



**Auditor of State  
Betty Montgomery**



**LIMA CITY SCHOOL DISTRICT  
ALLEN COUNTY**

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

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

To the Members of 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, 2002, 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 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.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Lima City School District, Allen County, as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund types and similar fiduciary funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3, to the general-purpose financial statements, the District changed its method of accounting for fixed assets during fiscal year 2002.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2003, 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.

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. In our opinion, it is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

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 14, 2003

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**LIMA CITY SCHOOL DISTRICT  
ALLEN COUNTY**

**COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS  
AS OF JUNE 30, 2002**

	<b>Governmental Fund Types</b>			
	<b>General</b>	<b>Special Revenue</b>	<b>Debt Service</b>	<b>Capital Projects</b>
<b>ASSETS AND OTHER DEBITS</b>				
<b>Assets:</b>				
Equity in Cash and Cash Equivalents	\$2,076,737	\$2,054,126	\$413,848	\$17,642,407
Investments				23,975,511
Receivables:				
Taxes	7,156,617	111,930	1,131,103	145,200
Accounts	15,138	2,088		
Intergovernmental	47,458	993,841		43,367,652
Due from Other Funds	104,936			
Materials and Supplies Inventory	2,388			
Inventory Held for Resale				
Prepaid Items	245,926	42,862		
Restricted Cash:				
Cash and Cash Equivalents				
Held By Escrow Agents				439,119
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				
<b>Total Assets and Other Debits</b>	<b><u>9,649,200</u></b>	<b><u>3,204,847</u></b>	<b><u>1,544,951</u></b>	<b><u>85,569,889</u></b>
<b>LIABILITIES, FUND EQUITY AND OTHER CREDITS</b>				
<b>Liabilities:</b>				
Accounts Payable	253,722	86,830		98,221
Contracts Payable				2,753,671
Retainage Payable				439,119
Accrued Salaries and Benefits	4,036,570	883,366		
Due to Other Funds		79,936		
Intergovernmental Payable	637,973	77,171		
Due to Students				
Compensated Absences Payable	84,624	64,723		
Retirement Incentive Payable	13,192	193,029		
Deferred Revenue	6,199,103	579,219	1,131,103	43,512,852
Bonds Payable				
Lease-Purchase Payable				
<b>Total Liabilities</b>	<b><u>11,225,184</u></b>	<b><u>1,964,274</u></b>	<b><u>1,131,103</u></b>	<b><u>46,803,863</u></b>
<b>Fund Equity and Other Credits:</b>				
Investment in General Fixed Assets				
Retained Earnings				
Fund Balance:				
Reserved for Encumbrances	377,079	110,799		43,953,972
Reserved for Prepaid Items	245,926	42,862		
Reserved for Property Taxes	957,514			
Reserved for Principal				
Reserved for Debt Service			413,848	
Unreserved	(3,156,503)	1,086,912		(5,187,946)
<b>Total Fund Equity and Other Credits</b>	<b><u>(1,575,984)</u></b>	<b><u>1,240,573</u></b>	<b><u>413,848</u></b>	<b><u>38,766,026</u></b>
<b>Total Liabilities, Fund Equity and Other Credits</b>	<b><u>\$9,649,200</u></b>	<b><u>\$3,204,847</u></b>	<b><u>\$1,544,951</u></b>	<b><u>\$85,569,889</u></b>

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



Proprietary Fund Types		Fiduciary Fund Type	Account Groups		(Memorandum Only)
Enterprise	Internal Service	Trust and Agency	Fixed Assets	Long-Term Obligations	
\$13,787	\$469	\$267,771			\$22,469,145 23,975,511
					8,544,850
47,021					64,247
200,768					44,609,719
					104,936
8,777					11,165
43,391					43,391
3,645					292,433
					439,119
127,198			\$55,861,728		55,988,926
				\$413,848	413,848
				26,366,262	26,366,262
<u>444,587</u>	<u>469</u>	<u>267,771</u>	<u>55,861,728</u>	<u>26,780,110</u>	<u>183,323,552</u>
5,342		1,224			445,339
					2,753,671
					439,119
131,694					5,051,630
25,000					104,936
123,258		1,140		326,831	1,166,373
		32,628			32,628
68,660				5,461,439	5,679,446
				65,611	271,832
					51,422,277
				17,426,229	17,426,229
				3,500,000	3,500,000
<u>353,954</u>		<u>34,992</u>		<u>26,780,110</u>	<u>88,293,480</u>
90,633	469	7,502	55,861,728		55,861,728
					98,604
					44,441,850
					288,788
					957,514
		158,611			158,611
					413,848
		66,666			(7,190,871)
<u>90,633</u>	<u>469</u>	<u>232,779</u>	<u>55,861,728</u>		<u>95,030,072</u>
<u>\$444,587</u>	<u>\$469</u>	<u>\$267,771</u>	<u>\$55,861,728</u>	<u>\$26,780,110</u>	<u>\$183,323,552</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, 2002**

	<b>Governmental Fund Types</b>				<b>Fiduciary Fund Type</b>	<b>Totals (Memorandum Only)</b>
	<b>General</b>	<b>Special Revenue</b>	<b>Debt Service</b>	<b>Capital Projects</b>	<b>Expendable Trust</b>	
<b>Revenues:</b>						
Taxes	\$7,627,210	\$127,100	\$1,169,373	\$298,894		\$9,222,577
Tuition and Fees	54,958					54,958
Intergovernmental	24,855,087	8,434,752	124,995	34,949,450		68,364,284
Interest	238,219			730,044	\$477	968,740
Extracurricular Activities		251,360				251,360
Customer Services	155,097					155,097
Gifts and Donations		134,999		1,180	2,172	138,351
Rent	18,000					18,000
Miscellaneous	104,863	134,934		82,846		322,643
<b>Total Revenues</b>	<b>33,053,434</b>	<b>9,083,145</b>	<b>1,294,368</b>	<b>36,062,414</b>	<b>2,649</b>	<b>79,496,010</b>
<b>Expenditures:</b>						
Current:						
Instruction:						
Regular	14,888,769	3,479,075		140,553		18,508,397
Special	3,651,961	2,611,340				6,263,301
Vocational	1,831,200	124,829				1,956,029
Adult/Continuing	210,767	142,422				353,189
Other	871,926					871,926
Support Services:						
Pupils	1,722,070	1,533,005				3,255,075
Instruction	836,550	556,542				1,393,092
Board of Education	59,039					59,039
Administration	4,180,377	97,168				4,277,545
Fiscal	720,870	65,015	22,396	46,285		854,566
Business	260,909	52,066				312,975
Operation and Maintenance	4,071,656	5,222		205,904		4,282,782
Transportation	900,990	5,367				906,357
Central Services	446,157	57,361		382,564		886,082
Non-Instructional Services		534,512		286,125	1,884	822,521
Extracurricular Activities	810,220	188,536		122,406		1,121,162
Capital Outlay	555			29,569,806		29,570,361
Debt Service:						
Principal			3,172,988			3,172,988
Interest			957,476			957,476
<b>Total Expenditures</b>	<b>35,464,016</b>	<b>9,452,460</b>	<b>4,152,860</b>	<b>30,753,643</b>	<b>1,884</b>	<b>79,824,863</b>
Excess of Revenues Over (Under) Expenditures	(2,410,582)	(369,315)	(2,858,492)	5,308,771	765	(328,853)
<b>Other Financing Sources (Uses):</b>						
Operating Transfers In		255,073	628,229	624,769		1,508,071
Proceeds from Sale of Bonds	395,000		1,161,988			1,556,988
Proceeds from Sale of Notes			1,000,000			1,000,000
Lease-Purchase Refunding				3,500,000		3,500,000
Other Financing Sources		500				500
Operating Transfers Out	(1,508,671)					(1,508,671)
<b>Total Other Financing Sources (Uses)</b>	<b>(1,113,671)</b>	<b>255,573</b>	<b>2,790,217</b>	<b>4,124,769</b>		<b>6,056,888</b>
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(3,524,253)	(113,742)	(68,275)	9,433,540	765	5,728,035
Fund Balances at Beginning of Year - Restated	1,948,269	1,354,315	482,123	29,332,486	17,465	33,134,658
<b>Fund Balances at End of Year</b>	<b>(\$1,575,984)</b>	<b>\$1,240,573</b>	<b>\$413,848</b>	<b>\$38,766,026</b>	<b>\$18,230</b>	<b>\$38,862,693</b>

