



**Auditor of State
Betty Montgomery**

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

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of St. Marys City School District, Auglaize County, Ohio (the School District) as of and for the year ended June 30, 2003. These financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 2, the accompanying financial statements and notes have been prepared on a basis of accounting in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual reports in accordance with generally accepted accounting principles. This basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash, investments, and combined fund cash balances of the School District, as of June 30, 2003, and its combined cash receipts and disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements and encumbrances, for the year then ended on the basis of accounting described in Note 2.

As described in Note 3, during the year ended June 30, 2003, the School District changed its method of accounting for financial reporting.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2004, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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.

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

This report is intended solely for the information and use of management, the Board of Education, and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

February 13, 2004

**ST. MARY'S CITY SCHOOL DISTRICT
AUGLAIZE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES AND SIMILAR FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	Governmental Fund Types				Fiduciary Fund Type	Totals
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	(Memorandum Only)
Cash Receipts						
Taxes	\$5,717,367		\$948,819	\$406,578		\$7,072,764
Intergovernmental Revenue	9,747,999	\$884,430	108,862	55,038		10,796,329
Tuition	383,600					383,600
Earnings on Investments	70,643	958	10,362	2,847	\$3,604	88,414
Extracurricular Activities		179,615				179,615
Classroom Materials & Fees	31,759					31,759
Miscellaneous	142,772	66,139			9,123	218,034
Total Cash Receipts	16,094,140	1,131,142	1,068,043	464,463	12,727	18,770,515
Cash Disbursements						
Current:						
Instruction:						
Regular	7,752,944	190,440		5,065		7,948,449
Special	1,067,709	435,724				1,503,433
Vocational	1,216,999			3,463		1,220,462
Adult/Continuing		64,113				64,113
Support Services:						
Pupils	1,164,921	103,572				1,268,493
Instruction	1,040,909	92,676				1,133,585
Board of Education	114,137					114,137
Administration	1,111,199	4,739				1,115,938
Fiscal	328,733	3,875	21,685	9,519		363,812
Business	148,183					148,183
Operation and Maintenance	1,406,658	2,389		352,840		1,761,887
Transportation	671,292	481				671,773
Central Services	6,291					6,291
Non-Instructional Services:						
Community Services		109,403			16,000	125,403
Other Operation of Non-Instruct. Services					5,326	5,326
Extracurricular Activities:						
Academic and Other Subject						
Oriented Activities	40,670					40,670
Occupation Oriented Activities	625					625
Sports Oriented	285,986	178,403				464,389
Co-Curricular Activities	11,734					11,734
Facilities Acquisition and Construction;						
Site Improvement				3,741		3,741
Building Acquisition and Construction	6,985					6,985
Debt Service:						
Repayment of Debt			1,329,000			1,329,000
Total Cash Disbursements	16,375,975	1,185,815	1,350,685	374,628	21,326	19,308,429
Excess (Deficiency) of Receipts Over (Under) Disbursements	(281,835)	(54,673)	(282,642)	89,835	(8,599)	(537,914)
Other Sources (Uses):						
Proceeds from Sale of Notes			325,000			325,000
Transfers-In		174				174
Advances-In	159,834	16,444				176,278
Refund of Prior Year Expenditures	23,854					23,854
Transfers-Out	(45,377)	(174)				(45,551)
Advances-Out	(18,874)	(586)		(155,767)		(175,227)
Total Other Sources (Uses)	119,437	15,858	325,000	(155,767)		304,528
Excess (Deficiency) of Receipts and Other Sources Over (Under) Disbursements and Other Uses	(162,398)	(38,815)	42,358	(65,932)	(8,599)	(233,386)
Fund Cash Balances - Beginning of Year						
Restated - See Note 3	3,130,437	257,468	614,126	296,022	37,145	4,335,198
Fund Cash Balances - End of Year	\$2,968,039	\$218,653	\$656,484	\$230,090	\$28,546	\$4,101,812

The accompanying notes are an integral part of the financial statements.

