
Lima City School District
Allen County, Ohio

Basic Financial Statements – Modified Cash Basis

June 30, 2012

(with Independent Auditors' Report)



Dave Yost • Auditor of State

Board of Education
Lima City School District
755 St. Johns Ave
Lima, Ohio 45804

We have reviewed the *Independent Auditors' Report* of the Lima City School District, Allen County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2011 through June 30, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Lima City School District is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

February 13, 2013

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INDEPENDENT AUDITORS' REPORT

Board of Education
Lima City School District
755 St. Johns Avenue
Lima, Ohio 45804

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lima City School District (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Ohio Administrative Code Section 117-02-03(B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America. The accompanying financial statements and notes omit assets, liabilities, fund equities, and certain 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 modified cash basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2012, and the respective changes in modified cash basis financial position thereof, and the respective budgetary comparisons for the General and Food Service Funds for the year then ended in conformity with the accounting basis Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

2525 north limestone street, ste. 103
springfield, oh 45503

www.cshco.com
p. 937.399.2000
f. 937.399.5433

We conducted our audit to opine on the District's financial statements taken as a whole. Management's Discussion and Analysis includes tables of net assets, changes in net assets, and total and net cost of program services. The schedule of expenditures of federal awards (the Schedule) is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These tables and the Schedule provide additional information, but are not part of the basic financial statements. However, these tables and the Schedule are management's responsibility, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. These tables and the Schedule were subject to the auditing procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion and Analysis, and we express no opinion or any other assurance on it.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
December 31, 2012

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

This discussion and analysis provides key information from management highlighting the financial performance of the Lima City School District for the year ended June 30, 2012. This is meant to be an easily readable summary of the most important financial information regarding the accompanying financial statements. Please read it in conjunction with the District's basic financial statements and notes to the basic financial statements.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued June, 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

Key financial highlights for 2012 are as follows:

Overall:

- For governmental activities, net assets decreased \$497,333, which represents a 7 percent decrease from 2011.
- General receipts accounted for \$47.0 million or 74 percent of all governmental receipts. Program specific receipts in the form of charges for services and sales and operating and capital grants and contributions accounted for \$16.2 million or 26 percent of total governmental receipts of \$63.2 million.
- The District had \$63.7 million in disbursements related to governmental activities; only \$16.2 million of these disbursements were offset by program specific charges for services and sales and operating and capital grants and contributions. General receipts (primarily grants and entitlements) of \$47.0 million were not adequate to provide for these programs. The District is realizing reduced receipts due to declining student enrollment.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide statements are designed to provide readers with a broad overview of the District's finances. The statement of cash balances presents information on all of the District's cash and investments by activity and by fund type. The statement of receipts, disbursements and changes in cash balances presents information showing how the government's cash balances changed during the most recent fiscal year.

Both of the government-wide financial statements distinguish functions of the District that are principally supported by intergovernmental and taxes receipts. All of the District programs and services are reported here including instruction, support services, administration, operation and maintenance of plant, and extracurricular activities.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements and both are presented on the modified cash basis of accounting.

The District accounts for its activities using many individual funds. The most significant funds are reported in separate columns in the governmental fund financial statements. These statements provide detailed information about the individual major funds - unlike the government-wide financial statements, which report on the District as a whole. The General, Bond Retirement, Food Service and Building Construction Funds are the District's major funds. Some funds are required to be established by State law. Also, the District may establish separate funds to show that it is meeting legal requirements for using grants or other money.

Notes to the basic financial statements. The notes provide additional information related to the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

A. Cash Asset Balances at year-end

The District's cash asset balances at June 30, 2012 were as follows:

Governmental Activities	\$6,802,546
Fiduciary Activities	279,462

The governmental activities cash asset balances may be used to meet the government's ongoing obligations to citizens and creditors. The fiduciary activities cash balances are only to be used for scholarships and student managed activities.

The following table provides a summary of the District's net assets for fiscal year 2012 compared to fiscal year 2011:

	Governmental Activities	
	FY2012	FY2011
Assets:		
Equity in Pooled Cash	\$3,741,545	\$4,370,744
Investments	<u>3,061,001</u>	<u>2,929,135</u>
Total Assets	<u>\$6,802,546</u>	<u>\$7,299,879</u>
Net Assets:		
Nonspendable	\$ 2,805	\$ 2,661
Restricted	5,667,249	5,732,659
Unrestricted	<u>1,132,492</u>	<u>1,564,559</u>
Total Net Assets	<u>\$6,802,546</u>	<u>\$7,299,879</u>

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

B. Change in Net Assets

The following table presents a condensed summary of the District's fiscal year 2012 and 2011 and the resulting change in net assets.

	Governmental	Activities
	FY2012	FY2011
RECEIPTS		
Program Receipts:		
Charges for Services and Sales	\$ 1,925,755	\$ 2,189,195
Operating Grants and Contributions	14,234,610	16,911,667
Capital Grants and Contributions	<u>24,364</u>	<u>233,499</u>
Total Program Receipts	16,184,729	19,334,361
General Receipts:		
Property Taxes	8,243,033	8,840,766
Grants and Entitlements	33,269,913	32,163,868
Gifts and Donations	39,380	0
Miscellaneous	306,523	373,491
Investment Earnings	23,789	43,719
Rent	48,351	41,163
Sale and Loss of Assets	55,000	4,065
Refunding Bonds Issued	4,524,971	0
Premium on Refunding Bonds Issued	<u>476,457</u>	<u>0</u>
Total General Receipts	<u>46,987,417</u>	<u>41,467,072</u>
Total Program and General Receipts	63,172,146	60,801,433
DISBURSEMENTS		
Instruction:		
Regular	16,983,697	18,940,144
Special	5,917,788	7,350,532
Vocational	1,683,220	2,077,273
Adult/Continuing	376,315	382,872
Other	9,998,814	9,469,842
Support Services:		
Pupils	3,400,354	3,739,773
Instructional Staff	2,823,900	3,169,292
Board of Education	107,156	122,158
Administration	4,069,233	4,432,007
Fiscal	981,150	1,168,191
Business	86,309	191,419
Operation and Maintenance of Plant	4,961,775	5,267,190
Pupil Transportation	787,804	723,365
Central	609,997	721,736
Operation of Non-Instructional Services	3,491,420	3,382,731
Extracurricular Activities	702,758	915,048
Capital Outlay	128,118	225,320

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

B. Change in Net Assets (Continued)

Debt Service:		
Principal	1,085,000	1,055,253
Interest and Fiscal Charges	474,784	786,312
Discount on Bonds Issued	29,412	0
Payment to Refunded Bond Escrow Agent	4,882,245	0
Refunding Bond Issuance Costs	<u>88,230</u>	<u>0</u>
Total Program Disbursements	<u>63,669,479</u>	<u>64,120,458</u>
Increase (Decrease) in Net Assets	(497,333)	(3,319,025)
Net Assets Beginning of Year	<u>7,299,879</u>	<u>10,618,904</u>
Net Assets End of Year	<u>\$6,802,546</u>	<u>\$7,299,879</u>

C. Governmental Activities

Of the total governmental activities receipts of \$63,172,146, \$16,184,729 (25.6%) is from program receipts. This means that the government relies on general receipts to fund the majority of the cost of services provided to the citizens. Of those general receipts, 17.5% (\$8,243,033) comes from property tax levies and 70.8% (\$33,269,913) is from state and federal funding. The District's operations are reliant upon its property tax levy and the state's foundation program.

The following table presents the total disbursements of each of the government's primary services, and the comparative net after deducting the receipts generated by each function. Approximately 25.4% of the disbursements of the general government programs were recouped in program receipts. Instruction costs were \$34,959,834, but program receipts contributed to fund 23.3% of those costs. Thus, general receipts of \$26,811,071 were used to support the remainder of the instruction costs.