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, 2002**

	Governmental Fund Types					
	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>						
Taxes	\$7,504,400	\$7,505,320	\$920	\$127,013	\$127,100	\$87
Tuition and Fees	51,300	54,271	2,971			
Intergovernmental	25,033,498	24,840,782	(192,716)	8,790,587	8,026,309	(764,278)
Interest	228,000	238,219	10,219			
Rent	17,268	18,001	733			
Extracurricular Activities				243,670	249,560	5,890
Gifts and Donations				179,808	134,999	(44,809)
Customer Services	153,640	155,097	1,457			
Miscellaneous	56,050	57,122	1,072	139,843	123,815	(16,028)
Total Revenues	<u>33,044,156</u>	<u>32,868,812</u>	<u>(175,344)</u>	<u>9,480,921</u>	<u>8,661,783</u>	<u>(819,138)</u>
<b>Expenditures:</b>						
Current:						
Instruction:						
Regular	16,005,280	15,511,214	494,066	3,748,588	3,307,833	440,755
Special	3,683,860	3,647,118	36,742	2,911,683	2,568,253	343,430
Vocational	1,945,182	1,902,568	42,614	109,133	127,370	(18,237)
Adult/Continuing	207,291	204,707	2,584	238,385	140,795	97,590
Other	1,133,000	880,284	252,716			
Support Services:						
Pupils	1,700,424	1,674,781	25,643	1,756,592	1,568,624	187,968
Instruction	925,388	854,586	70,802	830,802	554,355	276,447
Board of Education	65,720	59,541	6,179			
Administration	4,280,292	4,129,521	150,771	195,942	111,161	84,781
Fiscal	791,723	716,761	74,962	81,828	65,015	16,813
Business	267,234	260,365	6,869	56,439	53,669	2,770
Operation and Maintenance	4,140,283	4,034,783	105,500	5,667	5,222	445
Transportation	1,221,985	900,371	321,614	7,307	5,584	1,723
Central Services	451,079	427,543	23,536	68,573	58,321	10,252
Non-Instructional Services				839,467	600,257	239,210
Extracurricular Activities	854,447	838,091	16,356	258,850	196,038	62,812
Capital Outlay	5,000	555	4,445			
Debt Service:						
Principal						
Interest						
Total Expenditures	<u>37,678,188</u>	<u>36,042,789</u>	<u>1,635,399</u>	<u>11,109,256</u>	<u>9,362,497</u>	<u>1,746,759</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(4,634,032)	(3,173,977)	1,460,055	(1,628,335)	(700,714)	927,621
<b>Other Financing Sources (Uses):</b>						
Operating Transfers In				255,073	255,073	
Proceeds from Sale of Bonds	395,000	395,000				
Proceeds from Sale of Notes						
Lease-Purchase Refunding						
Refund of Prior Year Expenditures	40,004	40,843	839	11,280	11,280	
Advances In	268,000	268,584	584	57,769	57,769	
Other Financing Sources				500	500	
Operating Transfers Out	(1,509,768)	(1,508,671)	1,097			
Advances Out	(100,000)	(82,768)	17,232	(78,681)	(94,776)	(16,095)
Total Other Financing Sources (Uses)	<u>(906,764)</u>	<u>(887,012)</u>	<u>19,752</u>	<u>245,941</u>	<u>229,846</u>	<u>(16,095)</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(5,540,796)	(4,060,989)	1,479,807	(1,382,394)	(470,868)	911,526
Prior Year Encumbrances Appropriated	743,252	743,252		325,550	325,550	
Fund Balances (Deficit) at Beginning of Year - Restated	<u>4,851,241</u>	<u>4,851,241</u>		<u>2,007,005</u>	<u>2,007,005</u>	
<b>Fund Balances (Deficit) at End of Year</b>	<u>\$53,697</u>	<u>\$1,533,504</u>	<u>\$1,479,807</u>	<u>\$950,161</u>	<u>\$1,861,687</u>	<u>\$911,526</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)
\$1,168,000	\$1,169,373	\$1,373	\$298,300	\$298,894	\$594			
124,990	124,995	5	34,955,155	34,960,528	5,373			
			581,000	706,184	125,184	\$365	\$477	\$112
			1,100	1,180	80	1,625	2,172	547
			80,290	80,290				
1,292,990	1,294,368	1,378	35,915,845	36,047,076	131,231	1,990	2,649	659
			345,981	140,553	205,428			
22,400	22,396	4	41,266	46,285	(5,019)			
			334,411	301,806	32,605			
			654,309	653,972	337			
			1,509,721	1,509,721		2,507	1,884	623
			121,219	121,107	112			
			72,015,373	71,935,725	79,648			
3,172,988	3,172,988							
958,200	957,476	724						
4,153,588	4,152,860	728	75,022,280	74,709,169	313,111	2,507	1,884	623
(2,860,598)	(2,858,492)	2,106	(39,106,435)	(38,662,093)	444,342	(517)	765	1,282
628,000	628,229	229	624,769	624,769				
1,161,988	1,161,988							
1,000,000	1,000,000							
			3,499,979	3,500,000	21			
			2,400	2,556	156			
2,789,988	2,790,217	229	4,127,148	4,127,325	177			
(70,610)	(68,275)	2,335	(34,979,287)	(34,534,768)	444,519	(517)	765	1,282
			27,594,862	27,594,862				
482,123	482,123		1,816,308	1,816,308		17,465	17,465	
\$411,513	\$413,848	\$2,335	(\$5,568,117)	(\$5,123,598)	\$444,519	\$16,948	\$18,230	\$1,282