**ST. MARY'S CITY SCHOOL DISTRICT
AUGLAIZE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS AND CHANGES IN FUND CASH BALANCES
ALL PROPRIETARY FUND TYPES AND SIMILAR FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	Proprietary Fund Type		Fiduciary Funds		Totals (Memorandum Only)
	Enterprise	Internal Service	Non-Expendable Trust	Agency	
Operating Receipts					
Food Services	\$401,902				\$401,902
Extracurricular Activities				\$127,560	127,560
Classroom Materials & Fees	87,315				87,315
Total Operating Receipts	<u>489,217</u>			<u>127,560</u>	<u>616,777</u>
Operating Disbursements					
Salaries	208,719			208	208,927
Fringe Benefits	133,875				133,875
Purchased Services	20,058				20,058
Materials and Supplies	314,533				314,533
Capital Outlay	4,944				4,944
Capital Outlay - Replacement	955				955
Other Objects		\$83,598		119,324	202,922
Total Operating Disbursements	<u>683,084</u>	<u>83,598</u>		<u>119,532</u>	<u>886,214</u>
Operating Income (Loss)	(193,867)	(83,598)		8,028	(269,437)
Non-Operating Receipts					
Earnings on Investments	772				772
Miscellaneous		85,011			85,011
Intergovernmental Revenue	184,389				184,389
Total Non-Operating Receipts	<u>185,161</u>	<u>85,011</u>			<u>270,172</u>
Non-Operating Disbursements					
Debt Service				45,377	45,377
Total Non-Operating Disbursements				<u>45,377</u>	<u>45,377</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	(8,706)	1,413		(37,349)	(44,642)
Other Financing Sources/ Uses:					
Operating Transfers In				45,377	45,377
Advances In				2,430	2,430
Advances Out				(3,481)	(3,481)
Total Other Financing Sources/ Uses				<u>44,326</u>	<u>44,326</u>
Excess (Deficiency) of Receipts and Other Sources Over (Under) Disbursements and Other Uses	(8,706)	1,413		6,977	(316)
Fund Cash Balances - Beginning of Year					
Restated - See Note 3	118,400	16,764	129,580	53,100	317,844
Fund Cash Balances - End of Year	<u>\$109,694</u>	<u>\$18,177</u>	<u>\$129,580</u>	<u>\$60,077</u>	<u>\$317,528</u>

The accompanying notes are an integral part of the financial statements.

**ST. MARY'S CITY SCHOOL DISTRICT
AUGLAIZE COUNTY**

**COMBINED STATEMENT OF RECEIPTS-BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Fund Types/Fund	Budget	Actual	Variance Favorable/ (Unfavorable)
Governmental:			
General Fund	\$15,733,426	\$16,117,994	\$384,568
Special Revenue Funds	1,103,847	1,131,316	27,469
Debt Service Funds	1,390,206	1,393,043	2,837
Capital Project Funds	445,383	464,463	19,080
Proprietary:			
Enterprise Funds	645,000	674,378	29,378
Internal Service Funds	72,000	85,011	13,011
Fiduciary:			
Trust and Agency Funds	180,565	185,664	5,099
Total (Memorandum Only)	<u>\$19,570,427</u>	<u>\$20,051,869</u>	<u>\$481,442</u>

The accompanying notes are an integral part of the financial statements.

