc. in the amount of \$1,107,025, for plumbing work, and with Charles Associates, Inc. in the amount of \$3,329,326, for masonry, roofing and general trade work for the new Washington McKinley Elementary School.

On April 11, 2001, the District entered into a contract with Masonry Building Construction, in the amount of \$1,404,849, and with Alvada Construction, in the amount of \$1,771,156, for the construction of the Jefferson Elementary School.

23. CONTINGENCIES

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2001.

B. Litigation

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

24. SCHOOL FUNDING DECISION

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- ◆ A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- ◆ Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

24. SCHOOL FUNDING DECISION, (Continued)

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision will result in an increase in State funding for most Ohio school districts. However, as of April 19, 2002, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts.

Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

As of the date of these financial statements, the District is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

25. SUBSEQUENT EVENTS

On November 27, 2001, the District entered into a contract with Tilton Corporation in the amount of \$1,660,658 for general trade work for renovations of West Middle School to an elementary school.

On November 27, 2001, the District entered into a contract with Lima Sheet Metal in the amount of \$1,061,650 for mechanical work for renovations of West Middle School to an elementary school.

LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY

SCHEDULE OF FEDERAL AWARD EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

<u>Federal Grantor/ Pass-Through Grantor/ Program Titles</u>	<u>Federal CFDA Number</u>	<u>Pass Through Entity Number</u>	<u>Receipts</u>	<u>Non-Cash Receipts</u>	<u>Non-Cash Disbursements</u>	<u>Non-Cash Disbursements</u>
U.S. Department of Education (Passed through the Ohio Department of Education)						
Special Education Cluster:						
Special Education - Grants to States (IDEA, Part B)	84.027	6B-ST 2001	\$50,000			
	84.027	6B-SF 2001 P	458,439		\$360,228	
	84.027	6B-SF 2000 P	48,846		152,095	
Subtotal			557,285		512,323	
Special Education - Preschool Grants (IDEA Preschool) Home Activities	84.173	PG-SC 2000 P	4,022		4,022	
	84.173	PG-SC 2001 P	4,022		4,022	
Special Education - Preschool Grants (IDEA Preschool)	84.173	PG-S1 2001 P	36,064		29,509	
	84.173	PG-S1 2000 P	4,024		8,108	
Subtotal			48,132		45,661	
Total Special Education Cluster			605,417		557,984	
Title I Grants to Local Educational Agencies	84.010	C1-S1 2001	1,845,414		1,480,227	
	84.010	C1-S1 2000	375,275		472,815	
Subtotal			2,220,689		1,953,042	
Innovative Education Programs Strategies	84.298	C2-S1 2000	4,391		12,416	
	84.298	C2-S1 2001	40,452		31,643	
	84.298	C2-S1 1999 C			3,112	
Subtotal			44,843		47,171	
Adult Education - State Grant Program	84.002	AB-S1 2001	35,163		35,163	
	84.002	AB-S1 2000 C	12,981		12,981	
	84.002	AB-S1 2000	8,150		8,150	
Subtotal			56,294		56,294	
Vocational Education - Basic Grants to States	84.048	20-A5 2000	2,727		60	
	84.048	20-C1 2001	126,102		121,489	
	84.048	20-C1 2000	29,145		7,658	
Subtotal			157,974		129,207	
Safe and Drug-Free Schools and Communities State Grant	84.186	DR-S1 2000	23,835		17,938	
	84.186	DR-S1 2001	34,244		33,399	
Subtotal			58,079		51,337	
Eisenhower Professional Development State Grants	84.281	MS-S1 1999 C			13,288	
	84.281	MS-S1 2001	15,236		4,738	
Subtotal			15,236		18,026	
Even Start - State Educational Agencies	84.213	EV-S1 2001	101,402		53,758	
Comprehensive School Reform Demonstration	84.332	RF-S1 1999			1,749	
	84.332	RF-S1 2000			50,384	
Subtotal					52,133	
Technology Literacy Challenge Fund Grants	84.318	TF-15 2000 P			25,000	
	84.318	TF-41 2001 P	124,990		124,990	
	84.318	TF-42 2001 P	75,000		75,000	
	84.318	TF-43 2001 P	25,000		25,000	
Subtotal			224,990		249,990	

LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY

SCHEDULE OF FEDERAL AWARD EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)