**LIMA CITY SCHOOL DISTRICT  
ALLEN COUNTY**

**COMBINED STATEMENT OF REVENUES,  
EXPENSES AND CHANGES IN RETAINED EARNINGS  
ALL PROPRIETARY FUND TYPES AND SIMILAR FIDUCIARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<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>	
<b>Operating Revenues:</b>				
Sales	\$815,105			\$815,105
Interest			\$7,066	7,066
Other Revenue	4,776			4,776
Contributions and Donations			6,886	6,886
<b>Total Operating Revenue</b>	<b>819,881</b>		<b>13,952</b>	<b>833,833</b>
<b>Operating Expenses:</b>				
Salaries	843,723			843,723
Fringe Benefits	228,653			228,653
Purchased Services	92,444			92,444
Materials and Supplies	296,424			296,424
Cost of Sales	889,724			889,724
Depreciation	19,290			19,290
Other	64,826		6,748	71,574
<b>Total Operating Expenses</b>	<b>2,435,084</b>		<b>6,748</b>	<b>2,441,832</b>
Operating Income (Loss)	(1,615,203)		7,204	(1,607,999)
<b>Non-Operating Revenues:</b>				
Federal Donated Commodities	200,374			200,374
Federal and State Subsidies	1,504,409			1,504,409
Capital Contributions	6,000			6,000
<b>Total Non Operating Revenues</b>	<b>1,710,783</b>			<b>1,710,783</b>
Net Income	95,580		7,204	102,784
Retained Earnings/Fund Balance (Deficit) at Beginning of Year - Restated	<u>(4,947)</u>	<u>\$469</u>	<u>207,345</u>	<u>202,867</u>
<b>Retained Earnings/Fund Balance (Deficit) at End of Year</b>	<b><u>\$90,633</u></b>	<b><u>\$469</u></b>	<b><u>\$214,549</u></b>	<b><u>\$305,651</u></b>

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

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**LIMA CITY SCHOOL DISTRICT  
ALLEN COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND EQUITY - BUDGET (NON-GAAP BASIS) AND ACTUAL  
ALL PROPRIETARY FUND TYPES AND SIMILAR FIDUCIARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<b>Proprietary Fund Types</b>		
	<b>Enterprise Funds</b>		
	<b>Revised Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Revenues:</b>			
Sales	\$787,764	\$810,682	\$22,918
Federal and State Subsidies	1,503,825	1,504,995	1,170
Interest			
Contributions and Donations			
Other Revenue	4,776	4,776	
<b>Total Revenues</b>	<b>2,296,365</b>	<b>2,320,453</b>	<b>24,088</b>
<b>Expenses:</b>			
Salaries	834,444	833,353	1,091
Fringe Benefits	214,580	214,434	146
Purchased Services	98,910	98,265	645
Materials and Supplies	1,004,589	1,001,282	3,307
Other	64,880	64,825	55
Capital Outlay	46,000	45,882	118
<b>Total Expenses</b>	<b>2,263,403</b>	<b>2,258,041</b>	<b>5,362</b>
Excess (Deficiency) of Revenues Over/(Under) Expenses	32,962	62,412	29,450
<b>Other Financing Sources (Uses):</b>			
Advances In	25,000	25,000	
Advances Out	(173,809)	(173,809)	
<b>Total Other Financing Sources (Uses)</b>	<b>(148,809)</b>	<b>(148,809)</b>	
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenses and Other Financing Uses	(115,847)	(86,397)	29,450
Prior Year Encumbrances Appropriated	40,507	40,507	
Fund Balance Beginning of Year	41,273	41,273	
<b>Fund Balance End of Year</b>	<b>(\$34,067)</b>	<b>(\$4,617)</b>	<b>\$29,450</b>

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



<u>Proprietary Fund Types</u>			<u>Fiduciary Fund Type</u>		
<u>Internal Service Funds</u>			<u>Non-Expendable Trust Fund</u>		
<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
			\$6,859	\$7,066	\$207
			7,060	7,219	159
			13,919	14,285	366
			6,915	6,748	167
			6,915	6,748	167
			7,004	7,537	533
			7,004	7,537	533
\$469	\$469		207,012	207,012	
\$469	\$469	\$0	\$214,016	\$214,549	\$533

**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, 2002**

	<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</u>	
<b>Increase (Decrease) in Cash and Cash Equivalents:</b>				
<b>Cash Flows from Operating Activities:</b>				
Cash Received from Customers	\$810,682			\$810,682
Cash Payments to Suppliers for Goods and Services	(1,084,797)			(1,084,797)
Cash Payments to Employees for Services	(833,353)			(833,353)
Cash Payments for Employee Benefits	(214,434)			(214,434)
Interest Receipts			\$7,066	7,066
Other Cash Received	4,776		7,219	11,995
Other Cash Payments	(64,825)		(6,748)	(71,573)
Net Cash Provided by (Used for) Operating Activities	<u>(1,381,951)</u>		<u>7,537</u>	<u>(1,374,414)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>				
Operating Grants Received	1,504,995			1,504,995
Advances In	25,000			25,000
Advances Out	(173,809)			(173,809)
Net Cash Provided from Noncapital Financing Activities	<u>1,356,186</u>			<u>1,356,186</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>				
Acquisition of Capital Assets	(42,228)			(42,228)
Net Increase (Decrease) in Cash and Cash Equivalents	(67,993)		7,537	(60,456)
Cash and Cash Equivalents at Beginning of Year	<u>81,780</u>	<u>\$469</u>	<u>207,012</u>	<u>289,261</u>
<b>Cash and Cash Equivalents at End of Year</b>	<u><u>13,787</u></u>	<u><u>469</u></u>	<u><u>214,549</u></u>	<u><u>228,805</u></u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:</b>				
Operating Income (Loss)	(1,615,203)		7,204	(1,607,999)
<b>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:</b>				
Depreciation	19,290			19,290
Donated Commodities Used During Year	200,374			200,374
Changes in Assets and Liabilities:				
(Increase)/Decrease in Accounts Receivable	(4,423)		333	(4,090)
(Increase)/Decrease in Inventory Held for Resale	(9,479)			(9,479)
(Increase)/Decrease in Materials and Supply Inventory	(543)			(543)
(Increase)/Decrease in Prepaid Items	(3,645)			(3,645)
Increase/(Decrease) in Accounts Payable	3,442			3,442
Increase/(Decrease) in Accrued Wages	19,445			19,445
Increase/(Decrease) in Compensated Absences Payable	(1,282)			(1,282)
Increase/(Decrease) in Intergovernmental Payable	10,073			10,073
Total Adjustments	<u>233,252</u>		<u>333</u>	<u>233,585</u>
Net Cash Provided by Operating Activities	<u><u>(\$1,381,951)</u></u>	<u><u>\$0</u></u>	<u><u>\$7,537</u></u>	<u><u>(\$1,374,414)</u></u>
<b>Reconciliation of Nonexpendable Trust Fund Cash Balance as of June 30, 2002</b>				
Total Cash and Cash Equivalents per Balance Sheet, Trust and Agency Funds				\$267,771
Cash and Cash Equivalents - Expendable Trust Funds and Agency Funds				<u>53,222</u>
Cash and Cash Equivalents - Nonexpendable Trust Funds as of June 30, 2002				<u><u>\$214,549</u></u>