**ST. MARY'S CITY SCHOOL DISTRICT
AUGLAIZE COUNTY**

**COMBINED STATEMENT OF DISBURSEMENTS AND
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Fund Types/Fund	Prior Year Carryover Appropriations	2003 Appropriations	Total	Actual 2003 Disbursements	Encumbrances Outstanding At 6/30/03	Total	Variance Favorable/ (Unfavorable)
Governmental:							
General Fund	\$71,466	\$16,450,180	\$16,521,646	\$16,421,352	\$96,419	\$16,517,771	\$3,875
Special Revenue Funds	34,844	1,307,051	1,341,895	1,185,989	82,779	1,268,768	73,127
Debt Service Funds		1,350,798	1,350,798	1,350,685		1,350,685	113
Capital Project Funds	258,304	306,180	564,484	374,628	124,906	499,534	64,950
Proprietary:							
Enterprise Funds	7,730	685,289	693,019	683,084	9,935	693,019	
Internal Service Funds		85,000	85,000	83,598		83,598	1,402
Trust and Agency Funds	3,555	185,195	188,750	186,235	2,340	188,575	175
Total (Memorandum Only)	\$375,899	\$20,369,693	\$20,745,592	\$20,285,571	\$316,379	\$20,601,950	\$143,642

The accompanying notes are an integral part of the financial statements.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1862 with the consolidation of existing land areas and school districts. The School District serves an area of approximately seventy square miles. It is located in Auglaize County, and includes all of the City of St. Marys and portions of Logan, Moulton, Noble, Salem, St. Marys, and Washington Townships.

The School District is the 194th largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by ninety classified employees, one hundred seventy-eight certified teaching personnel, and seventeen administrative employees who provide services to two thousand four hundred forty-six students and other community members. The School District currently operates six school buildings and a service building.

A. Reporting Entity

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

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

The following activities are included within the reporting entity:

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

The School District participates in three jointly governed organizations and two insurance pools, and is associated with a related organization. These organizations are the West Central Ohio Regional Professional Development Center, West Central Ohio Special Education Regional Resource Center, Northwest Ohio Area Computer Services Cooperative, Mercer Auglaize Schools Employee Benefit Trust, NOACSC Workers' Compensation Group Rating Plan, and the St. Marys Community Public Library. These organizations are presented in Notes 15, 16, and 17 to the basic financial statements.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis Of Accounting

As required by Ohio Administrative Code Section 117-2-03 (B) the School District prepared and filed its annual financial report in accordance with generally accepted accounting principles. However, the School District chose to present its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual financial reports in accordance with generally accepted accounting principles. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

B. Fund Accounting

The School District maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each type of funds are as follows:

1. Governmental Fund Types:

Governmental funds are those through which most governmental functions of the School District are financed. The following are the School District's governmental fund types:

General Fund - The general fund is the general operating fund of the School District. It is used to account for all financial resources except those required by law or contract to be accounted for in another fund.

Special Revenue Funds - The 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 disbursements for specified purposes.

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

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 or trust funds).

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Proprietary Fund Types

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

Enterprise Funds - The enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

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 Type

Fiduciary funds are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include expendable trust, non-expendable trust, and agency funds.

C. Budgetary Process

1. Budget

A budget of estimated cash receipts and disbursements is submitted to the County Auditor, as Secretary of the County Budget Commission, by January 20 of each year, for the period July 1 to June 30 of the following fiscal year.

2. Estimated Resources

The County Budget Commission certifies its actions to the School District by March 1. As part of this certification, the School District receives the official certificate of estimated resources which states the projected receipts of each fund. On or about July 1 this certificate is amended to include any unencumbered balances from the preceding fiscal year.

Prior to June 30, the School District must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying financial statements do not include July 1, 2002 unencumbered fund balances. However, those fund balances are available for appropriations.

3. Appropriations

A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation measure must be passed by October 1 of each year for the period July 1 to June 30. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. Encumbrances

The School District is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation. 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 appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

D. Cash And Investments

To improve cash management, all cash received by the School District Treasurer is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through School District accounting records.

Investment earnings are allocated as authorized by statute based upon School District policy.

E. Unpaid Vacation And Sick Leave

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

F. Property, Plant And Equipment

Fixed assets acquired or constructed for general governmental service are recorded as expenditures. Depreciation is not recorded for these fixed assets.

