



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

SINGLE AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

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

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of St. Marys City School District, Auglaize County, (the "School District"), as of and for the fiscal year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School District, as of June 30, 2005, and the respective changes in the cash financial position and the respective budgetary comparison for the General Fund thereof for the fiscal year then ended in conformity with the basis of accounting Note 2 describes.

For the year fiscal year ended June 30, 2005, the School District revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2006, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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



Betty Montgomery
Auditor of State

May 10, 2006

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

The discussion and analysis of St. Marys City School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005, within the limitations of cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Highlights

Highlights for fiscal year 2005 are as follows:

The School District closed operations at Moulton Elementary School during fiscal year 2004 and sold the building during fiscal year 2005. The building was originally constructed in 1937 with an addition constructed during 1954. The operational cost per pupil was the highest within the School District, mostly due to heating costs. Eliminating the operation of this elementary school provided an operational cost savings of \$279,496 and the School District received net proceeds, in the amount of \$92,406 from the sale of the property.

The School District closed operations at Noble Elementary School during fiscal year 2005. This building was also constructed during 1937. The operating cost per pupil was \$6,996, which was the second highest in the School District. All kindergarten students were moved to East Elementary School and all students in grades four through six were moved to West Elementary School for fiscal year 2006.

The School District passed a 7.9 mill 5-year emergency levy for operations during March 2004. Collection of the property taxes started January 1, 2005. The emergency levy is estimated to generate \$1,838,898 in additional revenues per year.

Net assets increased by \$921,779 from several different sources. Unrestricted net assets increased \$530,969, principally due to reductions outlined within the School District's budget reduction plan. Five full-time equivalent elementary aides were eliminated at the beginning of fiscal year 2005. Library staff was reduced by one certified librarian, .5 non-certified librarians, and a .5 library aide/clerk. Disbursements for library materials and supplies were cut in half. The high school and junior high school reduced staffing levels by 1.5 teachers and .5 secretaries. The School District implemented a change in health care to a PPO. Administrative salaries were frozen for fiscal year 2005. Reductions of one full-time and two part-time custodial employees were also made during fiscal year 2005.

Using the Basic Financial Statements

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

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Reporting the School District as a Whole

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2005, within the limitations of cash basis accounting. The statement of net assets presents the cash balance of the governmental activities of the School District at fiscal year end. The statement of activities compares cash disbursements with program receipts for each function or program of the School District's governmental activities. A function is a group of related activities designed to accomplish a major service or regulatory program for which the School District is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the School District's general receipts.

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

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

Reporting the School District's Most Significant Funds

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

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

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2005 and fiscal year 2004:

**Table 1
Net Assets**

	Governmental Activities	
	2005	2004
Assets		
Cash and Cash Equivalents	\$4,525,960	\$3,604,181
Net Assets		
Restricted	1,763,148	1,372,338
Unrestricted	2,762,812	2,241,843
Total Net Assets	\$4,525,960	\$3,604,181

As mentioned previously, total net assets increased \$921,779, or 26 percent. The primary reasons contributing to the increase in cash balances are as follows:

- The School District sold the Moulton Elementary School building.
- The School District paid off the building construction note during fiscal year 2004; thereby, decreasing the debt service requirements.
- Tier III reductions within the budget reduction plan generated a savings of \$560,734.

Table 2 reflects the change in net assets for fiscal year 2005. Since the School District did not prepare financial statements according to this basis of accounting in the prior fiscal year, a comparative analysis of government-wide data has not been presented. In future years, when prior fiscal year information is available, a comparative analysis will be presented.

**Table 2
Change in Net Assets**

	Governmental Activities 2005
Receipts:	
Program Receipts	
Charges for Services	\$ 1,190,820
Operating Grants, Contributions, and Interest	2,570,473
Capital Grants and Contributions	17,025
Total Program Receipts	3,778,318
General Receipts	
Property Taxes Levied for General Purposes	6,303,545
Property Taxes Levied for Debt Service	414,686
Property Taxes Levied for Permanent Improvements	995,431
Payment in Lieu of Taxes	5,000
Grants and Entitlements	9,673,544
Interest	117,124
Sale of Capital Assets	105,000
Miscellaneous	133,290
Total General Receipts	17,747,620
Total Receipts	21,525,938

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Disbursements:

Instruction:	
Regular	9,075,221
Special	1,494,326
Vocational	1,175,484
Adult/Continuing	57,632
Support Services:	
Pupils	1,376,852
Instructional Staff	886,759
Board of Education	16,900
Administration	1,234,320
Fiscal	392,925
Business	245,708
Operation and Maintenance of Plant	1,432,560
Pupil Transportation	623,344
Central	7,042
Non-instructional Services	741,497
Extracurricular Activities	556,031
Capital Outlay	371,476
Debt Service:	
Principal Retirement	785,377
Interest and Fiscal Charges	130,705
Total Disbursements	<u>20,604,159</u>
Increase in Net Assets	<u>\$ 921,779</u>

Program receipts represent 18 percent of total receipts and are primarily represented by restricted intergovernmental receipts, charges for tuition, fees, sports-related activity fees, and food service sales.