*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, 2002**

**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 342 non-certificated employees and 578 certificated full-time teaching personnel who provide services to 5,416 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 dependent 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 four 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 Northwestern Ohio Educational Research Council, Inc., 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 19 and 20 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, 2002  
(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, 2002  
(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. 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.

**LIMA CITY SCHOOL DISTRICT  
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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. 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 and expendable trust 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, 2002, but which were levied to finance fiscal year 2003 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.

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.

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

**LIMA CITY SCHOOL DISTRICT  
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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 2002.

**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.

**LIMA CITY SCHOOL DISTRICT  
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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.

**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. The balance of various capital project escrow accounts is presented on the combined balance sheet as "Cash and Cash Equivalents with Escrow Agents."

During fiscal year 2002, investments were limited to certificates of deposit, no load money market mutual funds, Federal National Mortgage Association, Federal Home Loan Bank, United States Treasuries, Federal Home Loan Mortgage Association, Federal Farm Credit Bank, Student Loan Marketing Association 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, 2002.

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.



**LIMA CITY SCHOOL DISTRICT  
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 2002 was \$238,219, which includes \$109,362, assigned from other District funds.

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.

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

**F. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2002 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

**G. Restricted Assets**

Restricted assets represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets in the Capital Project fund represents the required retainage withheld on construction contracts.

**H. 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 one thousand 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.

**LIMA CITY SCHOOL DISTRICT  
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**I. 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.

**J. 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.

**K. 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 or from the severance/incentive fund. 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.

**L. 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.

**LIMA CITY SCHOOL DISTRICT  
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**M. 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. Transfers In/Out do not equal due to a \$600 transfer from the general fund to an agency fund, whose operations are not presented within the financial statements.

**N. 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.

**O. 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, prepaid items, property taxes, debt service, 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.

**P. 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. RESTATEMENT OF FUND EQUITY**

The fund equity of the General, Special Revenue, and Enterprise fund types has been restated. The restatement had the following effect on the excess of revenues and other financing sources/net income over (under) expenditures and other financing uses as previously reported for the fiscal year ended June 30, 2001:

	<b>General</b>	<b>Special Revenue</b>	<b>Enterprise</b>
Excess/Net Income as previously reported	(\$2,004,172)	(\$1,944)	\$19,577
Reclassification of Special Revenue Fund	102,997	(102,997)	
Change in Prior Period Deferred Revenue			23,935
Restated amount at June 30, 2001	<u>(\$1,901,175)</u>	<u>(\$104,941)</u>	<u>\$43,512</u>

**LIMA CITY SCHOOL DISTRICT  
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**3. RESTATEMENT OF FUND EQUITY (Continued)**

The restatements had the following effect on fund balances as previously reported as of June 30, 2001.

	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise</u>
Prior year fund balances	\$1,845,272	\$1,457,312	(\$22,777)
Reclassification of Special Revenue Fund	102,997	(102,997)	
Change in Prior Period Deferred Revenue			23,935
Net Change in Asset Reporting			(6,105)
Restated amount at June 30, 2001	<u>\$1,948,269</u>	<u>\$1,354,315</u>	<u>(\$ 4,947)</u>

Due to the change in the capitalization threshold amount for capitalizing fixed assets from \$500 to \$1,000, the fixed assets reported in the general fixed assets account group decreased \$363,432, from \$30,444,367 to \$30,080,935. Fixed assets in the Food Service enterprise fund decreased \$56,312, from \$841,951 to \$785,639, and accumulated depreciation decreased \$50,207, from \$737,586 to \$687,379. As a result of these restatements, retained earnings as previously reported as of June 30, 2001, decreased \$6,105.

**4. 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.

	<b>Deficit Balance</b>
General	\$1,575,984
Severance/Incentive	25,124
Disadvantaged Pupil Impact Aid	180,324
Vocational Education	56,611
Title VI-R	27,961

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

**B. Compliance**

Appropriations exceeded Certified Resources for the following funds:

Local Grants	\$ 73,504
Auxiliary	5,193
Drug-Free Grant	2,485
Building Construction	6,932,275
SchoolNet Grant	33,922
Food Service	41,154

Other compliance issues included:

- a) deficit cash balances existed in various funds throughout the year;
- b) amended certificates of estimated resources were not obtained for additional revenues received and expended;
- c) expenditures exceeded appropriations throughout the year, at the legal level of control, in various funds.

**LIMA CITY SCHOOL DISTRICT  
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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
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(Continued)**

**5. 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).

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**

	<b>General</b>	<b>Special Revenue</b>	<b>Capital Projects</b>
GAAP basis	(\$3,524,253)	(\$113,742)	\$9,433,540
Adjustments:			
Revenue accruals	(143,779)	(410,082)	11,069
Expenditure accruals	(35,540)	282,403	2,762,137
Change in Fair Market Value			(23,851)
Advances In	268,584	57,769	
Advances Out	(82,768)	(94,776)	
Encumbrances Outstanding	(543,233)	(192,440)	(46,717,663)
Budget basis	(\$4,060,989)	(\$470,868)	(\$34,534,768)

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

	<b>Enterprise</b>	<b>Non-Expendable Trust</b>
GAAP basis	\$95,580	\$7,204
Adjustments:		
Revenue accruals	(204,211)	333
Expense accruals	195,446	
Capital Contributions	(6,000)	
Advances In	25,000	
Advances Out	(173,809)	
Encumbrances Outstanding (Budget basis)	(18,403)	
Budget basis	(\$86,397)	\$7,537

**LIMA CITY SCHOOL DISTRICT  
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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**6. DEPOSITS AND INVESTMENTS**

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

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

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

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 Mortgage Association. All federal securities shall be direct issuances of federal government agencies or instrumentalities;
- c. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- d. Bonds and other obligations of the State of Ohio;
- 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.

**LIMA CITY SCHOOL DISTRICT  
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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**6. DEPOSITS AND INVESTMENTS (Continued)**

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*".