G. Total Columns On Financial Statements

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

3. CHANGE IN BASIS OF ACCOUNTING AND RESTATEMENT OF FUND BALANCES

For fiscal year 2003, the School District changed its method of accounting for financial reporting from accounting principles generally accepted in the United States of America to a basis of accounting formerly prescribed or permitted for school districts by the Auditor of State. This comprehensive basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. This change had the following effect on fund balances as previously reported:

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

**3. CHANGE IN BASIS OF ACCOUNTING AND RESTATEMENT OF FUND BALANCES
(Continued)**

	Fund Balance/ Retained Earnings June 30, 2002	Accrual Adjustment	Restated Fund Balance July 1, 2002
General	\$2,209,631	\$920,806	\$3,130,437
Special Revenue	162,307	95,161	257,468
Debt Service	680,466	(66,340)	614,126
Capital Projects	(428,243)	724,265	296,022
Expendable Trust	43,465	(6,320)	37,145
Enterprise	239,387	(120,987)	118,400
Internal Service	-	16,764	16,764
Nonexpendable Trust	129,580	-	129,580
Agency	-	53,100	53,100

4. DEPOSITS AND INVESTMENTS

State statutes classify monies held by the School 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 School District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);

Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), 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.

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

At fiscal year end, the School District had \$400 in undeposited cash on hand.

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

Deposits: At fiscal year end, the carrying amount of the School District's deposits was \$44,142 and the bank balance was \$336,771. Of the bank balance, \$196,017 was covered by federal depository insurance. The remaining amounts were uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

Investments: The School District's investments are categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the School 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 School District's name. The School District's investment in STAR Ohio is unclassified since it is not evidenced by securities that exist in physical or book entry form.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

	<u>Category 2</u>	<u>Fair Value</u>	<u>Carrying Value</u>
Federal Home Loan Mortgage Bonds	\$1,007,880	\$1,001,760	\$1,007,880
Federal National Mortgage Association Bonds	2,012,793	2,002,190	2,012,793
Sub-total	<u>\$3,020,673</u>	<u>\$3,003,950</u>	<u>\$3,020,673</u>
STAR Ohio		1,354,125	1,354,125
Totals		<u>\$4,358,075</u>	<u>\$4,374,798</u>

5. PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis, while the School District's fiscal year runs from July through June. First-half tax distributions are received by the School District in the second half of the fiscal year. Second-half tax distributions are received 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 School District. Real property tax revenues received in calendar year 2003 represent the collection of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed values as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2003 represent the collection of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien on December 31, 2001, were levied after April 1, 2002, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2003 (other than public utility property) represent the collection of calendar year 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2003, on the value as of December 31, 2002. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 24 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually.

If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30. For fiscal year 2003, the School District received an advance against the October personal property tax settlement, in the amount of \$275,000.

The School District receives property taxes from Auglaize County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

5. PROPERTY TAXES (Continued)

The assessed values upon which fiscal year 2003 taxes were collected are:

	2002 Second- Half Collections		2003 First- Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$171,270,730	79.22%	\$182,008,500	80.23%
Public Utility	7,944,280	3.68	7,872,570	3.47
Tangible Personal	36,968,114	17.10	36,978,170	16.30
Total Assessed Value	<u>\$216,183,124</u>	<u>100.00%</u>	<u>\$226,859,240</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$49.05		\$49.05	

6. RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2003, the School District contracted for the following insurance coverage.

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

General Liability	
Per Occurrence	\$2,000,000
Aggregate	4,000,000
Excess Liability	5,000,000

Coverage provided by Peerless Insurance Company is as follows:

Building and Contents	\$42,252,000
Computer Equipment	2,235,945
Computer Software	100,000
Musical Instruments	284,479

Coverage provided by Midwestern Indemnity Company is as follows:

Automobile Liability	\$2,000,000
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Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from the prior fiscal year.

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

The School District participates in the NOACSC Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

6. RISK MANAGEMENT (Continued)

Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. Participation in the GRP is limited to participants that can meet the GRP's selection criteria.

The firm of Accordia Workers' Compensation Services provides administrative, cost control, and actuarial services to the GRP.