Federal Grantor/ Pass-Through Grantor/ Program Titles	Federal CFDA Number	Pass Through Entity Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
Class Size Reduction	84.340	CR-S1 2000	25,374		25,379	
	84.340	CR-S1 2001	245,235		199,379	
Subtotal			270,609		224,758	
Goals 2000 - State and Local Education	84.276	G2-S1 2001	15,593			
Systemic Improvement Grants	84.276	G2-S2 2000	90,000		57,335	
	84.276	G2-S2 2001	52,000		9,843	
Subtotal			157,593		67,178	
(Passed through Lima Technical College)						
Tech-Prep Education	84.243	TP-00	12,152		12,152	
Total U.S. Department of Education			3,925,278		3,473,030	
U.S. Department of Health and Human Services (Passed through the Ohio Department of Mental Retardation and Developmental Disabilities)						
Medical Assistance Program (CAFS)	93.778	N/A	203,597		203,597	
U.S. Department of Agriculture (Passed through the Ohio Department of Education)						
Child Nutrition Cluster:						
Food Distribution	10.550	N/A		\$174,602		\$174,486
School Breakfast Program	10.553	05-PU 0000	236,449		236,449	
National School Lunch Program	10.555	LL-P1 & P4 0000	904,136		904,136	
Summer Food Service Program for Children	10.559	23 & 24-PU 0000	26,226		26,226	
Total U.S. Department of Agriculture-Nutrition Cluster			1,166,811	174,602	1,166,811	174,486
Total Federal Financial Assistance			<u>\$5,295,686</u>	<u>\$174,602</u>	<u>\$4,843,438</u>	<u>\$174,486</u>

See accompanying notes to the Schedule of Federal Awards Expenditures.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FOOD DISTRIBUTION

Non-monetary assistance, such as food received from the United States Department of Agriculture, is reported on the schedule at the fair value of the commodities received and consumed. Cash receipts from the United State Department of Agriculture are commingled with state grants. It is assumed federal monies are expended first. At June 30, 2001, the District had no significant commodities in inventory.

NOTE C - MATCHING REQUIREMENTS

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



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OFFICE OF THE AUDITOR

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

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

To the Board of Education:

We have audited the financial statements of Lima City School District, Allen County, (the District) as of and for the year ended June 30, 2001, and have issued our report thereon dated April 19, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2001-10202-001 through 2001-10202-005. We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated April 19, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be 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 District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2001-10202-006.

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, for the reportable condition described above, we consider this item to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated April 19, 2002.

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

Jim Petro
Auditor of State

April 19, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

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

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

To the Board of Education:

Compliance

We have audited the compliance of the Lima City School District, Allen County, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2001. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001. However, we noted a certain instance of noncompliance that does not require inclusion in this report that we have reported to the management of the District in a separate letter dated April 19, 2002.

Internal Control Over Compliance

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

**Internal Control Over Compliance
(Continued)**

We noted a certain matter involving the internal control over compliance and its operation that we consider to be 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 compliance that, in our judgement could adversely affect the District's ability to administer a major federal program in accordance with applicable requirements of laws regulations, contracts and grants. The reportable condition is described in the accompanying schedule of findings as item 2001-20202-006.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described above is considered to be a material weakness.

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

Jim Petro
Auditor of State

April 19, 2002

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2001
OMB CIRCULAR A -133 § .505**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	Yes
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	Title I - CFDA #84.010 Special Education Cluster - CFDA #84.027 and #84.173 CAFS - CFDA #93.778
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2001-10202-001

Noncompliance Citation

Ohio Rev. Code Section 5705.10, states that money that is paid into a fund must be used only for the purposes for which such fund has been established.

The amounts indicated represent the maximum deficit balance for each fund during the period:

Fund	Months in Deficit	Maximum Deficit Amount
Food Service	August through April	\$479,354
Adult Basic Education	October through January	8,502
Pregnancy Intervention	December through April	32,725
Title VI-B	February through April	23,544
Vocational Grant	May	6,170
Title I	October through December	173,978
Innovative Education	January	19,843

A negative fund balance in any fund indicates that money from one fund has been used to cover the expenses of another fund.

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

FINDING NUMBER 2001-10202-002

Noncompliance Citation

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

Expenditures had been made in excess of estimated resources throughout the year. Amendments were not obtained to the original certificate until the end of the fiscal year. Failure to obtain an amended certificate for an increase or deficiency could result in expenditures being made in excess of actual revenue and result in deficit spending.

FINDING NUMBER 2001-10202-002
(Continued)

The amounts indicated represent the amounts expended that were greater than the estimated resources for which an amended certificate was not obtained, as of May 31, 2001:

Fund	Original Estimated Resources	Expenditures	Expended in Excess
Disadvantage Pupil Impact Aid	\$0	\$1,353,634	\$1,353,634
Alternative Education	141,008	499,209	358,201
Ohio Reads Grant	128,345	230,338	101,993
Special State Grant Funds	80,548	559,165	478,617
Goals 2000 Grant	0	38,093	38,093
Debt Service	735,851	19,408,246	18,672,395

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

FINDING NUMBER 2001-10202-003

Noncompliance Citation

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

The District adopted a permanent appropriation resolution in September 2000, however, it was not filed with the county auditor and a certificate was not obtained from the county auditor that indicated that the total appropriations from each fund did not exceed the amended certificate of estimated resources. There were no amendments to the appropriation resolution throughout the year, with the exception of an amendment on June 26, 2001. The required certificate was obtained for the final appropriations passed in June 2001.