**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 \$4,066,195, and the bank balance was \$4,553,991. Of the bank balance, \$200,000 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. The District had escrow deposits for the capital project fund which is reported on the combined balance sheet as "cash and cash equivalents with escrow agents", in the amount of \$252,691.

**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.

	<b>Category 2</b>	<b>Carrying Value</b>	<b>Fair Value</b>
Treasury Securities	\$9,929,067	\$9,929,067	\$9,929,067
Money Market Mutual Funds	5,142,897	5,142,897	5,142,897
Federal National Mortgage Association	6,381,117	6,381,117	6,381,117
Federal Home Loan Bank	9,210,323	9,210,323	9,210,323
Federal Home Loan Mortgage Association	5,517,611	5,517,611	5,517,611
Federal Farm Credit Bank	1,708,905	1,708,905	1,708,905
Student Loan Mortgage Association	125,132	125,132	125,132
STAR Ohio		4,549,537	4,549,537
Totals		\$42,564,589	\$42,564,589

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*.

**LIMA CITY SCHOOL DISTRICT  
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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**6. DEPOSITS AND INVESTMENTS (Continued)**

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:

	<b>Cash and Cash Equivalents/Deposits</b>	<b>Investments</b>
GASB Statement No. 9	\$22,655,573	\$23,975,511
Cash on Hand	(300)	
Investments:		
United States Treasuries	(8,896,644)	8,896,644
Money Market Mutual Funds	(5,142,897)	5,142,897
StarOhio	(4,549,537)	4,549,537
GASB Statement No. 3	<u>\$ 4,066,195</u>	<u>\$42,564,589</u>

**7. 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 2002 represent the collection of calendar year 2001 taxes. Real property taxes for calendar year 2002 are levied after April 1, 2001, on the assessed values as of January 1, 2001, 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 2002 were levied after April 1, 2001, on the assessed values as of December 31, 2000, 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 2002 (other than public utility property) represent the collection of calendar year 2002 taxes. Tangible personal property taxes for calendar year 2002 were levied after April 1, 2002, 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, 2002, are available to finance fiscal year 2002 operations. The amount available to be advanced can vary based on the date the tax bills are sent.



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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**7. 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, 2002. 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, 2002, was \$957,514 in the General Fund. The amount available as an advance at June 30, 2001, was \$835,624 in the General Fund.

The assessed values upon which the fiscal year 2002 taxes were collected are:

	<b>2001 Second- Half Collections</b>		<b>2002 First- Half Collections</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Agricultural/Residential and Other Real Estate	\$216,485,060	74.86%	\$216,655,930	78.25%
Public Utility	26,907,050	9.44%	16,481,060	5.95%
Tangible Personal	<u>41,970,930</u>	<u>15.70%</u>	<u>43,749,257</u>	<u>15.80%</u>
Total Assessed Value	<u>\$285,363,040</u>	<u>100.00%</u>	<u>\$276,886,247</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$40.23		\$40.23	

**8. 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.

**9. FIXED ASSETS**

A summary of the enterprise funds' fixed assets at June 30, 2002, follows:

Furniture and Fixtures	\$813,022
Vehicles	20,845
Less Accumulated Depreciation	<u>(706,669)</u>
Net Book Value	<u>\$127,198</u>

A summary of the changes in general fixed assets during fiscal year 2002 follows:

<b>Asset Category</b>	<b>Restated Balance at 6/30/01</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance at 6/30/02</b>
Land and Improvements	\$2,917,144	\$4,695,409	\$0	\$7,612,553
Buildings and Improvements	17,629,659	0	0	17,629,659
Furniture, Fixtures, and Equipment	7,400,191	496,078	0	7,896,269
Vehicles	696,969	461,693	66,780	1,091,882
Construction in Progress	<u>1,439,096</u>	<u>20,192,269</u>	<u>0</u>	<u>21,631,365</u>
Totals	<u>\$30,083,059</u>	<u>\$25,845,449</u>	<u>\$66,780</u>	<u>\$55,861,728</u>

**LIMA CITY SCHOOL DISTRICT  
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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**10. 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 2002, the District contracted with Indiana Insurance for property and general liability, boiler and machinery insurance and builders risk insurance. Boiler and machinery and builders risk insurance coverage has a \$25,000 and \$5,000 deductible per occurrence, respectively. Professional liability is protected by 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 20). 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 Program is limited to educational entities that can meet the Program's selection criteria. Each participant must apply annually. The Program 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  
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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**11. 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, 300 E. Broad Street, Suite 100, Columbus, Ohio 43215-3746.

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; 5.46 percent was the portion used to fund pension obligations for fiscal year 2002. For fiscal year 2001, 4.2 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, 2002, 2001, and 2000, were \$343,056, \$232,307, and \$275,673, respectively; 55.38 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. The unpaid contribution for fiscal year 2002, in the amount of \$153,083, 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 2002, which was the same for fiscal year 2001. 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, 2002, 2001, and 2000, were \$2,225,014, \$2,118,145, and \$1,259,660, respectively; 82.62 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. The unpaid contribution for fiscal year 2002, in the amount of \$386,802, is recorded as a liability within the respective funds.

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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
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(Continued)**

**11. DEFINED BENEFIT PENSION PLANS (Continued)**

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by a State Retirement System have an option to choose Social Security or the appropriate State Retirement System. As of June 30, 2002, one member of the Board of Education has elected Social Security. The District's liability is 6.2 percent of wages paid.

**12. 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 2002, 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 \$1,053,954.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3,256 million at June 30, 2001 (the latest information available). For the fiscal year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000, and STRS had 102,132 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, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll, a decrease of 1.26 percent from fiscal year 2001. 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 2002, the minimum pay was established at \$12,400. For the District, the amount to fund health care benefits, including the surcharge, was \$621,507 for fiscal year 2002.

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, 2001 (the latest information available), were \$161,439,934, and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**LIMA CITY SCHOOL DISTRICT  
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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**13. 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  
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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**14. NOTES PAYABLE**

A summary of notes payable for the year ended June 30, 2002 follows:

	<u>Balance 6/30/01</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/02</u>
<b>General Obligation Notes</b>				
Tax Anticipation Note – 3.70%	\$0	\$1,000,000	\$1,000,000	\$0

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 issued a \$1,000,000 tax anticipation note for a one-month period during the year. The note was redeemed on February 22, 2002.