Property taxes and grants and entitlements basically make up the balance of the School District's general receipts.

The major program disbursements for governmental activities are for instruction, which account for 57 percent of all governmental disbursements. Other programs which support the instruction process, including pupils, instructional staff, administration, operation and maintenance of plant, and transportation account for 27 percent of governmental disbursements.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

**Table 3
Governmental Activities**

	Total Cost of Services 2005	Net Cost of Services 2005
Instruction:		
Regular	\$9,075,221	\$8,646,775
Special	1,494,326	(112,488)
Vocational	1,175,484	674,951
Adult/Continuing	57,632	(41,306)
Support Services:		
Pupils	1,376,852	1,366,357
Instructional Staff	886,759	886,759
Board of Education	16,900	16,900
Administration	1,234,320	1,234,320
Fiscal	392,925	392,925
Business	245,708	157,526
Operation and Maintenance of Plant	1,432,560	1,431,530
Pupil Transportation	623,344	549,183
Central	7,042	7,042
Non-instructional Services	741,497	(26,539)
Extracurricular Activities	556,031	354,348
Capital Outlay	371,476	371,476
Debt Service:		
Principal Retirement	785,377	785,377
Interest and Fiscal Charges	130,705	130,705
Total Disbursements	<u>\$20,604,159</u>	<u>\$16,825,841</u>

Instructional activities were supported by tax receipts and unrestricted grants and entitlements by 78 percent. Special and adult/continuing instruction activities are provided for through operating grants. During fiscal year 2005, the School District had received a greater amount in operating grants than disbursed for special and adult/continuing instruction.

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

The School District's Funds

The School District's governmental funds are accounted for using the cash basis of accounting. The General Fund reported a positive change in fund balance during fiscal year 2005 by receiving one-half year of property taxes on the 7.9 mill levy and implementing the third tier of budget cuts as outlined in the School Districts budget reduction plan adopted by the Board of Education on January 23, 2004.

Although debt service requirements decreased from fiscal year 2004 from the repayment of the building construction note, property tax revenue increased to fund future debt service requirements within the Bond Retirement debt service fund.

Property tax revenues, along with the sale of the Moulton Elementary School building, generated sufficient money for capital needs within the School District.

Budgeting Highlights

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

During fiscal year 2005, the School District amended its General Fund budget as needed. The School District amended budgeted operating receipts slightly for intergovernmental revenues. The change from final budgeted receipts to actual receipts, \$50,630, was not significant.

The School District amended its appropriations by less than one percent. Final disbursements were budgeted at \$17,662,613 while actual disbursements were \$17,298,209. The School District was able to keep spending very close to budgeted amounts as demonstrated by the minor changes which occurred.

Actual General Fund receipts were greater than disbursements by \$342,596. Cuts in personnel and related fringe benefits that occurred during fiscal year 2005 provided the positive excess amount.

Debt Administration

At June 30, 2005, the School District's outstanding debt included general obligation bonds for construction of additions to the facilities and asbestos removal loans, in the amount of \$2,444,146. For further information regarding the School District's debt, refer to Note 13 to the basic financial statements.

Current Issues

The challenge to the School District is to provide quality education with fewer monies available to spend. The School District must rely on local taxes and State support. There was major change and tax reform with the passage of House Bill 66 and the School District is still trying to determine how these changes will affect the five-year forecast. Due to the severe nature of the budget reduction plan adopted during fiscal year 2004, the School District's five-year forecast does not project a deficit until fiscal year 2010. With the passage of the emergency property tax levy, the School District had agreed not to implement the tier IV reductions within the budget reduction plan during fiscal year 2006.