	Total Cost of Services 2012	Net Cost of Services 2012	Total Cost of Services 2011	Net Cost of Services 2011
Instruction:				
Regular	\$16,983,697	\$13,034,407	\$18,940,144	\$14,315,130
Special	5,917,788	3,182,235	7,350,532	3,488,658
Vocational	1,683,220	740,706	2,077,273	1,012,685
Adult/Continuing	376,315	212,125	382,872	194,302
Other	9,998,814	9,641,598	9,469,842	8,959,213
Support Services:				
Pupils	3,400,354	2,801,790	3,739,773	3,038,089
Instructional Staff	2,823,900	624,797	3,169,292	735,328
Board of Education	107,156	103,639	122,158	117,936
Administration	4,069,233	3,532,755	4,432,007	3,944,194
Fiscal	981,150	806,188	1,168,191	1,015,261
Business	86,309	83,495	191,419	184,695
Operation and Maintenance of Plant	4,961,775	4,561,811	5,267,190	4,040,174
Pupil Transportation	787,804	596,397	723,365	332,400
Central	609,997	567,384	721,736	661,311
Operation of Non-Instructional Services	3,491,420	(174,452)	3,382,731	184,673
Extracurricular Activities	702,758	483,492	915,048	497,195

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

C. Governmental Activities (Continued)

Capital Outlay	128,118	126,712	225,320	223,288
Debt Service:				
Principal	1,085,000	1,085,000	1,055,253	1,055,253
Interest and Fiscal Charges	474,784	474,784	786,312	786,312
Discount on Bonds Issued	29,412	29,412	0	0
Payment to Refunded Bond Escrow Agent	4,882,245	4,882,245	0	0
Refunding Bond Issuance Costs	<u>88,230</u>	<u>88,230</u>	<u>0</u>	<u>0</u>
Total Program Disbursements	<u>\$63,669,479</u>	<u>\$47,484,750</u>	<u>\$64,120,458</u>	<u>\$44,786,097</u>

FINANCIAL ANALYSIS OF THE DISTRICT'S INDIVIDUAL FUNDS

Governmental Funds

The District has four major governmental funds: the General, Bond Retirement, Food Service and Building Construction Funds. Receipts and other sources of these funds comprise \$52,856,607 (83.6%) of the total \$63,223,612 governmental funds receipts.

General Fund. Fund cash balance at June 30, 2012 was \$1,380,950 which was \$499,778 less than the cash balance at June 30, 2011. The change in the General Fund cash balance is due to declining student enrollment and State funding.

Bond Retirement Fund. Fund cash balance at June 30, 2012 was \$915,067 which was \$2,714 more than the cash balance at June 30, 2011. The change in the Bond Retirement Fund cash balance is due to normal operating activities of the Fund.

Food Service Fund. Fund cash balance at June 30, 2012 was \$1,165,572, which was \$335,534 more than the cash balance at June 30, 2011. The change in the Food Service Fund cash balance is due to reduced costs due to grade level restructuring in four buildings and an increase lunch prices.

Building Construction Fund. Fund cash balance at June 30, 2012 was \$1,773,351 which was \$121,198 less than the cash balance at June 30, 2011. The change in the Building Construction Fund cash balance is due to the normal operating activities of the Fund. As of June 30, 2012, all buildings were occupied and in the close out phase of the project.

GENERAL FUND BUDGETARY HIGHLIGHTS

The statement comparing the District's General Fund original and final budgets and actual results are included on page 13. The original budget for a fiscal year is prepared in June each year when the Board adopts temporary appropriations to start the fiscal year that starts July 1. The final budget is adopted and approved by the Board at its June Board meeting each year to close out the year. Each month, the Board adopts amended appropriations for activity as needed. The Board also adopts (at least twice a year) a five-year forecast for the current year and the proceeding four years; this document is the working copy of the District's budget for the General fund. The District approved the final forecast for the year ending June 30, 2012 in May, 2012. Material variances, if any, were explained.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The District's financial statements are prepared on the modified cash basis of accounting and thus, capital assets acquired by the District are recorded as disbursements when paid and have not been capitalized.

Debt. The District issued new debt during the year ended June 30, 2012. The District paid principal of \$5,296,803 on seven bond issues. The District does not record debt balances outstanding on the financial statements. See Note 10 to the financial statements for additional information regarding debt.

CURRENT ISSUES AFFECTING FINANCIAL CONDITIONS

State law fixes the amount of tax receipts, forcing it to remain constant except for new valuations in the District. Management must plan expenditures accordingly, staying within the District's five-year plan.

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

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

The District is currently unable to determine what effect, if any the decision will have on its future State funding and on its financial operations. Due to the unsettled issues in the school funding, management is required to plan carefully and prudently to provide the resources to meet student needs over the next several years.

REQUESTS FOR ADDITIONAL INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ryan S. Stechschulte, Treasurer at Lima City School District, 755 St. Johns Avenue, Lima, Ohio 45804.

LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY

STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2012

	<u>Governmental</u> <u>Activities</u>
ASSETS:	
Current Assets:	
Equity in Pooled Cash and Investments	\$ 3,741,545
Investments	<u>3,061,001</u>
<i>Total Assets</i>	<u><u>\$ 6,802,546</u></u>
NET ASSETS:	
Nonspendable for Unclaimed Funds	\$ 2,805
Restricted for:	
Debt Service	915,067
Capital Improvements/Maintenance	3,071,424
Food Service Operations	1,165,572
District Managed Activities	212,307
State Educational Grants	146,874
Federal Educational Grants	156,005
Unrestricted	<u>1,132,492</u>
<i>Total Net Assets</i>	<u><u>\$ 6,802,546</u></u>

See accompanying notes to the basic financial statements.

LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY

STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Program Receipts				Net (Disbursements) Receipts and Changes
	Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	in Net Assets Governmental Activities
Governmental Activities:					
Instruction:					
Regular	16,983,697	\$ 439,393	\$ 3,509,897	\$ -	\$ (13,034,407)
Special	5,917,788	131,745	2,603,808	-	(3,182,235)
Vocational	1,683,220	51,504	891,010	-	(740,706)
Adult/Continuing	376,315	7,080	157,110	-	(212,125)
Other	9,998,814	316,383	40,833	-	(9,641,598)
Support Services:					
Pupils	3,400,354	93,212	505,352	-	(2,801,790)
Instructional Staff	2,823,900	23,045	2,176,058	-	(624,797)
Board of Education	107,156	3,471	46	-	(103,639)
Administration	4,069,233	116,613	419,865	-	(3,532,755)
Fiscal	981,150	28,404	146,558	-	(806,188)
Business	86,309	2,777	37	-	(83,495)
Operation and Maintenance of Plant	4,961,775	144,830	250,013	5,121	(4,561,811)
Pupil Transportation	787,804	19,158	169,858	2,391	(596,397)
Central	609,997	18,047	23,638	928	(567,384)
Operation of Non-Instructional Services	3,491,420	325,499	3,340,373	-	174,452
Extracurricular Activities	702,758	203,206	136	15,924	(483,492)
Capital Outlay	128,118	1,388	18	-	(126,712)
Debt Service:					
Principal	1,085,000	-	-	-	(1,085,000)
Interest and Fiscal Charges	474,784	-	-	-	(474,784)
Discount on Bonds Issued	29,412	-	-	-	(29,412)
Payment to Refunded Bond Escrow Agent	4,882,245	-	-	-	(4,882,245)
Refunding Bond Issuance Costs	88,230	-	-	-	(88,230)
Total Governmental Activities	<u>\$63,669,479</u>	<u>\$1,925,755</u>	<u>\$14,234,610</u>	<u>\$24,364</u>	<u>(\$47,484,750)</u>

General Receipts

Grants and Entitlements not Restricted to Specific Programs	33,269,913
Property and Other Local Taxes, Levied for:	
General Purposes	6,923,611
Debt Service	1,223,369
Maintenance of Facilities	96,053
Interest	23,789
Miscellaneous	306,523
Gifts and Donations	39,380
Rent	48,351
Refunding Bonds Issued	4,524,971
Premium on Refunding Bonds Issued	476,457
Proceeds from Sale of Capital Assets	55,000
Total General Receipts	<u>46,987,417</u>
Change in Net Assets	(497,333)
Net Assets Beginning of Year	<u>7,299,879</u>
Net Assets End of Year	<u>\$ 6,802,546</u>