**15. LONG-TERM OBLIGATIONS**

Changes in the long-term obligations of the District during fiscal year 2002 were as follows:

	<u>Principal Outstanding 6/30/01</u>	<u>Additions</u>	<u>Deletions</u>	<u>Principal Outstanding 6/30/02</u>
<b>General Long-Term Obligations:</b>				
General Obligation Bonds-School Building Construction - 1991 Interest Rate-Variou	\$265,000	\$0	\$265,000	\$0
General Obligation Notes- Energy Note - 1995	1,207,988		1,207,988	0
General Obligation Bonds-1998 Academy of Learning -	200,000		200,000	0
General Obligation Bonds - 2000 Classroom Facilities-Variou Purpose - Serial and Term Bonds 5-6% Capital Appreciation Bonds 10.73%	6,200,000 329,925	33,769	195,000	6,005,000 363,694
General Obligation Bonds - 2000 Classroom Facilities Serial and Term Bonds 4.7-5.5% Capital Appreciation Bonds 9.86%	9,335,000 423,841	46,706	305,000	9,030,000 470,547
General Obligation Bonds-2001 Various Purpose - Serial and Term Bonds 5.0%	0	1,556,988	0	1,556,988
Lease-Purchase – 2002 4.28%	0	3,500,000	0	3,500,000
Total General Long-Term Obligations	17,961,754	5,137,463	2,172,988	20,926,229
Compensated Absences	5,318,976	142,463	0	5,461,439
Retirement Incentive Payable	197,060	65,611	197,060	65,611
Intergovernmental Payable	246,273	326,831	246,273	326,831
Total Long-Term Obligations	<u>\$23,724,063</u>	<u>\$5,672,368</u>	<u>\$2,616,321</u>	<u>\$26,780,110</u>

**General Obligation Bonds** - On June 1, 1991, the 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 2002. The bonds were retired from the Debt Service Fund during the fiscal year.

**LIMA CITY SCHOOL DISTRICT  
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**15. LONG-TERM OBLIGATIONS (Continued)**

**Energy Conservation Notes** - On July 31, 1995, the 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 were issued for a ten-year period with final maturity during fiscal year 2005. The balance of the notes at December 1, 2001 was included in the current year refunding issue in the amount of \$1,556,988.

**General Obligation Bonds** - On September 25, 1998, the 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 balance of the bonds at December 1, 2001 was included in the current year refunding issue in the amount of \$1,556,988.

**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 2002, the District received \$34,696,584 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, the District issued \$6,865,997 in general obligation bonds authorized pursuant to a vote of the electors of the District at an election held November 2, 1999, under the authority of the Ohio Revised Code Chapter 133. The proceeds of the Bonds 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, the District issued \$9,999,999 in general obligation bonds authorized pursuant to a vote of the electors of the District at an election held on November 2, 1999, under the authority of Ohio Revised Code Chapter 133. The proceeds of the Bonds 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.

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.

**LIMA CITY SCHOOL DISTRICT  
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**15. LONG-TERM OBLIGATIONS (Continued)**

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

**Lease-Purchase** – On April 15, 2002, the District entered into a lease-purchase agreement with the Port Authority of Allen County acting as lessor and the District as lessee for the lease-purchase of land for the new high school complex, under the authority of the Ohio Revised Code Section 3313.37. The lease-agreement is for a period of five years with final maturity during fiscal year 2007. The lease-purchase will be paid 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:

<b>Redemption Dates</b>	<b>Redemption Price</b>
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:

<b>Year</b>	<b>Principal Amount to be Redeemed</b>
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 2002 was \$33,769.



**LIMA CITY SCHOOL DISTRICT  
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**15. LONG-TERM OBLIGATIONS (Continued)**

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:

<b>Redemption Dates</b>	<b>Redemption Price</b>
December 1, 2010 through November 30, 2011	102%
December 1, 2011 through November 30, 2012	101
December 1, 2012 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, 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:

<b>Year</b>	<b>Principal Amount to be Redeemed</b>
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 2002, was \$46,706.

Compensated absences, retirement incentive 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, 2002 are as follows:

<b>Fiscal Year Ending</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2003	\$ 1,167,002	\$ 1,028,423	\$ 2,195,425
2004	1,276,761	973,170	2,249,931
2005	1,333,746	913,509	2,247,255
2006	1,398,973	850,426	2,249,399
2007	1,475,506	783,836	2,259,342
2008-2012	4,344,507	3,545,493	7,890,000
2013-2017	3,209,734	3,821,335	7,031,069
2018-2022	5,445,000	1,166,662	6,611,662
2023	1,275,000	36,362	1,311,362
Total	<u>\$20,926,229</u>	<u>\$13,119,216</u>	<u>\$34,045,445</u>

The District's overall legal debt margin was \$7,888,533, with an unvoted debt margin of \$1,606,874 at June 30, 2002.

**LIMA CITY SCHOOL DISTRICT  
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**16. INTERFUND TRANSACTIONS**

Interfund balances at June 30, 2002, consist of the following individual fund receivables and payables:

<u>Interfund Receivable/Payable</u>	<u>Receivable</u>	<u>Payable</u>
General	\$104,936	\$ 0
Special Revenue		
Miscellaneous State Grants	0	2,326
Vocational Education	0	49,610
Title VI-R	0	28,000
Total Special Revenue	0	79,936
Enterprise		
Food Service	0	25,000
Total	<u>\$104,936</u>	<u>\$104,936</u>

**17. 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.

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, 2001	\$(114,706)	\$(1,133,057)	\$300,149
Current Year Set-aside Requirements	699,458	699,458	
Legislative Reduction-S.B 345	0	0	(300,149)
Current Year Offsets	0	(3,925,994)	0
Qualifying Disbursements	( 711,459)	(1,547,242)	0
Total	<u>(\$126,707)</u>	<u>(\$5,906,835)</u>	<u>\$ 0</u>

Qualifying expenditures for the textbook reserve exceeded the required set aside by \$126,707 and can be carried forward to future years. The off-set for the capital reserve exceeded the required set aside by \$5,906,835 and can be carried forward to future years. The total reserve balance for the required two set-asides at the end of the fiscal year was \$0.

**LIMA CITY SCHOOL DISTRICT  
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**18. 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, 2002.

	<b>Food Service</b>	<b>Uniform School Supplies</b>	<b>Total Enterprise Funds</b>
Operating Revenues	\$ 780,566	\$39,315	\$ 819,881
Operating Expenses			
Less Depreciation	2,371,216	44,578	2,415,794
Depreciation Expense	19,290	0	19,290
Operating Income (Loss)	(1,609,940)	(5,263)	(1,615,203)
Donated Commodities	200,374	0	200,374
Operating Grants	1,504,409	0	1,504,409
Net Income (Loss)	100,843	(5,263)	95,580
Net Working Capital	(21,412)	53,507	32,095
Total Assets	390,887	53,700	444,587
Total Equity	37,126	53,507	90,633
Encumbrances Outstanding at June 30, 2002	\$ 18,211	\$ 192	\$ 18,403

**19. 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, 2002  
(Continued)**

**19. JOINTLY GOVERNED ORGANIZATIONS (Continued)**

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

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

**Northwestern Ohio Educational Research Council, Inc.**

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials, and provide opportunities for training. The NOERC serves a twenty-five county area in Northwest Ohio.