The School District sold Noble Elementary School during fiscal year 2006. Net proceeds, in the amount of \$58,076, were recorded in the Permanent Improvement capital projects fund.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Contacting the School District's Financial Management

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

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ST. MARYS CITY SCHOOL DISTRICT
AUGLAIZE COUNTY

STATEMENT OF NET ASSETS-CASH ASSETS
JUNE 30, 2005

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>\$4,525,960</u>
 NET ASSETS:	
Restricted for:	
Debt Service	746,578
Capital Outlay	696,354
Other Purposes	320,216
Unrestricted	<u>2,762,812</u>
 Total Net Assets	 <u><u>\$4,525,960</u></u>

See accompanying notes to the basic financial statements.

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

**STATEMENT OF ACTIVITIES-CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	Program Revenues			Capital Grants and Contributions	Net(Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions		Governmental Activities
Governmental Activities:					
Instruction:					
Regular	\$9,075,221	\$172,128	\$256,318		(\$8,646,775)
Special	1,494,326	3,490	1,603,324		112,488
Vocational	1,175,484	292,406	206,215	1,912	(674,951)
Adult/Continuing	57,632		98,938		41,306
Support Services:					
Pupils	1,376,852		10,495		(1,366,357)
Instructional Staff	886,759				(886,759)
Board of Education	16,900				(16,900)
Administration	1,234,320				(1,234,320)
Fiscal	392,925				(392,925)
Business	245,708	88,182			(157,526)
Operation and Maintenance of Plant	1,432,560		1,030		(1,431,530)
Pupil Transportation	623,344		59,048	15,113	(549,183)
Central	7,042				(7,042)
Operation of Non-Instructional Services	741,497	432,931	335,105		26,539
Extracurricular Activities	556,031	201,683			(354,348)
Capital Outlay	371,476				(371,476)
Debt Service:					
Principal Retirement	785,377				(785,377)
Interest and Fiscal Charges	130,705				(130,705)
Totals	<u>\$20,604,159</u>	<u>\$1,190,820</u>	<u>\$2,570,473</u>	<u>\$17,025</u>	<u>(16,825,841)</u>
General Revenues:					
Taxes:					
Property Taxes, Levied for General Purposes					6,303,545
Property Taxes, Levied for Debt Service					414,686
Property Taxes, Levied for Permanent Improvements					995,431
Payment in Lieu of Taxes					5,000
Grants and Entitlements not Restricted to Specific Programs					9,673,544
Investment Earnings					117,124
Sale of Capital Assets					105,000
Miscellaneous					133,290
Total General Revenues					<u>17,747,620</u>
Change in Net Assets					921,779
Net Assets Beginning of Year					<u>3,604,181</u>
Net Assets End of Year					<u>\$4,525,960</u>

See accompanying notes to the basic financial statements.

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

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2005**

	<u>General Fund</u>	<u>Bond Retirement</u>	<u>Permanent Improvement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Equity in Pooled Cash and Cash Equivalents	\$2,762,812	\$746,578	\$696,354	\$320,216	\$4,525,960
Fund Balances					
Reserved for Encumbrances	243,331		215,083	53,084	511,498
Unreserved, Undesignated, Reported in:					
General Fund	2,519,481				2,519,481
Special Revenue Funds				267,132	267,132
Debt Service Funds		746,578			746,578
Capital Projects Funds			481,271		481,271
Total Fund Balances	<u>\$2,762,812</u>	<u>\$746,578</u>	<u>\$696,354</u>	<u>\$320,216</u>	<u>\$4,525,960</u>

See accompanying notes to the basic financial statements.