See accompanying notes to the basic financial statements.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**STATEMENT OF ASSETS AND FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2012**

	<u>General Fund</u>	<u>Bond Retirement Fund</u>	<u>Food Service Fund</u>	<u>Building Construction Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:						
Equity in Pooled Cash and Investments	\$ 39,153	\$ 915,067	\$ 1,165,572	\$ 54,147	\$ 1,567,606	\$ 3,741,545
Investments	1,341,797			1,719,204		3,061,001
<i>Total Assets</i>	<u>\$ 1,380,950</u>	<u>\$ 915,067</u>	<u>\$ 1,165,572</u>	<u>\$ 1,773,351</u>	<u>\$ 1,567,606</u>	<u>\$ 6,802,546</u>
FUND BALANCES:						
Nonspendable for:						
Unclaimed Funds	\$ 2,805					\$ 2,805
Restricted for:						
Debt Service		915,067				915,067
Capital Improvements/Maintenance				1,773,351	1,298,073	3,071,424
Food Service Operations			1,165,572			1,165,572
District Managed Activities					212,307	212,307
State Educational Grants					146,874	146,874
Federal Educational Grants					156,005	156,005
Assigned for:						
School Programs	81,085					81,085
Encumbrances	296,892					296,892
Unassigned	1,000,168				(245,653)	754,515
<i>Total Fund Balances</i>	<u>\$ 1,380,950</u>	<u>\$ 915,067</u>	<u>\$ 1,165,572</u>	<u>\$ 1,773,351</u>	<u>\$ 1,567,606</u>	<u>\$ 6,802,546</u>

See accompanying notes to the basic financial statements.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**STATEMENT OF RECEIPTS, EXPENDITURES AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>General Fund</u>	<u>Bond Retirement Fund</u>	<u>Food Service Fund</u>	<u>Building Construction Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
RECEIPTS:						
Property and Other Local Taxes	\$ 6,923,611	\$ 1,223,369			\$ 96,053	\$ 8,243,033
Intergovernmental	34,526,991	315,020	2,645,672		9,998,500	47,486,183
Interest	11,576		241	11,164	808	23,789
Tuition and Fees	1,326,743				14,350	1,341,093
Rent	48,351					48,351
Extracurricular Activities	14,240				193,550	207,790
Gifts and Donations	18,340				63,744	82,084
Customer Sales and Services	47,269		329,603			376,872
Miscellaneous	306,523					306,523
Total Receipts	43,223,644	1,538,389	2,975,516	11,164	10,367,005	58,115,718
EXPENDITURES:						
Current:						
Instruction:						
Regular	13,459,885				3,523,812	16,983,697
Special	4,146,106				1,771,682	5,917,788
Vocational	1,621,973				61,247	1,683,220
Adult/Continuing	223,601				152,714	376,315
Other	9,955,569				43,245	9,998,814
Support Services:						
Pupils	2,869,423				530,931	3,400,354
Instructional Staff	725,137			49,535	2,049,228	2,823,900
Board of Education	107,156					107,156
Administration	3,670,496				398,737	4,069,233
Fiscal	803,325	28,898	22,658	15	126,254	981,150
Business	86,309					86,309
Operation and Maintenance of Plant	4,518,690		10,220		432,865	4,961,775
Pupil Transportation	603,403				184,401	787,804
Central	567,488				42,509	609,997
Operation of Non-Instructional Services			2,607,104		884,316	3,491,420
Extracurricular Activities	323,089				379,669	702,758
Capital Outlay	45,306			82,812		128,118
Debt Service:						
Principal		1,085,000				1,085,000
Interest		474,784				474,784
Bond Issuance Costs		88,230				88,230
Total Expenditures	43,726,956	1,676,912	2,639,982	132,362	10,581,610	58,757,822
Excess of Receipts Over (Under) Expenditures	(503,312)	(138,523)	335,534	(121,198)	(214,605)	(642,104)
OTHER FINANCING SOURCES AND USES:						
Transfers In		51,466				51,466
Refunding Bonds Issued		4,524,971				4,524,971
Premium on Refunding Bonds Issued		476,457				476,457
Discount on Bonds Issued		(29,412)				(29,412)
Sale of Assets	55,000					55,000
Transfers Out	(51,466)					(51,466)
Payment to Refunded Bond Escrow Agent		(4,882,245)				(4,882,245)
Total Other Financing Sources and Uses	3,534	141,237	0	0	0	144,771
Net Change in Fund Balances	(499,778)	2,714	335,534	(121,198)	(214,605)	(497,333)
Fund Balance at Beginning of Year	1,880,728	912,353	830,038	1,894,549	1,782,211	7,299,879
Fund Balance at End of Year	\$ 1,380,950	\$ 915,067	\$ 1,165,572	\$ 1,773,351	\$ 1,567,606	\$ 6,802,546

See accompanying notes to the basic financial statements.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
For the Fiscal Year Ended June 30, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
RECEIPTS:				
Property and Other Local Taxes	\$ 7,477,559	\$ 6,923,611	\$ 6,923,611	\$ -
Intergovernmental	35,752,132	34,555,367	34,526,991	(28,376)
Interest	15,000	15,000	11,576	(3,424)
Tuition and Fees	1,371,814	1,308,295	1,303,406	(4,889)
Rent	15,000	48,351	48,351	-
Customer Sales and Services	12,000	41,045	47,269	6,224
Miscellaneous	316,162	286,159	288,306	2,147
Total Receipts	44,959,667	43,177,828	43,149,510	(28,318)
DISBURSEMENTS:				
Current:				
Instruction:				
Regular	14,834,301	13,855,773	13,477,260	378,513
Special	4,347,851	4,243,022	4,146,106	96,916
Vocational	1,526,578	1,699,057	1,665,981	33,076
Adult/Continuing	214,050	225,673	223,601	2,072
Other	9,223,079	9,983,316	9,970,984	12,332
Support Services:				
Pupils	3,196,689	2,955,118	2,869,918	85,200
Instructional Staff	710,098	827,870	725,349	102,521
Board of Education	126,250	107,625	107,610	15
Administration	4,061,533	3,817,282	3,698,548	118,734
Fiscal	641,669	826,853	824,534	2,319
Business	-	45,722	45,320	402
Operation and Maintenance of Plant	4,468,434	4,642,826	4,609,551	33,275
Pupil Transportation	490,858	629,545	620,499	9,046
Central	774,465	586,737	584,888	1,849
Extracurricular Activities:				
Academic Oriented Activities	35,751	35,268	34,645	623
Sport Oriented Activities	283,964	226,014	225,565	449
School and Public Service Co-Curricular Activities	52,403	64,195	62,879	1,316
Capital Outlay:				
Other Facilities Acquisition and Construction	-	45,306	45,306	-
Total Disbursements	44,987,973	44,817,202	43,938,544	878,658
Excess of Receipts Over (Under) Disbursements	(28,306)	(1,639,374)	(789,034)	850,340
OTHER FINANCING SOURCES AND USES:				
Sale and Loss of Assets	60,000	55,000	55,000	-
Transfers Out	(167,851)	(51,466)	(51,466)	-
Total Other Financing Sources and Uses	(107,851)	3,534	3,534	-
Net Change in Fund Balances	(136,157)	(1,635,840)	(785,500)	850,340
Fund Balance at Beginning of Year	1,650,031	1,650,031	1,650,031	-
Prior Year Encumbrances Appropriated	136,585	136,585	136,585	-
Fund Balance at End of Year	\$ 1,650,459	\$ 150,776	\$ 1,001,116	\$ 850,340

See accompanying notes to the basic financial statements.

LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL - BUDGET BASIS
FOOD SERVICE FUND
For the Fiscal Year Ended June 30, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
RECEIPTS:				
Intergovernmental	\$ 1,891,000	\$ 2,645,725	\$ 2,645,672	\$ (53)
Interest	308	248	241	(7)
Miscellaneous	160	-	-	-
Customer Sales and Services	<u>437,078</u>	<u>329,694</u>	<u>329,603</u>	<u>(91)</u>
 Total Receipts	 2,328,546	 2,975,667	 2,975,516	 (151)
DISBURSEMENTS:				
Current:				
Support Services:				
Fiscal	24,100	24,100	22,658	1,442
Operation and Maintenance of Plant	22,000	26,000	10,220	15,780
Operation of Non-Instructional Services	<u>2,643,251</u>	<u>2,754,526</u>	<u>2,690,177</u>	<u>64,349</u>
 Total Disbursements	 <u>2,689,351</u>	 <u>2,804,626</u>	 <u>2,723,055</u>	 <u>81,571</u>
 Net Change in Fund Balances	 (360,805)	 171,041	 252,461	 81,420
 Fund Balance at Beginning of Year	 776,326	 776,326	 776,326	 -
 Prior Year Encumbrances Appropriated	 <u>53,712</u>	 <u>53,712</u>	 <u>53,712</u>	 <u>-</u>
 Fund Balance at End of Year	 <u>\$ 469,233</u>	 <u>\$ 1,001,079</u>	 <u>\$ 1,082,499</u>	 <u>\$ 81,420</u>

See accompanying notes to the basic financial statements.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FIDUCIARY FUNDS
June 30, 2012**

	<u>Private Purpose Trust Fund</u>	<u>Agency Fund</u>
ASSETS:		
Current Assets:		
Equity in Pooled Cash and Investments	\$ 245,646	\$ 33,816
Total Assets	<u>\$ 245,646</u>	<u>\$ 33,816</u>
NET ASSETS:		
Held in Trust for Scholarships	245,646	-
Undistributed Monies		724
Held for Students	<u>-</u>	<u>33,092</u>
Total Net Assets	<u>\$ 245,646</u>	<u>\$ 33,816</u>

See accompanying notes to the basic financial statements.

LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FIDUCIARY FUNDS
June 30, 2012

	<u>Private Purpose Trust Funds</u>
ADDITIONS:	
Gifts and Contributions	\$ 95,208
Interest	<u>81</u>
Total Additions	95,289
DEDUCTIONS:	
Payments in Accordance with Trust Agreements	<u>96,925</u>
Total Deductions	<u>96,925</u>
Change in Net Assets	(1,636)
Net Assets Beginning of Year	<u>247,282</u>
Net Assets End of Year	<u><u>\$ 245,646</u></u>

See accompanying notes to the basic financial statements.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Lima 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 statute and/or federal guidelines.

The School District was established in 1856 through the consolidation of existing land areas and school districts. The School District is the 58th largest in the State of Ohio (among 628 school districts) in terms of enrollment. It is staffed by 213 non-certificated employees and 413 certificated full-time teaching and administrative personnel who provide services to 3,754 students and other community members. The School District currently operates ten instructional/support facilities including one administrative center.

Reporting Entity

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

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

Component units are legally separate organizations for which the 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 has no component units which are significant in relation to the basic financial statements of the School District.

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

The School District is associated with three jointly governed organizations, one group purchasing pool and a related organization. These organizations include the Northwest Ohio Area Computer Services Cooperative, the West Central Ohio Regional Professional Development Center, the Northwestern Ohio Educational Research Council, Inc., the Allen County Schools Health Benefit Plan, and the Lima Public Library. These organizations are presented in Notes 15, 16 and 17 to the financial statements.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Although Ohio Administrative Code Section 117-2-03 (B) requires the School District's financial report to follow generally accepted accounting principles (GAAP), the School District chooses to prepare its financial statements and notes in accordance with the modified cash basis of accounting. The School District recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred.

The School District also reports long-term investments as assets, valued at cost. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved). Differences between disbursements reported in the government-wide and fund financial statements versus budgetary expenditures result from encumbrances outstanding at the beginning and end of the fiscal year.

B. 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 modified 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. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Accounting

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

1. Governmental Funds:

The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The School District's major funds are as follows:

General Fund - The General Fund is a set of accounts used to show all ordinary operations of a school system, generally all transactions which do not have to be accounted for in another fund.

Bond Retirement Fund – The Bond Retirement Fund is used to provide for the retirement of serial bonds and short term notes and loans. All tax receipts derived from general or special levies, either within or exceeding the ten-mill limitation, which is levied for debt charges on bonds, notes or loans shall be paid into this fund.

Food Service Fund – The Food Service Fund is used to record financial transactions related to food service operations.

Building Construction Project Fund – The Building Construction Project Fund is used to account for monies received and expended in connection with contracts entered into by the School District and the Ohio Department of Education for the building and equipping of classroom facilities.

The other governmental funds of the School District account for grants and other resources whose use is restricted or committed 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. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's Trust Fund accounts for scholarships and the Agency Fund accounts for various student-managed activities. Fiduciary funds are not included in the government-wide statements.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes the 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 fund level for all funds. Budgetary allocations at the function and object level within all funds are made by the Treasurer.

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

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation 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.

While the School District is reporting financial position, results of operation, and changes in fund balances on the modified cash basis fund statements, the budgetary basis as provided by law is based upon accounting for certain transactions of cash receipts, disbursements and encumbrances. The budgetary comparison statements for the General and Food Service funds are presented on the budgetary basis of to provide a meaningful comparison of actual results with the budget. The adjustments necessary to reconcile modified cash and budget basis statements are as follows:

	<u>Net Change in Fund Balance</u>	
	<u>General Fund</u>	<u>Food Service Fund</u>
Cash Basis	\$ (499,778)	\$ 335,534
Encumbrances	(294,148)	(83,073)
Excess of Funds Combined with General Fund for Reporting Purposes	<u>8,426</u>	<u>-</u>
Budget Basis	<u>\$ (785,500)</u>	<u>\$ 252,461</u>

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Cash and Investments

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

During fiscal year 2012, investments were limited to Federal National Mortgage Association, Federal Home Loan Bank, Federal Home Loan Mortgage, US Treasury Money Market 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, 2012.

Following Ohio Statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest earnings credited to the General Fund during fiscal year 2012 was \$11,576, which included \$6,063 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

A. Capital Assets

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

B. 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 modified cash basis of accounting used by the School District.

C. Long-Term Liabilities

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

D. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance category includes amounts that cannot be spent because there are in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

I. Fund Balance (Continued)

Restricted – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

Committed – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the School District's governing board. Those committed amounts cannot be used for any other purpose unless the governing board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by the District's governing board.

Unassigned – Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The School District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

J. 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 expenditures 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 expenditures to the funds that initially paid for them are not presented on the financial statements.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Net Assets

Net cash assets represent cash assets held by the School District at year-end. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. The School District applies restricted resources when a cash disbursement is made for purposes for which both restricted and unrestricted net assets are available. As of June 30, 2012, of the School District's \$5,667,249 restricted net assets, \$0 was restricted by enabling legislation.

3. ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At June 30, 2012, the School District reported fund deficits in the following non-major governmental grant funds: Alternative Education (\$3,365), Miscellaneous State Grants (\$97,975), Perkins Vocational Education (\$17,182), Title II-D (\$15,347), School Improvement (\$25,803), School Improvement-Sub G (\$44,501), Title III-LEP (\$280), Title II-A (\$24,305), and Miscellaneous Federal Grants (\$16,895). These fund deficits occurred as grant expenditures were made in advance of receiving the funding to minimize the amount of federal cash maintained on hand at the School District. The cash balance within the General Fund was sufficient to cover these deficits until grant funding was received in the subsequent fiscal year.

B. Compliance

Ohio Administrative Code, Section 117-2-03 (B), requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the School District prepared its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The School District can be fined and various other administrative remedies may be taken against the School District.

4. DEPOSITS AND INVESTMENTS

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

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

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

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

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

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

1. United States treasury notes, bills, bonds, or other obligations of or securities issued by the United States treasury or any other obligation guaranteed as to the payment of principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. Interim deposits in the eligible institutions applying for interim money as provided in section 135.08 of the Revised Code;
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 for a period not to exceed one hundred eighty days and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time;
9. Commercial paper notes issued by any entity that is defined in division (D) of section 1705.01 of the Revised Code and has assets exceeding five hundred million dollars, and to which notes are rated at the time of purchase in the highest classification established by at least two standard rating services; the aggregate value of the notes does not exceed ten percent of the aggregate value of the outstanding commercial paper of the issuing corporation; the notes mature no later than one hundred eighty days after purchase; and

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

10. Bankers' acceptances of banks that are members of the federal deposit insurance corporation to which obligations both the following apply: obligations are eligible for purchase by the federal reserve system and the obligations mature no later than one hundred eighty days after purchase.