7. CONTRACTUAL COMMITMENTS

As of June 30, 2003, the School District had contractual commitments as follows:

<u>Company</u>	<u>Project</u>	<u>Amount Remaining On Contract</u>
Cottermen and Company	Repair High School Roof	\$15,600
Cardinal Bus Sales	School Bus	55,685
Don Walsh and Associates	Playground Equipment	32,000

8. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code.

STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all of their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account.

Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age fifty and termination of employment. The CP offers features of both the DBP and DCP. In the CP, member contributions are invested by the member and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salary and the School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The School District's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2003, 2002, and 2001, was \$1,126,853, \$768,313, and \$733,831, respectively; 83 percent has been contributed for fiscal year 2003 and 100 percent has been contributed for fiscal years 2002 and 2001. Contributions for the DCP and CP for the fiscal year ended June 30, 2003, were \$2,982 made by the School District and \$7,572 made by plan members.

B. School Employees Retirement System

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9 percent of their annual covered salary and the School District was required to contribute an actuarially determined rate. The rate for fiscal year 2003 was 14 percent of annual covered payroll; 8.17 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board.

The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001, were \$161,870, \$99,241, and \$73,946, respectively; 47 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2003, all of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

9. POSTEMPLOYMENT BENEFITS

The School 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 2003, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount was \$86,681.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3,011 million at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000, and STRS had 105,300 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, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$14,500. For the School District, the amount to fund health care benefits, including the surcharge, was \$152,571 for fiscal year 2003.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2002 (the latest information available), were \$182,946,777, and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

10. SHORT-TERM OBLIGATIONS

Changes in the School District's short-term obligations during fiscal year 2003 are as follows:

	Balance at 6/30/02	Additions	Reductions	Balance at 6/30/03
Bond Anticipation Notes	<u>\$500,000</u>	<u>\$325,000</u>	<u>\$500,000</u>	<u>\$325,000</u>

During fiscal year 2003, the School District issued \$325,000 in bond anticipation notes to retire previously issued bond anticipation notes that matured February 5, 2003. The notes have an interest rate of 2.87 percent and mature on February 5, 2004.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

10. SHORT-TERM OBLIGATIONS (Continued)

During fiscal year 2003, the School District retired \$500,000 in bond anticipation notes. The notes had an interest rate of 2.58 percent. Proceeds of these notes were used to construct additions to existing instructional buildings.

11. LONG-TERM OBLIGATIONS

Changes in the School District's long-term obligations during fiscal year 2003 were as follows:

	<u>Balance at 6/30/02</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/03</u>
General Long-Term Obligations				
1998 Construction 3.65 - 5%	\$3,225,000	\$0	\$550,000	\$2,675,000
2000 Library Construction 6.7%	935,000	0	70,000	865,000
Total General Obligation Bonds	<u>4,160,000</u>	<u>0</u>	<u>620,000</u>	<u>3,540,000</u>
Asbestos Removal Loan 0%	485,276	0	45,377	439,899
Total Long-Term Obligations	<u>\$4,645,276</u>	<u>\$0</u>	<u>\$665,377</u>	<u>\$3,979,899</u>

Construction General Obligation Bonds - On February 1, 1998, the School District issued \$5,000,000 in voted general obligation bonds for the construction of additions to existing instructional buildings. The bonds were issued for a nine year period, with final maturity on December 1, 2006. The bonds are being retired from the Bond Retirement debt service fund, with the proceeds of a 4.1 mill voted property tax levy.

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

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

The School District's overall debt margin was \$17,286,602 with an unvoted debt margin of \$226,859 at June 30, 2003.

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2003, were as follows:

<u>Fiscal Year Ending June 30,</u>	<u>General Obligation Bonds</u>		<u>Asbestos Removal Loan</u>	<u>Total Principal And Interest</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	
2004	\$705,000	\$164,931	\$45,377	\$915,308
2005	740,000	130,705	45,377	916,082
2006	800,000	93,965	45,377	939,342
2007	800,000	54,015	45,377	899,392
2008	110,000	29,480	45,377	184,857
2009-2013	385,000	40,033	213,014	638,047
Totals	<u>\$3,540,000</u>	<u>\$513,129</u>	<u>\$439,899</u>	<u>\$4,493,028</u>

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

12. SET ASIDES

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end. These amounts must be carried forward and used for the same purposes in future years. The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2003.