The amounts for the following funds represent the maximum by which appropriations exceeded estimated resources for the period of October 2000 through May of 2001:

Fund	Estimated Resources	Appropriations	Excess
Ohio Reads	\$128,345	\$278,345	\$150,000
Alternative Education	141,008	523,508	382,500
Special State Grant Funds	80,548	559,299	478,751

FINDING NUMBER 2001-10202-003
(Continued)

The amounts for the following funds represent the amount by which appropriations exceeded estimated resources as of June 30, 2001:

Fund	Estimated Resources	Appropriations	Excess
Local Grants	\$61,075	\$93,709	\$32,634
Venture Capital	33,202	58,245	25,043
Disadvantaged Pupil Impact Aid	2,988,529	3,632,995	644,466
Food Service Fund	2,247,765	2,426,490	178,725
Uniform School Supply	38,465	40,437	1,972

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

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

FINDING NUMBER 2001-10202-004

Noncompliance Citation

Ohio Rev. Code Section 5705.40 states that any appropriation measure may be amended or supplemented as long as the entity complies with the same provisions of the law as are used in making the original appropriation.

There was no evidence of amendments to the permanent appropriation resolution until June of 2001, however, the appropriations were amended within the accounting system from month-to-month without proper authorizations.

The amounts for the following funds represent the amounts by which the appropriations within the system deviated from the original appropriation resolution:

Fund	Appropriations	System Appropriations	Unauthorized Appropriation
General Fund	\$35,638,639	\$36,825,232	\$1,186,593
Auxiliary Services	48,813	658,274	609,461
Disadvantaged Pupils	0	1,874,776	1,874,776
Alternative Education	523,508	501,496	(22,012)
Ohio Reads	278,345	206,836	(71,509)
Special State Grant Funds	559,299	1,171,345	612,046
Title I	529,124	2,972,506	2,443,382
Goals 2000	0	142,000	142,000
Debt Service	667,735	18,939,279	18,271,544
Building Fund	1,872,683	253,562	(1,619,121)
Food Service Fund	2,482,660	2,428,517	(54,143)

**FINDING NUMBER 2001-10202-004
 (Continued)**

Failure to adopt amended appropriations for an increase or decrease in allowable spending could result in expenditures being made in excess of actual funds available and result in deficit spending.

Since the authority to authorize appropriation amendments lies only with the Board and cannot be delegated, procedures should be adopted and put in place that allows only the amendments to appropriations officially enacted by the Board to be placed in the accounting system.

FINDING NUMBER 2001-10202-005

Noncompliance Citation

Ohio Rev. Code Section 5705.41 (B) states that no subdivision or taxing unit is to expend money unless it has been appropriated.

The amounts for the following funds represent the maximum by which expenditures exceeded appropriations for the period of October 2000 through May of 2001:

Fund	Appropriation	Expenditures	Excess
Debt Service	\$667,735	\$19,408,246	\$18,740,511
Food Service	2,530,803	2,535,935	5,132
Classroom Facilities	3,115,983	27,038,737	23,922,754
Maintenance Fund	1,118	2,449	1,331
Auxiliary Services	89,732	542,735	453,003
Disadvantaged Pupils	0	1,373,322	1,373,322
Special State Grant Funds	579,049	589,645	10,596
Title I	529,124	2,027,447	1,498,323
Continuous Improvement	0	66,989	66,989

Failure to adopt amended appropriations for an increase or decrease in allowable spending could result in expenditures being made in excess of actual funds available and result in deficit spending.

Procedures should be developed to compare actual expenditures to appropriations in order to identify when expenditures are nearing the level of appropriations and appropriate action taken. This can be accomplished through the review of the budget versus actual report generated by the system on a monthly basis.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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Finding Number	2001-10202-006
CFDA Title and Number	Community Alternative Funding Program (CAFS- Medicaid))
Federal Award Number/Year	N/A - 2001
Federal Agency	United States Department of Health and Human Services
Pass-Through Agency	Ohio Department of Mental Retardation and Developmental Disabilities

The procedures for the CAFS program were limited to the review of the individual service sheets submitted by the various providers to determine if all sections were completed and they were signed. There was no review for the accuracy of the sheets. There was also no evidence provided that monthly reports from the service organization were reviewed or analyzed. The District does not have a policy outlining the requirements for providing the CAFS services or handling the funding.

The lack of procedures for reviewing information prior to billing, monitoring the remittance slips and the amounts received as reimbursements, could result in services provided that were not properly submitted for reimbursement, or services submitted that were not reimbursed. In addition, federal funding could be in jeopardy when proper controls are not in place.

Information used for reimbursement of CAFS services should be reviewed for completeness and accuracy before being submitted to the third party billing agency. Also, remittance slips received with the reimbursements should be reviewed to determine that all services submitted were correctly billed and the proper amount received. The District should also establish a policy outlining the procedural requirements for the CAFS funding.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2001
OMB CIRCULAR A -133 § .315 (b)**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2000-10202-001	Ohio Rev. Code 5705.09	Yes	
2000-10202-002	Ohio Rev. Code 117.43	Yes	
2000-10202-003	Reconciliations	Partially	Steps have been taken to correct the monthly reconciliation procedures.



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LIMA CITY SCHOOL DISTRICT

ALLEN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 9, 2002**