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

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

A. Cash on Hand

At fiscal year end, the School District had \$200 in undeposited cash on hand which is included on the balance sheet of the School District as part of "Equity in Pooled Cash and Investments".

B. 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, the carrying amount of the School District's deposits was \$3,715,608, and the bank balance was \$4,299,126. Of the bank balance, \$1,160,635 was covered by federal depository insurance and \$3,138,491 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law required 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 one hundred five percent of the deposits being secured.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

C. Investments

The School District's investments are categorized below to give an indication of the level of risk assumed by the School District at fiscal year end.

	Carrying Value	Market Value	Investment Maturities (in years)		Credit Rating S&P
			Less than 1	1-5	
Federal National Mortgage Assoc.	\$ 1,486,754	\$ 1,487,039	\$ -	\$ 1,487,039	AA+
Federal Home Loan Bank	1,244,196	1,242,333	-	1,242,333	AA+
Federal Home Loan Mortgage	330,050	329,960	-	329,960	AA+
US Treasury Money Market funds	42,429	42,429	42,429	-	AAA
STAR Ohio	262,771	262,771	262,771	-	AAAm
Total Investments	<u>\$ 3,366,200</u>	<u>\$ 3,364,532</u>	<u>\$ 305,200</u>	<u>\$ 3,059,332</u>	

The School District uses the modified cash basis of accounting and records all investments at cost rather than at market value.

Interest Rate Risk – The School District does have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. In practice, the School District manages its exposure to declines in fair values by limiting the maximum maturity of its investment portfolio to five years.

Credit Risk –The School District limits their investments to Federal National Mortgage Association, Federal Home Loan Bank, Federal Home Loan Mortgage, US Treasury Money Market Funds and STAR Ohio.

Concentration of Credit Risk – The School District's investment policy allows investments in Repurchase Agreements, US Government Securities and Instrumentalities, Money Market Mutual Funds and STAR Ohio and allowable investments as defined by Ohio Revised Code Sections 133 and 135. The School District has invested 44% in Federal National Mortgage Association, 37% in Federal Home Loan Bank, 10% in Federal Home Loan Mortgage, 1% in US Treasury Money Market, and 8% in STAR Ohio.

Custodial Credit Risk - Custodial credit risk is the risk that in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the School District's securities are either insured and registered in the name of the School District or at least registered in the name of the School District. The School District has no investment policy dealing with investment custodial risk beyond the requirement in state statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

5. PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis, while the School District's fiscal year runs from July through June. First-half tax distributions are received by the School District in the second half of the fiscal year. Second-half tax distributions are received in the first half of the following fiscal year. Property taxes include amounts levied against all real property, public utility property, and tangible personal property (used in business) located in the School District. Real and public utility property tax receipts received in calendar year 2012 represent the collection of calendar year 2011 taxes. Real property taxes for calendar year 2012 are levied after April 1, 2011, on the assessed values as of January 1, 2011, 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 receipts received in calendar 2012 represent collections of calendar year 2011 taxes. Public utility real and tangible personal property taxes received in calendar year 2012 became a lien December 31, 2011, were levied after April 1, 2011 and are collected with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax receipts received in calendar year 2012 (other than public utility property) represent the collection of calendar year 2012 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property taxes received from telephone companies in calendar year 2012 were levied after October 1, 2011, on the value as of December 31, 2011. 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 Allen County. The County Auditor periodically advances to the School District its portion of the taxes collected.

Ohio House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies and railroads. The tax on general business and railroad property was eliminated in calendar year 2009 and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces receipts lost by the School District due to the phasing out of the tax. In calendar years 2006 through 2010, the School District was fully reimbursed at the level of calendar year 2004 assessed values for the lost receipts. In calendar years 2011 through 2017, the reimbursements will be phased out.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

5. PROPERTY TAXES (Continued)

The assessed values upon which the fiscal year 2012 taxes were collected are:

	2011 Second- Half Collections		2012 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$316,731,910	94.63%	\$291,074,500	94.32%
Public Utility	16,788,770	5.02%	17,519,020	5.68%
Tangible Personal	<u>1,194,720</u>	<u>.35%</u>	<u>0</u>	<u>0%</u>
Total Assessed Value	<u>\$334,715,400</u>	<u>100.00%</u>	<u>\$308,593,520</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$41.62		\$42.85	

6. RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, or damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. During fiscal year 2012, the School District contracted with The Midwestern Indemnity Company for property, general liability and business personal property insurance. Limits for these coverages are \$124,332,480, \$1,000,000 each occurrence and \$2,000,000 general aggregate limit and \$25,000,000, respectively. Professional liability is protected by The Midwestern Indemnity Company with \$1,000,000 each occurrence, \$1,000,000 aggregated limit.

Vehicles are covered by The Midwestern Indemnity Company and have a \$1,000 deductible for comprehensive and collisions. Automobile liability has a \$1,000,000 combined single limit of liability.

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

Public officials' bond insurance is provided by American States Insurance Company for a total of \$140,000.

B. Workers' Compensation

The School District provided Workers' Compensation for its employees. The firm of Sheakley Uniservice, Inc. served as our third party administrator (TPA) and provided administrative, cost control, assistance with safety programs and actuarial services to the School District. Comp Management served as our medical care organization (MCO) and handled our medical claims.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

6. RISK MANAGEMENT (Continued)

C. Health Insurance

The School District participates in the Allen County Schools Health Benefit Plan (the Plan), a public entity shared risk pool consisting of some of the school districts within Allen County. The School District pays monthly premiums to the Plan for employee medical and dental benefits. The Plan is responsible for the management and operations of the program. Upon withdrawal from the Plan, a participant is responsible for the payment of all Plan liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description - The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Employees/Audit Resources.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. 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 Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2012, the allocation to pension and death benefits is 12.70 percent. The remaining 1.30 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$812,686, \$814,736 and \$880,438 respectively; 100 percent of the required contributions were made for each of the three years.

B. State Teachers Retirement System

Plan Description - The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all 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 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, 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 DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years 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 DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For the fiscal year ended June 30, 2012, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2011, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011, and 2010 were \$2,870,466, \$3,175,952 and \$2,930,907, respectively; 100 percent of the required contributions were made for each of the three years.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2012, three members of the Board of Education have elected Social Security. The contribution rate is 6.2 percent of wages.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

8. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description – The School District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2012, .55 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2012, this amount was \$96,013.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School District's contributions for health care for the fiscal years ended June 30, 2012, 2011 and 2010 were \$35,195, \$98,651 and \$31,690 respectively; 100 percent of the required contributions were made for each of the three years.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2012, this actuarially required allocation was 0.75 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$47,993, \$52,430 and \$52,358 respectively; 100 percent of the required contributions were made for each of the three years.

B. State Teachers Retirement System

Plan Description – The School District contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

B. State Teachers Retirement System (Continued)

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$220,805, \$244,304 and \$232,200 respectively; 100 percent of the required contributions were made for each of the three years.

9. OTHER EMPLOYEE BENEFITS

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 five 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.