	Textbooks	Capital Improvements
Balance June 30, 2002	(\$219,963)	\$0
Current Year Set Aside Requirement	341,665	341,665
Qualifying Expenditures	(373,619)	0
Current Year Offsets	0	(406,578)
Balance June 30, 2003	(\$251,917)	(\$64,913)

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

13. INTERFUND TRANSFERS

During fiscal year 2003, the General Fund made transfers to the Agency fund, in the amount of \$45,377 to pay the asbestos removal loan.

14. DONOR RESTRICTED ENDOWMENTS

The School District's non-expendable trust fund includes donor restricted endowments. Endowments, in the amount of \$129,580, represent the principal portion. State law permits the School District to appropriate, for purposes consistent with the endowment's intent, net appreciation, realized and unrealized, unless the endowment terms specify otherwise. The endowment requires that the interest be used to provide a scholarship each year.

15. JOINTLY GOVERNED ORGANIZATIONS

A. West Central Ohio Regional Professional Development Center

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

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

15. JOINTLY GOVERNED ORGANIZATIONS (Continued)

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

B. West Central Ohio Special Education Regional Resource Center

The West Central Ohio Special Education Regional Resource Center (SERRC) is a jointly governed organization formed to initiate, expand, and improve special education programs and services for children with disabilities and their parents. The SERRC is governed by a fifty-two member board consisting of the superintendent from the fifty participating school districts, one representative from a non-public school, and one representative from Wright State University. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from Krista Hart, Hardin County Educational Service Center, 1 Court House Square, Suite 50, Kenton, Ohio 43326-2385.

C. Northwest Ohio Area Computer Services Cooperative

The School District is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC), which is a computer consortium. NOACSC is an association of educational entities within the boundaries of Allen, Hancock, Mercer, Paulding, Putnam, and Van Wert Counties, and the Cities of St. Marys and Wapakoneta. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member educational entities. The governing board of NOACSC consists of two representatives from each county elected by majority vote of all charter member educational entities within each county. During fiscal year 2003, the School District paid \$29,058 to the NOACSC for various services. Financial information can be obtained from Michael Wildermuth, who serves as Director, 645 South Main Street, Lima, Ohio 45804.

16. INSURANCE POOLS

A. Mercer Auglaize Schools Employee Benefit Trust

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

16. INSURANCE POOLS (Continued)

B. NOACSC Workers' Compensation Group Rating Plan

The School District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The NOACSC Workers' Compensation Group Rating Plan (GRP) was established through the Northwest Ohio Area Computer Services Cooperative (NOACSC) as an insurance purchasing pool.

The Safety Coordinator of NOACSC or his designee serves as coordinator of the GRP. Each year, the participating members pay an enrollment fee to the GRP to cover the costs of administering the program.