The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors.

Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., Box 456, Ashland, Ohio 44805.

**20. 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.

**LIMA CITY SCHOOL DISTRICT  
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**20. GROUP PURCHASING POOLS (Continued)**

**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.

**21. 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, 2002.

**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.

**22. CONTRACTUAL COMMITMENTS**

On November 27, 2001, the District entered into a contract with Tilton Corporation in the amount of \$1,660,658 for general trade work and with Lima Sheet Metal in the amount of \$1,061,650 for mechanical work for renovations to West Middle School.

On April 16, 2002, the District entered into a contract with R.D. Jones Excavating in the amount of \$1,571,000 for site work, with Peterson Construction Company in the amount of \$17,593,700 for general trade work, with Piping Solutions in the amount of \$3,131,000 for mechanical work and with Sidney Electric Company in the amount of \$3,086,350 for electrical/technology infrastructure for construction of the new Lima Senior High School.

On April 23, 2002, the District entered into a contract with A. Hattersley & Sons, Inc. in the amount of \$1,465,600 for plumbing work for the construction of the new Lima Senior High School.

On May 14, 2002, the District entered into a contract with Thomas & Marker Co., Inc. in the amount of \$5,277,000 for site work/general trade work and with Lima Sheet Metal in the amount of \$1,028,300 for mechanical work for the construction of a new South Middle School.

**LIMA CITY SCHOOL DISTRICT  
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**23. 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.

In addition, the Court had declared the classroom facilities program unconstitutional, because in the Court's opinion, the program had not been sufficiently funded by the state. The classroom facilities program provided money to build schools and furnish classrooms. As of June 30, 2002, the District has received a total of \$49,295,595 under this program.

The Supreme Court relinquished jurisdiction over the case and directed "... the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

**24. SUBSEQUENT EVENTS**

On December 4, 2002, the District entered into the following various contracts related to the construction of the new Independence Elementary School:

<b>Company</b>	<b>Project</b>	<b>Contract Amount</b>
Peterson Construction	General Trades	\$3,597,000
Smith Boughan, Inc.	Plumbing	905,000
Kloester Electric, Inc.	Electric	595,650
R.A.M.E., Inc.	Roofing	343,000
Ohio Plumbing and Electrical, Inc.	Plumbing	281,000
Bruns Building and Development Corp.	Sitework	279,310

**LIMA CITY SCHOOL DISTRICT  
ALLEN COUNTY**

**SCHEDULE OF FEDERAL AWARD EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

Federal Grantor/ Pass-Through Grantor/ Program Titles	Federal CFDA Number	Project Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b>U.S. Department of Education (Passed through the Ohio Department of Education)</b>						
Special Education Cluster:						
Special Education - Grants to States (IDEA, Part B)	84.027	044222-6BSF 2002 P 044222-6BSF 2001 P 044222-6BST 2001	\$512,286 70,375		\$371,258 168,586 64,244	
Subtotal			582,661		604,088	
Special Education - Preschool Grants (IDEA Preschool)	84.173	044222-PGS1 2002 P 044222-PGS1 2001 P	37,504 4,007		20,984 10,562	
Subtotal			41,511		31,546	
Total Special Education Cluster			624,172		635,634	
Title I Grants to Local Educational Agencies	84.010	044222-C1S1-2002 044222-C1S1-2001 044222-C1S1-2001C	1,981,667 157,610 241,417		1,806,112 522,797 241,417	
Subtotal			2,380,694		2,570,326	
Innovative Education Programs Strategies	84.298	044222-C2S1-2002 044222-C2S1 2001 044222-C2S1 2000	12,224  (4,261)		2,265 260	
Subtotal			7,963		2,525	
Adult Education - State Grant Program	84.002	044222-ABS1 2002 044222-ABS1 2001 C	77,514 31,612		77,514 31,612	
Subtotal			109,126		109,126	
Vocational Education - Basic Grants to States	84.048	044222-20C1 2002 044222-20A0 2002 044222-20C1 2001	155,687 20,400 52,327		170,634 24,000 56,967	
Subtotal			228,414		251,601	
Safe and Drug-Free Schools and Communities	84.186	044222-DRS1 2002 044222-DRS1 2001 044222-DRS1 2000	37,293 22,217		42,310 10,570 5,518	
Subtotal			59,510		58,398	
Eisenhower Professional Development	84.281	044222-MSS1-2002 044222-MSS1-2001	20,016 21,708		3,274 16,819	
Subtotal			41,724		20,093	
Even Start - State Educational Agencies	84.213	044222-EVS2-2002 044222-EVS2-2001	73,604 36,604		38,465 72,202	
Subtotal			110,208		110,667	
Comprehensive School Reform Demonstration	84.332	044222-RFS2 2001 044222-RFS1 2000	30,000		5,307 12,116	
Subtotal			30,000		17,423	
Class Size Reduction	84.340	044222-CRS1 2002 044222-CRS1 2001	206,267 23,621		234,227 46,337	
Subtotal			229,888		280,564	
School Renovation Grants	84.352A	044222-ATS1-2002	6,114		6,024	
Goals 2000 - State and Local Education Systemic Improvement A132Grants	84.276	044222-G2S5-2001 044222-G2S1-2001 044222-G2S2-2001 044222-G2S2-2000	7,000 36,383		51,975 3,847 32,665	
Subtotal			43,383		88,487	
<b>(Passed through Lima Technical College)</b>						
Tech-Prep Education	84.243	044222-TP-00	6,880		6,880	
<b>Total U.S. Department of Education</b>			3,878,076		4,157,748	
<b>U.S. Department of Health and Human Services (Passed through the Ohio Department of Mental Retardation and Developmental Disabilities)</b>						
Medical Assistance Program (CAFS)	93.778	N/A	177,311		177,311	
<b>U.S. Department of Agriculture (Passed through the Ohio Department of Education)</b>						
Child Nutrition Cluster:						
Food Distribution	10.550	N/A		\$200,374		\$192,024
School Breakfast Program	10.553	044222-05PU	331,712		331,712	
National School Lunch Program	10.555	044222-LL-P1 & P4	1,031,913		1,031,913	
Summer Food Service Program for Children	10.559	044222-23 & 24PU	37,728		37,728	
<b>Total U.S. Department of Agriculture</b>			1,401,353	200,374	1,401,353	192,024
<b>Total Federal Financial Assistance</b>			\$5,456,740	\$200,374	\$5,736,412	\$192,024

See accompanying notes to the schedule of federal award expenditures.

**LIMA CITY SCHOOL DISTRICT  
ALLEN COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**NOTE 1 - 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 2 - 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, 2002, the District had no significant commodities in inventory.