10. LONG-TERM DEBT OBLIGATIONS

Under the modified cash basis of accounting, debt obligations are not reported as a liability in the accompanying basic financial statements. However, information regarding such changes in the School District's general long-term obligations (excluding capital leases and compensated absences) during 2012 is as follows:

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

10. LONG-TERM DEBT OBLIGATIONS (Continued)

	Balance			Balance	Amount Due
	6/30/2011	Additions	Deletions	6/30/2012	with in One Year
General Obligation Bonds - 2000					
School Facilities - Various Purpose:					
Serial and Term Bonds - 5-6%	60,000	-	-	60,000	-
Capital Appreciation Bonds - 9.99%	190,744	-	100,015	90,729	90,729
General Obligation Bonds - 2000					
School Facilities:					
Serial and Term Bonds - 4.7-5.5%	495,000	-	495,000	-	-
Capital Appreciation Bonds - 10.73%	384,999	-	-	384,999	141,957
General Obligation Bonds - 2001					
Various Purpose:					
Serial and Term Bonds - 5.0%	375,000	-	330,000	45,000	45,000
General Obligation Bonds - 2003					
School Improvement:					
Serial and Term Bonds - 2 - 4.8%	4,359,996	-	4,219,996	140,000	-
Capital Appreciation Bonds 24.578%	31,924	-	16,792	15,132	15,132
General Obligation Bonds - 2005					
School Facilities Refunding					
Serial and Term Bonds - 3-5%	7,935,000	-	135,000	7,800,000	145,000
Capital Appreciation Bonds - 24.33%	464,990	-	-	464,990	-
General Obligation Bonds - 2012A					
School Improvement Refunding					
Serial Bonds - 1.5-3%	-	4,125,000	-	4,125,000	90,000
Capital Appreciation Bonds - 21.51%	-	94,970	-	94,970	-
General Obligation Bonds - 2012B					
Various Purpose Refunding					
Serial Bonds - 1.5%	-	305,000	-	305,000	10,000
	-	-	-	-	-
	<u>\$ 14,297,653</u>	<u>\$ 4,524,970</u>	<u>\$ 5,296,803</u>	<u>\$ 13,525,820</u>	<u>\$ 537,818</u>

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

10. LONG-TERM DEBT OBLIGATIONS (Continued)

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

The total budget for the project was \$104,029,247, of which \$92,663,247 was awarded in school facilities monies and \$11,366,000 was the School District's share of the project. The School District issued bonds which are being repaid from the proceeds of a tax levy. An additional property tax levy of one-half mill levy was levied for a twenty-three year period to maintain the facilities. If the School District's three-year average adjusted valuation per pupil increases above the state-wide median three-year adjusted valuation per pupil, the School District may become responsible for repayment of a portion of the State's contribution. Based on the School District's adjusted valuation relative to the state-wide median adjusted valuation, this possibility appears remote. This debt is not reflected in the general long-term obligations schedule above.

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

The bond issue included serial, term and capital appreciation bonds in the amount of \$2,535,000, \$4,030,000 and \$300,997, respectively. The bonds were issued for a twenty three year period. On November 10, 2005, a portion of these bonds were refunded. The bonds are being retired with a voted 5.1 mill property tax levy from the Debt Service Fund with a final maturity date of December 1, 2013.

School Facilities Bonds - Classroom Facilities - On June 15, 2000, the School District issued \$9,999,999 in general obligation bonds authorized pursuant to a vote of the electors of the School District at an election held on November 2, 1999, under the authority of Ohio Revised Code Chapter 133. The proceeds of the Bonds were used to pay outstanding bond anticipation notes issued for the purpose of paying the local share of school construction under the State of Ohio Classroom Facilities Construction Program. The bond issue included serial, term and capital appreciation bonds in the amount of \$4,580,000, \$5,035,000 and \$384,999, respectively. The bonds were issued for a twenty three year period. On November 10, 2005, a portion of these bonds were refunded. The bonds are being retired with a voted 5.1 mill property tax levy from the Debt Service Fund with a final maturity date of December 1, 2014.

Various Purpose Bonds – On December 1, 2001, the School District issued \$1,556,988 in unvoted general obligation bonds for the purpose of acquiring school buses, refunding the July 31, 1995 General Obligation Notes issued for energy conservation and refunding the September 25, 1998 General Obligations Bonds issued for the purchase of the Academy of Learning, under the authority of the Ohio Revised Code Section 133. The bonds were issued for a fifteen-year period with final maturity during fiscal year 2017. On March 1, 2012, a portion of these bonds were refunded. The bonds are being retired from the Debt Service Fund.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

10. LONG-TERM DEBT OBLIGATIONS (Continued)

School Improvement Bonds – On October 22, 2003, the School District issued \$4,764,996 of general obligation bonds authorized pursuant to a vote of the electors of the School District at an election held May 6, 2003 under the authority of the Ohio Revised Code Chapter 133. The proceeds of the Bonds were used to pay costs of improving, construction, reconstructing, renovating, remodeling, enlarging, furnishing and equipping (including educational technology) building and facilities and acquiring and improving sites for school purposes. The bond issue included serial, term and capital appreciation bonds in the amount of \$1,625,000, \$3,050,000 and \$89,996, respectively. The bonds were issued for a twenty five-year period with final maturity December 1, 2028. On March 1, 2012, a portion of these bonds were refunded. The bonds are being retired from the Debt Service Fund.

School Facilities Advance Refunding Bonds – On November 10, 2005, the School District issued \$8,540,000 in serial and term bonds and \$464,990 in capital appreciation bonds to provide resources to purchase U.S. Government Securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the following debt. The School District placed \$9,825,593 with the refunding bond escrow agent to advance refund \$3,970,000 of the School Facilities Bonds – Various Purpose dated June 1, 2000 and maturing on December 1, 2022 and \$5,035,000 of the School Facilities Bonds – Classroom Facilities dated June 15, 2000 and maturing on December 1, 2022. The bonds were issued for a seventeen-year period with final maturity December 1, 2022. The bonds are being retired from the Debt Service Fund. The amounts of each of the bond issues which were advance refunded are considered defeased and as such are not shown in the accompanying schedule of changes in general long-term obligations.

School Improvement Advance Refunding Bonds – On March 1, 2012, the School District issued \$4,125,000 in serial bonds and \$94,970 in capital appreciation bonds to provide resources that will be used to advance refund the outstanding \$4,220,000 School Improvement Bonds dated October 22, 2003. These funds will be deposited in an Escrow Fund (the 2012A Voted Bonds Escrow Fund) held by The Huntington National Bank (the Escrow Agent), pursuant to an Escrow Agreement between the School District and the Escrow Agent dated as of March 1, 2012 (the 2012A Voted Bonds Escrow Agreement). The money deposited in the 2012A Voted Bonds Escrow Fund will be held in cash or invested solely in direct or guaranteed non-callable obligations of the United States of America (the Government Obligations) the principal of which, when due, and interest will be sufficient to provide for the payment of (i) the interest on the 2003 Refunded Bonds beginning with the first interest payment date for the 2003 Refunded Bonds following the delivery of the Unlimited Tax Bonds through December 1, 2013, and (ii) the principal of the 2003 Refunded Bonds to be called for redemption on December 1, 2013. The bonds were issued for an eighteen-year period with final maturity June 1, 2029. The bonds are being retired from the Debt Service Fund.

Various Purpose Advance Refunding Bonds – On March 1, 2012, the School District issued \$305,000 in serial bonds to provide resources that will be used to advance refund \$290,000 of the outstanding \$335,000 Various Purpose Bonds dated December 1, 2001. These funds will be deposited in an Escrow Fund (the 2012B Unvoted Bonds Escrow Fund) held by The Huntington National Bank (the Escrow Agent), pursuant to an Escrow Agreement between the School District and the Escrow Agent dated as of March 1, 2012 (the 2012B Unvoted Bonds Escrow Agreement).

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

10. LONG-TERM DEBT OBLIGATIONS (Continued)

Various Purpose Advance Refunding Bonds (Continued)

The money deposited in the 2012B Unvoted Bonds Escrow Fund will be held in cash or invested solely in direct or guaranteed non-callable obligations of the United States of America (the Government Obligations) the principal of which, when due, and interest will be sufficient to provide for the payment of (i) the interest on the 2001 Refunded Bonds beginning with the first interest payment date for the 2001 Refunded Bonds following the delivery of the Limited Tax Bonds through December 1, 2012 and (ii) the principal of the 2001 Refunded Bonds to be called for redemption on December 1, 2012. The bonds were issued for a six-year period with final maturity December 1, 2017. The bonds are being retired from the Debt Service Fund.

As a result of the fiscal year 2012 refunding, the refunded bonds are considered to be defeased as of June 30, 2012. The reacquisition price exceeded the net carrying amount of the old debt by \$372,245. This advanced refunding was undertaken to reduce total debt service payments over the next seventeen years by \$558,517 and resulted in an economic gain of \$119,182. As of June 30, 2012, \$4,510,000 of bonds considered defeased by the School District, as described above, remain outstanding.