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

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>General Fund</u>	<u>Bond Retirement</u>	<u>Permanent Improvement Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash Receipts:					
Property and Other Local Taxes	\$6,303,545	\$995,431	\$414,686		\$7,713,662
Payment in Lieu of Taxes	5,000				5,000
Intergovernmental	10,555,649	114,613	49,700	1,480,800	12,200,762
Interest	89,409	12,387	14,473	3,365	119,634
Tuition and Fees	468,024				468,024
Charges for Services				432,931	432,931
Extracurricular Activities				201,683	201,683
Gifts and Donations	51,646			6,124	57,770
Miscellaneous	152,744			68,728	221,472
Total Receipts	<u>17,626,017</u>	<u>1,122,431</u>	<u>478,859</u>	<u>2,193,631</u>	<u>21,420,938</u>
Cash Disbursements:					
Current:					
Instruction:					
Regular	8,811,306			263,915	9,075,221
Special	913,663			580,663	1,494,326
Vocational	1,175,484				1,175,484
Adult/Continuing				57,632	57,632
Support Services:					
Pupils	1,170,033			206,819	1,376,852
Instructional Staff	782,584			104,175	886,759
Board of Education	16,900				16,900
Administration	1,218,312			16,008	1,234,320
Fiscal	360,623	22,786	9,516		392,925
Business	245,708			245,708
Operation and Maintenance of Plant	1,350,419		76,442	5,699	1,432,560
Pupil Transportation	622,278			1,066	623,344
Central	7,042				7,042
Operation of Non-Instructional Services				741,497	741,497
Extracurricular Activities	380,526			175,505	556,031
Capital Outlay			356,028	15,448	371,476
Debt Service:					
Principal		785,377			785,377
Interest		130,705			130,705
Total Disbursements	<u>17,054,878</u>	<u>938,868</u>	<u>441,986</u>	<u>2,168,427</u>	<u>20,604,159</u>
Excess of Receipts Over Disbursements	571,139	183,563	36,873	25,204	816,779
Other Financing Sources and Uses:					
Sale of Capital Assets			105,000		105,000
Advances In				9,472	9,472
Advance Out	(9,472)				(9,472)
Transfers In		45,377			45,377
Transfers Out	(45,377)				(45,377)
Total Other Financing Sources and Uses	<u>(54,849)</u>	<u>45,377</u>	<u>105,000</u>	<u>9,472</u>	<u>105,000</u>
Net Change in Fund Balances	516,290	228,940	141,873	34,676	921,779
Fund Balance at Beginning of Year	2,246,522	517,638	554,481	285,540	3,604,181
Fund Balance at End of Year	<u>\$2,762,812</u>	<u>\$746,578</u>	<u>\$696,354</u>	<u>\$320,216</u>	<u>\$4,525,960</u>

See accompanying notes to the basic financial statements.

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

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Cash Receipts:				
Property and Other Local Taxes	\$6,309,137	\$6,309,137	\$6,303,545	(\$5,592)
Payment in lieu of Taxes	5,000	5,000	5,000	
Intergovernmental	11,078,048	11,093,467	10,555,649	(537,818)
Interest			104,197	104,197
Tuition and Fees	99,389	99,389	468,024	368,635
Gits and Donations			51,646	51,646
Miscellaneous	83,182	83,182	152,744	69,562
Total Receipts	<u>17,574,756</u>	<u>17,590,175</u>	<u>17,640,805</u>	<u>50,630</u>
Cash Disbursements:				
Current:				
Instruction:				
Regular	8,428,033	8,854,746	8,852,891	1,855
Special	1,299,807	1,139,468	916,916	222,552
Vocational	1,281,973	1,179,256	1,176,484	2,772
Support Services:				
Pupils	1,046,020	1,196,020	1,205,297	(9,277)
Instructional Staff	1,075,882	900,882	846,981	53,901
Board of Education	152,252	82,252	80,627	1,625
Administration	1,218,725	1,219,225	1,219,126	99
Fiscal	354,418	360,918	360,731	187
Business	266,280	249,543	245,972	3,571
Operation and Maintenance of Plant	1,427,547	1,427,547	1,366,498	61,049
Pupil Transportation	624,468	663,441	639,087	24,354
Central	9,907	7,407	7,042	365
Extracurricular Activities	361,723	381,908	380,557	1,351
Total Disbursements	<u>17,547,035</u>	<u>17,662,613</u>	<u>17,298,209</u>	<u>364,404</u>
Excess of Receipts Over (Under) Disbursements	<u>27,721</u>	<u>(72,438)</u>	<u>342,596</u>	<u>415,034</u>
Other Financing (Uses):				
Transfers Out	(45,377)	(45,377)	(45,377)	
Advances Out	(2,868)		(9,472)	(9,472)
Total Other Financing Uses	<u>(48,245)</u>	<u>(45,377)</u>	<u>(54,849)</u>	<u>(9,472)</u>
Net Change in Fund Balances	(20,524)	(117,815)	287,747	405,562
Fund Balance (Deficit) at Beginning of Year	2,194,562	2,194,562	2,194,562	
Prior Year Encumbrances Appropriated	34,160	34,160	34,160	
Fund Balance (Deficit) at End of Year	<u>\$2,208,198</u>	<u>\$2,110,907</u>	<u>\$2,516,469</u>	<u>\$405,562</u>

See accompanying notes to the basic financial statements.

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

**STATEMENT OF CASH BASIS FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005**

	Private Purpose Trusts	Agency Fund
Assets		
Equity in Pooled Cash and Cash Equivalents	\$147,515	\$75,420
Cash and Cash Equivalents in Segrated Accounts		2,632
Total Assets	147,515	78,052
Net Assets		
Ednowments	129,580	
Held in Trust for Scholarships	17,935	
Held for Student Activities		70,284
Undistributed Monies		7,768
Total Net Assets	\$147,515	\$78,052

See accompanying notes to the basic financial statements.