**NOTE 3 - 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.





## **Auditor of State Betty Montgomery**

### **INDEPENDENT ACCOUNTANTS' REPORT 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 the Lima City School District, Allen County, (the District) as of and for the year ended June 30, 2002, and have issued our report thereon dated February 14, 2003, wherein, we noted that the District changed its method of accounting for fixed assets. 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 2002-10202-001 through 2002-10202-005. We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated February 14, 2003.

#### **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. 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 District in a separate letter dated February 14, 2003.

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Lima City School District  
Allen 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 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.

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 14, 2003



## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT 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, 2002. 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, 2002. 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 February 14, 2003.

#### Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of law, 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.

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**Internal Control Over Compliance  
(Continued)**

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 law, 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 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.



**Betty Montgomery**  
Auditor of State

February 14, 2003

**LIMA CITY SCHOOL DISTRICT  
ALLEN COUNTY**

**SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2002  
OMB CIRCULAR A -133 §.505**

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Title I CFDA# 84.010 Class Size Reduction CFDA# 84.340 CAFS CFDA# 93.778 Nutrition Cluster CFDA# 10.550, 10.553, 10.555 & 10.559
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A\B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	No

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

**FINDING NUMBER - 2002-10202-001**

**FINDING FOR RECOVERY**

**Yearbook Sales**

Christine Biglow, Yearbook Advisor was responsible for collecting and depositing revenue from yearbook sales. Duplicate receipts were issued for amounts greater than the amounts deposited with the school treasury. For the period July 1, 2001 through June 30, 2002, the amount of \$594.74, was collected for yearbooks sold and was not deposited to the District's treasury.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money collected but not accounted for, is hereby rendered against, Christine Biglow, Yearbook Advisor, in the amount of Five Hundred ninety-four dollars and seventy-four cents (\$594.74) and in favor of the District's Yearbook Agency Fund.

**FINDING NUMBER - 2002-10202-002**

**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. A negative fund balance in any fund indicates that money from one fund has been used to cover the expenses of another fund. The amounts indicated below represent the maximum deficit balance for each fund during the period.

<b>Fund</b>	<b>Months in Deficit</b>	<b>Maximum Deficit Amount</b>
Permanent Improvement Fund	December through March	\$208,619
Site Acquisition	December	20,708
Food Service	August through May	317,688
Workforce Grant	July through May	38,655
Auxiliary Services – St. Charles	October through April	12,904
Alternative Education Grant	August and September	13,038
Drug-Free Schools	November through February	13,960
Adult Basic Education Grant	November through January	19,396
Title VI-B	September through December	86,805
Vocational Perkins	July, September, March, and April	17,427
Title I	July, August, October, November, December, and March	412,193
Drug-Free Grant	September, November, December, January, and May	10,109
Serve America	August, September, and May	23,993

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 - 2002-10202-003**

**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 results in expenditures being made in excess of actual revenue and results in deficit spending.

As of May 31, 2002, the Bond Retirement Fund had expenditures in the amount of \$4,151,928, and estimated resources of \$3,378,985; therefore the amount expended was greater than the estimated resources for which an amended certificate had not been obtained.

The amounts indicated below represent the amounts expended that were greater than the estimated resources for which an amended certificate had not been obtained as of June 30, 2002;

<b>Fund</b>	<b>Estimated Resources</b>	<b>Expenditures</b>	<b>Expended in Excess</b>
Building Construction	62,996,230	69,853,243	6,857,013
Food Service	2,175,900	2,213,465	37,565

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

**FINDING NUMBER 2002-10202-004**

**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 December 2001 through June of 2002 at the fund/function/object legal level of control:

**FINDING NUMBER 2002-10202-004  
 (Continued)**

<b>Fund/Function/Object Level</b>	<b>Appropriation</b>	<b>Expenditures</b>	<b>Excess</b>
General Fund			
Transfer Out			
Other Uses of Funds	\$300,000	\$893,902	\$593,902
Debt Service Fund			
Repayment of Debt			
Miscellaneous Objects	1,916,775	4,130,464	2,213,689
Enterprise Fund			
Food Service Operations			
Supplies and Materials	800,401	1,144,569	344,168
Building Construction			
Architecture and Engineering			
Purchased Services	2,827,150	3,006,142	178,992
Capital Outlay	0	215,674	215,674
Building Improvement			
Purchased Services	3,726,072	7,864,647	4,138,575
Building Acquisition and Construction			
Purchased Services	19,660,337	20,900,817	1,240,480
Capital Outlay	0	643,728	643,728
Disadvantaged Pupils Impact Aid			
Support Services - Pupils			
Employees Retirement and Insurance	100,089	194,403	94,314
Adult Education			
Regular			
Personal Services – Salaries	0	17,685	17,685
Vocational Education			
Vocational Education			
Capital Outlay	85,557	109,118	23,561
Support Services – Pupils			
Supplies and Materials	5,139	22,571	17,432

Also, the Vocational Education fund expenditures exceeded appropriations by \$44,324 as of June 30, 2002.

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 review of the budget versus actual report generated by the system on a monthly basis.

**FINDING NUMBER - 2002-10202-005**

**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 27, 2001, and a final appropriation resolution June 25, 2002. The amounts for the following funds represent the maximum by which appropriations exceeded estimated resources for the period October 1, through May 31, 2002:



**FINDING NUMBER - 2002-10202-005  
 (Continued)**

<b>Fund</b>	<b>Estimated Resources</b>	<b>Appropriations</b>	<b>Excess</b>
Disadvantaged Pupil Impact Aid	\$ 3,194,428	\$ 3,203,054	\$ 8,626
Local Grants	167,800	344,675	176,875

The following schedule represents the amounts by which appropriations exceeded estimated resources at June 30, 2002:

Local Grants	\$ 334,448	\$ 407,952	\$ 73,504
Auxiliary Services	676,217	681,410	5,193
Drug-Free Grant	83,983	86,468	2,485
Building Construction	62,996,229	69,928,504	6,932,275
SchoolNet Grant	16,078	50,000	33,922
Food Service	2,349,708	2,390,862	41,154

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.

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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None

**LIMA CITY SCHOOL DISTRICT  
ALLEN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 §.315 (b)  
FOR THE YEAR ENDED JUNE 30, 2002**

<b><u>Finding Number</u></b>	<b><u>Finding Summary</u></b>	<b><u>Fully Corrected?</u></b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i></b>
2001-10202-001	Ohio Rev. Code 5705.10	No	Repeated
2001-10202-002	Ohio Rev. Code 5705.36	No	Repeated
2001-10202-003	Ohio Rev. Code 5705.39	No	Repeated
2001-10202-004	Ohio Rev. Code 5705.40	Yes	Corrected
2001-10202-005	Ohio Rev. Code 5705.41(B)	No	Repeated
2001-10202-006	CAFS Program review procedures.	Yes	Corrected



**Auditor of State  
Betty Montgomery**

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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 22, 2003**