The capital appreciation bonds issued on June 1, 2000 are not subject to redemption prior to scheduled maturity. The capital appreciation bonds will mature in fiscal years 2011 through 2013. The maturity amount of the bonds is \$915,000. However, under the modified cash basis of accounting, the outstanding balance in the schedule of changes in general long-term obligations is recorded at the original issue amount and no accretion is reported.

The capital appreciation bonds issued on June 15, 2000 are not subject to redemption prior to scheduled maturity. The capital appreciation bonds will mature in fiscal years 2013 through 2015. The maturity amount of the bonds is \$1,560,000. However, under the modified cash basis of accounting, the outstanding balance in the schedule of changes in general long-term obligations is recorded at the original issue amount and no accretion is reported.

The general obligation term bonds issued on October 22, 2003, due on December 1, 2028, are subject to mandatory sinking fund redemption in part by lot pursuant to the terms of the mandatory sinking fund redemption requirements of the Authorizing Legislation. The mandatory redemption is at a redemption price equal to 100% of the principal amount redeemed, plus accrued interest to the date of redemption date, as follows:

Year	Principal Amount to be Redeemed
2014	155,000
2016	200,000
2018	240,000
2024	325,000
2026	360,000
2027	375,000

The capital appreciation bonds are not subject to redemption prior to scheduled maturity. The capital appreciation bonds will mature in fiscal years 2006 through 2013. The maturity amount of the bonds is \$375,000. However, under the modified cash basis of accounting, the outstanding balance in the schedule of changes in general long-term obligations is recorded at the original issue amount and no accretion is reported.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

10. LONG-TERM DEBT OBLIGATIONS (Continued)

The capital appreciation bonds issued on November 10, 2005 are not subject to redemption prior to scheduled maturity. The capital appreciation bonds will mature in fiscal years 2016 and 2017. The maturity amount of the bonds is \$2,045,000. However, under the modified cash basis of accounting, the outstanding balance in the schedule of changes in general long-term obligations is recorded at the original issue amount and no accretion is reported.

The general obligation serial bonds issued on March 1, 2012, due December 1, 2028, are subject to prior redemption. Serial bonds maturing on or after December 1, 2022 are subject to prior redemption by and at the sole option of the School District either in whole or in part (as selected by the Board and in whole multiples of \$5,000), on any date on or after December 1, 2021 at a redemption price equal to 100% of the principal amount redeemed, plus accrued interest to the redemption date. The capital appreciation bonds are not subject to redemption prior to scheduled maturity. The capital appreciation bonds will mature in fiscal years 2020 and 2021. The maturity amount of the bonds is \$495,000. However, under the modified cash basis of accounting, the outstanding balance in the schedule of changes in general long-term obligations is recorded at the original issue amount and no accretion is reported.

The general obligation serial bonds issued on March 1, 2012, due on December 1, 2017, are not subject to redemption prior to scheduled maturity.

Principal and interest requirements to retire the bonds outstanding at June 30, 2012 are as follows:

The obligation of Capital Appreciation Bonds (CAB) accreted principal above is the difference between the original issue amount and the maturity amount. The table showing changes in long-term debt reflects the original CAB principal amount minus the payment of accreted principal in the year it matures and is paid.

<u>Years</u>	<u>Principal</u>	<u>CAB Accreted Principal</u>	<u>Interest</u>	<u>Total</u>
2013	537,818	702,182	437,440	1,677,440
2014	832,867	392,133	416,920	1,641,920
2015	865,175	404,825	387,875	1,657,875
2016	534,372	775,628	371,712	1,681,712
2017	520,618	804,382	367,288	1,692,288
2018-2022	6,624,970	400,030	1,239,213	8,264,213
2023-2027	2,885,000	0	259,687	3,144,687
2028-2029	725,000	0	21,825	746,825
TOTALS	<u>\$13,525,820</u>	<u>\$3,479,180</u>	<u>\$3,501,960</u>	<u>\$20,506,960</u>

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

11. INTERFUND ACTIVITY

The following interfund activity occurred during the fiscal year:

<u>Interfund Transfers</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ -	\$51,466
Major Debt Service Fund Bond Retirement	<u>51,466</u>	<u>-</u>
Total Transfers In/Out	<u>\$51,466</u>	<u>\$51,466</u>

General Fund (Major fund) transfers were made to the Bond Retirement Fund (Major Debt Service Fund). These transfers were made for the retirement of debt.

All intrafund transfers were eliminated for purposes of reporting in the School District-Wide Financial Statements.

12. CONTRACTUAL COMMITMENTS

As of June 30, 2012, there were no material contractual commitments.

13. ENCUMBRANCES

At year end, the School District had the following amounts encumbered for future purchase obligations:

<u>Fund</u>	<u>Encumbrances</u>
General Fund	\$296,892
Bond Retirement Fund	-
Food Service Fund	83,073
Building Construction Fund	38,711
Nonmajor Governmental Funds	<u>161,271</u>
Total Encumbrances	<u>\$579,947</u>

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

14. STATUTORY RESERVES

The School District is required by state law to set aside certain general fund receipt amounts, as defined, into various reserves. For fiscal year ended June 30, 2012, the reserve activity was as follows:

	<u>Capital Acquisition</u>
Set Aside Reserve Balance June 30, 2011	\$ 0
Current Year Set Aside Requirement	682,559
Current Year Qualifying Expenditures	(608,311)
Excess Qualified Expenditures from Prior Years	(74,248)
Current Year Offsets	0
Prior Year Offset from Bond Proceeds	<u>0</u>
Total	<u>\$ 0</u>
Balance Carried Forward to Fiscal Year 2013	<u>\$ 0</u>
Set Aside Reserve Balance June 30, 2012	<u>\$ 0</u>

The total reserve cash balance for the set-aside at the end of the fiscal year was \$0.

15. JOINTLY GOVERNED ORGANIZATIONS

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 public school districts within the boundaries of Allen, Putnam, Mercer, Hancock, Van Wert, and Paulding Counties and Cities of Wapakoneta and St. Marys. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. Financial information can be obtained from Ray Burden, who serves as director, at 645 South Main Street, Lima, Ohio 45804.

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

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

15. JOINTLY GOVERNED ORGANIZATIONS (Continued)

The degree of control exercised by any participating school district is limited to its representation on the Board

West Central Ohio Regional Professional Development Center (Center) (Continued)

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

Northwestern Ohio Educational Research Council, Inc. - The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials, and provide opportunities for training. The NOERC serves a twenty-five county area in Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., 441 East Market Street, Celina, Ohio 45822.

16. GROUP PURCHASING POOLS

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

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

Financial information can be obtained from Brian Rockhold, who serves as Chairman, at the Allen County Educational Service Center, 1920 Slabtown Road, Lima, Ohio 45804.

17. RELATED ORGANIZATION

Lima Public Library - The Lima 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 Lima 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 Lima Public Library, Scott Shafer, Clerk/Treasurer, 650 West Market Street, Lima, Ohio 45801.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

18. CONTINGENCIES

A. Litigation

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

B. Student Attendance Data and Grants

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

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. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2012, if applicable, cannot be determined at this time.