ST. MARYS CITY SCHOOL DISTRICT
AUGLAIZE COUNTY

STATEMENT OF CHANGES IN CASH BASIS FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Private Purpose Trusts</u>
Receipts:	
Interest	\$3,669
Miscellaneous	<u>1,682</u>
Total Receipts	5,351
Disbursements:	
Noninstructional Services	<u>13,000</u>
Changes in Net Assets	(7,649)
Net Assets at Beginning of Year	<u>155,164</u>
Net Assets at End of Year	<u><u>\$147,515</u></u>

See accompanying notes to the basic financial statements.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established during 1862 through the consolidation of existing land areas and school districts. The School District serves an area of approximately seventy square miles. It is located in Auglaize County, and includes all of the City of St. Marys and portions of Logan, Moulton, Noble, Salem, St. Marys, and Washington Townships. The School District is the 210th largest in the State of Ohio (among 611 school districts) in terms of enrollment. It is staffed by eighty-seven classified employees, one hundred seventy-three certified teaching personnel, and sixteen administrative employees who provide services to 2,433 students and other community members. The School District currently operates four school buildings and a service building.

A. Reporting Entity:

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

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

The following activities are included within the reporting entity:

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

The School District participates in five jointly governed organizations, two insurance pools, and is associated with a related organization. These organizations are the West Central Ohio Regional Professional Development Center, West Central Ohio Special Education Regional Resource Center, Northwest Ohio Area Computer Services Cooperative, Auglaize County Educational Academy, Auglaize County Special Needs School, Mercer Auglaize School Employee Benefit Trust, Southwestern Ohio Educational Purchasing Council Insurance Program and the St. Marys Community Public Library. These organizations are presented in Notes 18, 19, and 20 to the basic financial statements.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

1. Government-Wide Financial Statements

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

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

2. Fund Financial Statements

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

B. Fund Accounting

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Governmental Funds

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

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

Bond Retirement Fund – The Bond Retirement Fund has been established for the accumulation of resources for, and the payment of, general long-term obligation principal, interest, and related costs.

Permanent Improvement Fund – The Permanent Improvement Fund is used to account for the financial resources and associated expenses with the farm rental property owned by the School District.

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

2. Fiduciary Funds

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

C. Budgetary Process

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

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

D. Cash and Cash Equivalents

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

During fiscal year 2005, the School District's investments included nonnegotiable certificates of deposit, federal agency securities, mutual funds, and STAR Ohio. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2005.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2005 was \$89,409, which included \$5,356 assigned from other School District funds.

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

E. Capital Assets

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

F. Interfund Balances

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

G. Compensated Absences

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Long-Term Obligations

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

I. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations, adult education programs, vocational programs, and federal and state grants restricted to expenditure for specified purposes. The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The amount of net assets restricted by enabling legislation was \$1,413,545 at June 30, 2005.

J. Fund Balance Reserves

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

K. Interfund Activity

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

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

3. CHANGE IN ACCOUNTING PRINCIPLE

For fiscal year 2005, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, "Deposit and Investment Risk Disclosure" and GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation".

GASB Statement No. 40 establishes and modifies the disclosure requirements related to deposit and investment risks. The implementation of this statement did not result in any change to the School District's financial statements.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

4. BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance - Budget and Actual - Budgetary Basis presented for the general fund (and each major special revenue fund) is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The differences between the budgetary basis and the modified cash basis are:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis) and
2. Outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (modified cash basis).

The adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund are as follows:

Changes in Fund Balance	
OCBOA Basis	\$516,290
<u>Increase (Decrease) Due To:</u>	
Cash on Hand at Beginning of Year	17,800
Cash on Hand at End of Year	(3,012)
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(243,331)
Budget Basis	\$287,747

5. DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time; and
9. Under limited circumstances, corporate debt interests rated in either of the two highest rated classifications by at least two nationally recognized rating agencies.

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

A. Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$409,284 of the School District's bank balance of \$709,784 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

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

B. Investments

As of June 30, 2005, the School District had the following investments.