17. RELATED ORGANIZATION

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

18. STATE SCHOOL FUNDING DECISION

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

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

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

19. CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2003.

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

**SCHEDULE OF FEDERAL AWARD EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Federal Grantor/ Pass-Through Grantor/ Program Titles	Federal CFDA Number	Project Number	Non- Cash Receipts	Receipts	Non-Cash Disbursements	Disbursements
U.S. Department of Education (Pass through Ohio Department of Education)						
Special Education - Grants to States	84.027	044727-6BSF 2003P		\$281,638		\$276,363
		044727-6BSF 2002P		1,440		44,456
Total - Grants to States				283,078		320,819
Title I Grants to Local Educational Agencies	84.010	044727-C1S1-2003		158,171		171,219
		044727-C1S1-2002				9,896
Total - Title 1 Grants				158,171		181,115
Innovative Education Programs Strategies	84.298	044727-C2S1-2003		14,454		15,855
		044727-C2S1 2002				760
Total - Innovative Education				14,454		16,615
Adult Education - State Grant Program	84.002	044727-ABS1 2003		56,286		56,286
Safe and Drug-Free Schools and Communities	84.186	044727-DRS1 2003		7,875		9,134
		044727-DRS1 2002				4,110
Total - Safe and Drug Free				7,875		13,244
Eisenhower Professional Development State	84.281	044727-MSS1-2002				5,960
Technology Literacy Challenge State Grants	84.318	044727-TJS1-2003		5,311		5,311
		044727-TF5#-2001				4,407
Total - Technology Literacy Challenge Grants				5,311		9,718
State Program Improvement Grants	84.323	044727-STS1-2003		54,967		40,750
Class Size Reduction	84.340	044727-CRS1 2002				9,071
School Renovation Grants	84.352	044727-ATS2 2002		9,311		
		044727-ATS3 2002		5,229		14,540
		044727-ATS4 2002		4,636		
Total - School Renovation				19,176		14,540
Improving Teacher Quality State Grants	84.367	044727-TRS1-2003		73,457		73,774
Total U.S. Department of Education				672,775		741,892
U.S. Department of Agriculture (Pass through Ohio Department of Education)						
Nutrition Cluster:						
Food Donation	10.550	N/A	72,050		72,050	
School Breakfast Program	10.553	044222-05PU		5,347		5,347
National School Lunch Program	10.555	044222-LL-P1/F59P4		171,630		171,630
Total - Nutrition Cluster			72,050	176,977		176,977
Total U.S. Department of Agriculture			72,050	176,977	72,050	176,977
Total Federal Financial Assistance			\$72,050	\$849,752	\$72,050	\$918,869

See accompanying notes to the schedule of federal awards expenditures.

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

**NOTES TO THE SCHEDULE OF FEDERAL FINANCIAL AWARD EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE A- SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B- NUTRITION CLUSTER

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE C- FEDERAL AWARDS EXPENDITURES ADMINISTERED BY OTHER GOVERNMENTS

St. Marys City School District also benefited from other federal award expenditure programs which were passed through the State Department of Education to the Auglaize County Educational Service Center. These programs are administered by the Auglaize County Educational Service Center and are audited according to the Single Audit Act (A-133) at that level. The financial activity of these federal award expenditure programs are reflected in the accompanying financial statements.

FEDERAL GRANTOR/ Pass-Through Grantor/ Program Titles	Federal CFDA Number	Project Number	Amount Expended on Behalf
United States Department of Health and Human Services			
Passed through Ohio Department of Education			
Auglaize County Educational Service Center			
Preschool Handicapped Program	84.173	045930-PG-S1	\$24,394

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Auditor of State Betty Montgomery

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

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

To the Board of Education:

We have audited the financial statements of St. Marys City School District, Auglaize County, (School District), as of and for the year ended June 30, 2003, and have issued our report thereon dated February 13, 2004, wherein we noted that the School District implemented the basis of accounting previously prescribed or permitted by the Auditor of State for financial reporting rather than accounting principles generally accepted in the United States of America, which is now required for school districts. 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 St. Marys City School 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to management of the School District in a separate letter dated February 13, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we 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 School District in a separate letter dated February 13, 2004.

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St. Marys City School District
Auglaize County
Independent Accountants' Report on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive style with a large initial "B".

Betty Montgomery
Auditor of State

February 13, 2004



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

We have audited the compliance of the St. Marys City School District, Auglaize County, (the School District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2003. The School District's major federal program is 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 its major federal program is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to 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 School 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 School District's compliance with those requirements.

In our opinion, the School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

Internal Control Over Compliance

The management of the School 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 School 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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



Betty Montgomery
Auditor of State

February 13, 2004

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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**Auditor of State
Betty Montgomery**

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ST. MARYS CITY SCHOOL DISTRICT

AUGLAIZE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 13, 2004**