Lima City School District
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2012

Federal Agency/ Pass Through Agency/ Program Title	Federal CFDA Number	Receipts	Disbursements
U.S. Department of Agriculture:			
<i>Passed through Ohio Department of Education:</i>			
Nutrition Cluster:			
Non-Cash Assistance (Food Distribution):			
National School Breakfast Program	10.553	\$ 87,089	\$ 87,089
National School Lunch Program	10.555	153,206	153,206
Cash Assistance:			
National School Breakfast Program	10.553	880,093	880,093
National School Lunch Program	10.555	1,548,241	1,548,241
Summer Food Service Lunch Program	10.559	65,955	65,955
Total Nutrition Cluster		<u>2,734,584</u>	<u>2,734,584</u>
Child and Adult Care Food Program (School Snacks)	10.558	7,403	7,403
State Administrative Expenses for Child Nutrition (Farm to School)	10.560	2,000	1,678
Fresh Fruit and Vegetable Program	10.582	95,721	95,721
Total US Department of Agriculture		<u>2,839,708</u>	<u>2,839,386</u>
U.S. Department of Labor:			
<i>Passed through Allen County Department of Job and Family Services:</i>			
Workforce Investment Act - Youth	17.259	142,833	184,383
Total US Department of Labor		<u>142,833</u>	<u>184,383</u>
U.S. Department of Education:			
<i>Passed through Ohio Department of Education:</i>			
Adult Education Basic Grants to States	84.002	300,970	292,721
Title I, Part A Cluster:			
Title I Grants to Local Education Agencies	84.010	3,099,302	2,919,283
School Improvement Subsidy A	84.010	295,193	300,577
ARRA - Title I Grants to Local Education Agencies	84.389	116,265	72,882
Total Title I, Part A Cluster		<u>3,510,760</u>	<u>3,292,742</u>
Special Education Cluster:			
<i>Passed through Putnam County Educational Service Center:</i>			
Special Education Grants to States	84.027	-	45
<i>Passed through Ohio Department of Education:</i>			
Special Education Grants to States	84.027	1,381,306	1,309,097
Special Education Preschool Grants	84.173	40,543	38,624
ARRA - Special Education Grants to States	84.391	23,448	34,061
ARRA - Special Education Preschool Grants to States	84.392	15,277	12,099
Total Special Education Cluster		<u>1,460,574</u>	<u>1,393,926</u>

(Continued)

See accompanying notes to the Schedule of Expenditures of Federal Awards.

Lima City School District
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2012

Federal Agency/ Pass Through Agency/ Program Title	Federal CFDA Number	Receipts	Disbursements
<i>Passed through Ohio Department of Education:</i>			
Career Educational Grants to States	84.048	174,333	165,990
Education of Homeless Children and Youth Cluster:			
Education of Homeless Children and Youth	84.196	42,194	45,930
ARRA - Education of Homeless Children and Youth	84.387	<u>1,564</u>	<u>-</u>
Total Education of Homeless Children and Youth Cluster		43,758	45,930
<i>Passed through Rhodes State College:</i>			
Tech-Prep Education	84.243	7,843	-
<i>Passed through Ohio Department of Education:</i>			
Twenty-First Century Community Learning Centers	84.287	106,390	110,417
Educational Technology State Grants Cluster:			
Education Technology State Grants	84.318	11,354	27,449
ARRA - Education Technology State Grants	84.386	<u>53,073</u>	<u>40,346</u>
Total Education Technology State Grants Cluster		64,427	67,795
<i>Passed through Auglaize County Educational Service Center:</i>			
English Language Acquisition Grants	84.365	2,902	3,181
<i>Passed through Ohio Department of Education:</i>			
Improving Teacher Quality State Grants	84.367	762,464	753,243
ARRA - School Improvement Grants	84.388	977,049	919,355
Education Jobs	84.410	<u>1,469,492</u>	<u>1,469,492</u>
Total U.S. Department of Education		<u>8,880,962</u>	<u>8,514,792</u>
Total Federal Assistance		<u>\$ 11,863,503</u>	<u>\$ 11,538,561</u> (Concluded)

See accompanying notes to the Schedule of Expenditures of Federal Awards.

1. Significant Accounting Policies:

The accompanying schedule of expenditures of federal awards is a summary of the federal awards programs of the Lima City School District. This schedule has been prepared on the cash basis of accounting.

2. U.S. Department of Agriculture Programs:

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. When reporting expenditures on the schedule of expenditures of federal awards, it is assumed federal monies are expended first.

3. Food Commodities Program:

Non-monetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the schedule at the fair market value of the commodities received and consumed. At June 30, 2012 the District had no significant food commodities in inventory.

4. Matching Requirements:

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

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Education
Lima City School District
755 St. Johns Avenue
Lima, Ohio 45804

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lima City School District (the District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 31, 2012, in which it was noted the District prepared its financial statements on a modified cash accounting basis, which is a basis other than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

2525 north limestone street, ste. 103
springfield, oh 45503

www.cshco.com
p. 937.399.2000
f. 937.399.5433

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that we are required to report under *Government Auditing Standards* which is described in the accompanying schedule of findings and questioned costs as item 2012-001.

We also noted certain matters that we reported to management of the District, in a separate letter dated December 31, 2012.

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

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

A handwritten signature in cursive script that reads "Clark, Schaefer, Hackett & Co." The signature is written in black ink on a light-colored background.

Springfield, Ohio
December 31, 2012

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Education
Lima City School District
755 St. Johns Avenue
Lima, Ohio 45804

Compliance

We have audited the compliance of the Lima City School District (the District), with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

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springfield, oh 45503

www.cshco.com
p. 937.399.2000
f. 937.399.5433

Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Clark, Schaefer, Hachett & Co.

Springfield, Ohio
December 31, 2012

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	None noted
• Significant deficiency(ies) identified not considered to be material weakness(es)?	None noted
Noncompliance material to financial statements noted?	Yes

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	None noted
• Significant deficiency(ies) identified not considered to be material weakness(es)?	None noted

Type of auditors’ report issued on compliance for major programs:	Unqualified
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Any audit findings that are required to be reported in accordance with 510(a) of Circular A-133?	None noted
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Identification of major programs:

Nutrition Cluster:

- CFDA 10.553 – School Breakfast Program
- CFDA 10.555 – School Lunch Program
- CFDA 10.559 – School Lunch Summer Program

CFDA 84.388 – ARRA – School Improvement Grants

CFDA 84.367 – Title II-A

CFDA 84.410 – Education Jobs

Dollar threshold to distinguish between Type A and Type B programs:	\$346,157
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Auditee qualified as low-risk auditee?	No
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SECTION II – FINANCIAL STATEMENT FINDINGS

2012-001: Reporting Annual Financial Statements

Condition: The District's annual financial statements follow a comprehensive accounting basis other than accounting principles generally accepted in the United States of America (GAAP).

Criteria: Ohio Administrative Code Section 117-2-3(B) requires the District to prepare its annual financial report in accordance with GAAP.

Effect: Pursuant to Ohio Rev. Code Section 117.38 the District may be fined and subject to various other administrative remedies for its failure to file the required financial report in accordance with GAAP.

Cause: Due to current economic issues, the District elected to prepare and submit its annual financial report on the cash basis of accounting as a means to realize savings in accounting and auditing fees on an annual basis. The accompanying financial statements and notes omit material assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

Recommendation: We recommend the District further consider reporting its annual financial report in accordance with GAAP to include all assets, liabilities and disclosures to provide a complete presentation of its financial status.

Management Response: The School District officials do not believe that preparing financial statements in accordance with generally accepted accounting principles is cost beneficial.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None noted

Finding 2011-001: Reporting Annual Financial Statements

The District's annual financial statements follow a comprehensive accounting basis other than accounting principles generally accepted in the United States of America (GAAP). Ohio Administrative Code Section 117-2-3(B) requires the District to prepare its annual financial report in accordance with GAAP.

Status: Uncorrected; see current audit finding 2012-001

Finding 2011-002: State Fiscal Stabilization – ARRA – CFDA No. 84.394

The District did not expend federal funds advanced in a timely manner in accordance with 34 CFR 80.20(b)(7).

Status: Partially Corrected; see current year management letter

Finding 2011-003: School Improvement Grants Cluster – ARRA – CFDA No. 84.377 and 84.388

During the prior period, the District did not comply with cumulative reporting of vendors receiving single payments greater than \$25,000 on the 1512 ARRA Subrecipient Vendor report.

Status: Not Applicable; compliance is no longer being tested at the local entity level.



At Clark Schaefer Hackett, we are the sum of our individuals. Each team member's training, experience and drive is well-suited to each client's needs and goals. We are committed to providing insightful and flexible service – from efficient compliance to sophisticated consulting – to help each client prosper today and plan for future success



Dave Yost • Auditor of State

LIMA CITY SCHOOL DISTRICT

ALLEN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 26, 2013