	<u>Carrying Value</u>	<u>Maturity</u>
Federal National Mortgage Association Notes	\$ 421,675	July 21, 2006
Federal Home Loan Mortgage Corporation Notes	732,371	November 28, 2006
Federal Home Loan Bank Bonds	949,984	April 30, 2007
Mutual Fund	26	37 Days
STAR Ohio	2,603,674	30.4 Days
Total Investments	<u>\$4,707,730</u>	

The School District's investment policy does not address any restriction on investments relating to interest rate, credit, or custodial credit risks. The investment policy restricts the Treasurer from investing in anything other than as identified in the Ohio Revised Code, except that all investments must mature within two years from the date of investment unless they are matched to a specific obligation or debt of the School District. The Treasurer is also restricted from purchasing investments that cannot be held until the maturity date.

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

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

	<u>Carrying Value</u>	<u>Percentage of Portfolio</u>
Federal National Mortgage Association Notes	\$421,675	8.96%
Federal Home Loan Mortgage Corporation Notes	732,371	15.56
Federal Home Loan Bank Bonds	949,984	20.18
STAR Ohio	2,603,730	55.31

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

6. PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2005 represent the collection of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed values as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2005 represent the collection of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien on December 31, 2003, were levied after April 1, 2004, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2005 (other than public utility property) represent the collection of calendar year 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Auglaize County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which fiscal year 2005 taxes were collected are:

	2004 First- Half Collections		2005 Second Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$185,514,860	79.70%	\$190,959,180	79.97%
Public Utility	7,622,060	3.27	7,905,800	3.31
Tangible Personal	39,634,973	17.03	39,922,170	16.72
Total Assessed Value	<u>\$232,771,893</u>	<u>100.00%</u>	<u>\$238,787,150</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$49.05		\$49.05	

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

7. PAYMENT IN LIEU OF TAXES

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

8. INTERFUND BALANCES

At June 30, 2005, the General Fund had an unpaid interfund cash advance, in the amount of \$9,472, for a loan made to the Special Revenue Food Service Fund.

9. RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the School District contracted with the Southwestern Ohio Educational Purchasing Council Insurance Program for the following insurance coverage.

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

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

Coverage provided by Westchester Insurance Company is as follows:

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

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

Coverage provided by Federal Insurance Company is as follows:

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

9. RISK MANAGEMENT (Continued)

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

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

10. CONTRACTUAL COMMITMENTS

As of June 30, 2005, the School District had contractual commitments as follows:

Company	Project	Amount Remaining on Contract
Riesen Plumbing and Heating	East Restrooms	\$36,470
Lacy Building Corporation	East Restrooms	56,269
Dell Computers	Computers	51,402
Koester Electric	Lighting	15,000
Leslie Coatings, Inc.	Tennis Court Renovation	13,430
Shinn Brothers	Concrete Slab at Service Center	19,900

11. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board.

STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

11. DEFINED BENEFIT PENSION PLANS (Continued)

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

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The School District's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2005, 2004, and 2003 was \$1,215,694, \$1,143,642, and \$1,123,871, respectively; 85 percent has been contributed for fiscal year 2005 and 100 percent has been contributed for fiscal years 2004 and 2003. Contributions for the DCP and CP for the fiscal year ended June 30, 2005, were \$897 made by the School District and \$7,624 made by plan members.

B. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

11. DEFINED BENEFIT PENSION PLANS (Continued)

SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute an actuarially determined rate. The rate for fiscal year 2005 was 14 percent of annual covered payroll; 10.57 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 was \$203,565, \$182,731, and \$161,870, respectively; 42 percent has been contributed for fiscal year 2005 and 100 percent has been contributed for fiscal years 2004, and 2003.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2005, four of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

12. POSTEMPLOYMENT BENEFITS

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

STRS retirees who participated in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2005, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount was \$93,584.

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

12. POSTEMPLOYMENT BENEFITS (Continued)

For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. For the School District, the amount to fund health care benefits, including the surcharge, was \$93,351 for fiscal year 2005.

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

13. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits is derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. The superintendent and treasurer earn twenty days of vacation per year.

Accumulated unused vacation time is paid to classified employees, the superintendent, and the treasurer upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred thirty-six days for all employees. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of sixty days for all employees.

B. Health Care Benefits

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

C. Special Termination Benefits

Through the fiscal year 2005 employee contract year, the School District has provided for a special termination benefit to eligible certified employees. A full-time employee with ten or more years of service with the School District who elects to retire after May 31 in the year in which the employee is initially eligible for retirement under the pension eligibility criteria will be paid an additional forty-five days of severance.

Through June 30, 2005, bus drivers with ten or more years of service with the School District who elect to retire after May 31 in the year in which they are initially eligible for retirement under the pension eligibility criteria are entitled to an additional \$1,250 severance payment.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

14. LONG-TERM OBLIGATIONS

Changes in the School District's long-term obligations during fiscal year 2005 were as follows:

	<u>Balance at 6/30/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/05</u>	<u>Amounts Due Within One Year</u>
Governmental Activities					
General Obligations Bonds					
1998 Construction 3.65 - 5%	\$2,050,000	\$0	\$650,000	\$1,400,000	\$700,000
2000 Library Construction 6.7%	785,000	0	90,000	695,000	100,000
Total General Obligation Bonds	<u>2,835,000</u>	<u>0</u>	<u>740,000</u>	<u>2,095,000</u>	<u>800,000</u>
Asbestos Removal Loan 0%	394,523	0	45,377	349,146	45,376
Total Governmental Activities Long-Term Obligations	<u>\$3,229,523</u>	<u>\$0</u>	<u>\$785,377</u>	<u>\$2,444,146</u>	<u>\$845,376</u>

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

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

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

The School District's overall debt margin was \$20,142,422 with an unvoted debt margin of \$238,787 at June 30, 2005.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2005, were as follows:

<u>Fiscal Year Ending June 30,</u>	<u>General Obligation Bonds</u>		<u>Asbestos Removal Loan</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
2006	\$ 800,000	\$ 93,965	\$ 45,376
2007	800,000	54,015	45,377
2008	110,000	29,480	45,376
2009	120,000	21,775	45,377
2010	125,000	13,568	45,376
2011-2013	140,000	4,690	122,264
Totals	<u>\$2,095,000</u>	<u>\$217,493</u>	<u>\$349,146</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

15. SET ASIDE REQUIREMENTS

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

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2005.

	Textbooks	Capital Improvements
Balance June 30, 2004	(\$237,429)	
Current Year Set Aside Requirement	352,565	\$352,565
Offsets		(352,565)
Qualifying Expenditures	(286,079)	
Amount Carried Forward to Fiscal Year 2006	(170,943)	
Set Aside Reserve Balance June 30, 2005	(\$170,943)	\$ 0

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

16. INTERFUND TRANSFERS

During fiscal year 2005, the General Fund transferred \$20,000 to the Bond Retirement Fund in the debt service fund, in the amount of \$45,377, to pay principal on the asbestos removal loan.

17. DONOR RESTRICTED ENDOWMENTS

The School District's private purpose trust fund includes donor restricted endowments. Endowments, in the amount of \$129,580, represent the principal portion. The amount of net appreciation in donor restricted investments that is available for expenditure by the School District is \$17,935 and is included as held in trust for scholarships. State law permits the School District to appropriate, for purposes consistent with the endowment's intent, net appreciation, realized and unrealized, unless the endowment terms specify otherwise. The endowment indicates that the interest should be used to provide a scholarship each year.

18. JOINTLY GOVERNED ORGANIZATIONS

A. West Central Ohio Regional Professional Development Center

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

18. JOINTLY GOVERNED ORGANIZATIONS

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

B. West Central Ohio Special Education Regional Resource Center

The West Central Ohio Special Education Regional Resource Center (SERRC) is a jointly governed organization formed to initiate, expand, and improve special education programs and services for children with disabilities and their parents. The SERRC is governed by a fifty-two member board consisting of the superintendent from the fifty participating school districts, one representative from a non-public school, and one representative from Wright State University. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from Krista Hart, who serves as Treasurer, 1211 West Lima Street, Suite A, Kenton, Ohio 43326-2385.

C. Northwest Ohio Area Computer Services Cooperative

The School District is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC), which is a computer consortium. NOACSC is an association of educational entities within the boundaries of Allen, Hancock, Mercer, Paulding, Putnam, and Van Wert Counties, and the Cities of St. Marys and Wapakoneta. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member educational entities. The governing board of NOACSC consists of two representatives from each county elected by majority vote of all charter member educational entities within each county. During fiscal year 2005, the School District paid \$17,606 to the NOACSC for various services. Financial information can be obtained from Raymond Burden, who serves as Director, 645 South Main Street, Lima, Ohio 45804.

D. Auglaize County Educational Academy

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

E. Auglaize County Special Needs School

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

19. INSURANCE POOLS

A. Mercer Auglaize School Employee Benefit Trust

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

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

B. Southwestern Ohio Educational Purchasing Council Insurance Program

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

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

20. RELATED ORGANIZATION

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

21. CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2005.

B. Litigation

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

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

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
(Passed through Ohio Department of Education)						
Nutrition Cluster:						
Food Donation	N/A	10.550		\$95,194		\$95,194
School Breakfast Program	044727-05PU-2004 044727-05PU-2005	10.553	3,944 21,142		3,944 21,142	
Total School Breakfast Program			25,086		25,086	
National School Lunch Program	044727-LLP4-2004 044727-LLP4-2005	10.555	49,569 164,734		49,569 164,734	
Total National School Lunch			214,303		214,303	
Total U.S. Department of Agriculture - Nutrition Cluster			239,389	95,194	239,389	95,194
U.S. DEPARTMENT OF EDUCATION						
(Passed through Ohio Department of Education)						
Adult State Grant Program	044727-ABS1-2004 044727-ABS1-2005	84.002	10,278 44,415		10,218 44,415	
Total Adult State Grant Program			54,693		54,633	
Grants to Local Educational Agencies	044727-C1S1-2004 044727-C1S1-2005	84.010	(6,370) 231,955		14,455 226,831	
Total Grants to Local Educational Agencies			225,585		241,286	
Education Technology State Grant	044727-TJS1-2004 044727-TJS1-2005	84.318	6,563		6,025 6,552	
Total Education Technology State Grant			6,563		12,577	
Special Education Grants to States	044727-6BSD-2004 044727-6BSF-2005	84.027	41,305 529,597		44,040 505,574	
Total Special Education Grants to States			570,902		549,614	
State Grants for Innovative Programs	044727-C2S1-2004 044727-C2S1-2005	84.298	(1,219) 12,022		486 11,601	
Total State Grants for Innovative Programs			10,803		12,087	
Safe and Drug Free Schools and Communities State Grants	044727-DRS1-2005	84.186	10,050		10,050	
Improving Teacher Quality State Grants	044727-TRS1-2004 044727-TRS1-2005	84.367	3,286 90,865		14,766 87,916	
Total Improving Teacher Quality State Grants			94,151		102,682	
Special Education State Personnel Development	044727-STS1-2003	84.323			1,772	
Total U.S. Department of Education			972,747		984,701	
Total Federal Assistance			<u>\$1,212,136</u>	<u>\$95,194</u>	<u>\$1,224,090</u>	<u>\$95,194</u>

See accompanying notes to the schedule of federal awards expenditures.

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

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 2005**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - NUTRITION CLUSTER

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

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

NOTE C - MATCHING REQUIREMENTS

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

NOTE D - TRANSFER OF FUNDS BETWEEN SPECIAL COST CENTERS

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

Grant, CFDA #, Fund, and Cost Center	Transfer Out	Transfer In
Grants to Local Educational Agencies #84.010		
572-9204	(\$6,370)	
572-9305		\$6,370
Special Education Grants to States #84.027		
516-9304	(\$602)	
516-9405		\$602
Safe and Drug Free Schools - #84.186		
584-9404	(\$1,219)	
584-9405		\$1,219
Improving Teacher Quality State Grants #84.367		
590-9304	(\$5,779)	
590-9405		\$5,779

NOTE E - PASS THROUGH FUNDS

Idea Preschool Grant For The Handicapped – CFDA# 84.173 – During fiscal year 2005, the District received Preschool grant funding administered on their behalf by the Auglaize County Educational Service Center. For fiscal year 2005, the District's allocation was \$30,881 which was spent by fiscal year end.

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**Auditor of State
Betty Montgomery**

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

St. Marys City School District
Auglaize County
P.O. Box 305
McGuffey, Ohio 45859

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of St. Marys City School District, Auglaize County (the "School District") as of and for the fiscal year ended June 30, 2005, which collectively comprise the School District's basic financial statements and have issued our report thereon dated May 10, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School District's management dated May 10, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2005-001. In a separate letter to the School District's management dated May 10, 2006, we reported other matters related to noncompliance we deemed immaterial.

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www.auditor.state.oh.us

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

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

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

Betty Montgomery
Auditor of State

May 10, 2006



Auditor of State Betty Montgomery

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

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

To the Members of the Board:

Compliance

We have audited the compliance of St. Marys City School District, Auglaize County, (the "School District"), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that apply to its major federal program for the fiscal year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the School District's major federal program. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, the School District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the fiscal year ended June 30, 2005.

Internal Control Over Compliance

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

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

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

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

Betty Montgomery
Auditor of State

May 10, 2006

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

FINDING NUMBER 2005-001

Noncompliance Citation

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

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

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

OFFICIALS' RESPONSE

We did not receive a response from Officials to the finding reported above.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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ST MARYS CITY SCHOOL DISTRICT

AUGLAIZE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 29, 2006**