SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY

SINGLE AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Auditor of State
Betty Montgomery

SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Spencerville Local School District
Allen County
600 School Street
Spencerville, Ohio 45887

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Spencerville Local School District, Allen County, (the School District) as of and for the year ended June 30, 2003, as listed in the table of contents. These general-purpose financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Spencerville Local School District, Allen County, as of June 30, 2003, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2004, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402
Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688
www.auditor.state.oh.us

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

Betty Montgomery
Auditor of State

January 30, 2004

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SPENCERVILLE LOCAL DISTRICT
ALLEN COUNTY

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
AS OF JUNE 30, 2003

	Governmental Fund Types		
	General	**Special Revenue**	**Capital Projects**
ASSETS AND OTHER DEBITS			
Cash	$2,698,185	$271,932	$2,216,379
Receivables:			
Taxes	2,325,638		118,401
Accounts	90	210	
Intergovernmental	8,231	23,746	
Interfund Receivable	39,746		
Interest	995		
Income Taxes	291,111		
Notes Receivable			
Prepaid Items	36,644		
Inventory	5,619		
Fixed Assets (Net, where applicable, of Accumulated Depreciation)			
Amount to be Provided for Retirement of General Long-Term Debt			
Total Assets and Other Debits	5,406,259	295,888	2,334,780
LIABILITIES, FUND EQUITY AND OTHER CREDITS			
Liabilities:			
Accounts Payable	4,516		
Accrued Salaries and Benefits	656,091	30,047	
Contracts Payable			55,139
Due to Students			
Intergovernmental Payable	99,973	4,903	
Compensated Absences Payable	4,363	10,442	
Deferred Revenue	2,216,220		116,167
Interfund Payable		23,746	
Notes Payable			
Total Liabilities	2,981,163	69,138	171,306
Fund Equity and Other Credits:			
Investment in General Fixed Assets			
Retained Earnings			
Fund Balance:			
Reserved for Encumbrances	103,765	11,874	160,902
Reserve for Inventory	5,619		
Reserved for Prepaid Items	36,644		
Reserved for Taxes	165,197		2,234
Reserve for Notes Receivable			
Reserved for Trusts			
Unreserved Fund Balance	2,113,871	214,876	2,000,338
Total Fund Equity and Other Credits	2,425,096	226,750	2,163,474
Total Liabilities, Fund Equity and Other Credits	$5,406,259	$295,888	$2,334,780

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

Proprietary Fund Types	Fiduciary Fund Types	Account Groups		
Enterprise	Trust and Agency	General Fixed Assets	General Long-Term Obligations	Totals (Memorandum Only)
$10,084	$128,715			$5,325,295
				2,444,039
14,151	85			14,536
9,403				41,380
				39,746
				995
				291,111
	16,460			16,460
				36,644
11,009				16,628
33,994		$4,068,309		4,102,303
			$751,792	751,792
78,641	145,260	4,068,309	751,792	13,080,929
	31			4,547
19,008				705,146
				55,139
	29,972			29,972
20,831			37,033	162,740
8,173			405,508	428,486
				2,332,387
16,000				39,746
			309,251	309,251
64,012	30,003		751,792	4,067,414
		4,068,309		4,068,309
14,629				14,629
	4,400			280,941
				5,619
				36,644
				167,431
	16,460			16,460
	93,015			93,015
	1,382			4,330,467
14,629	115,257	4,068,309		9,013,515
$78,641	$145,260	$4,068,309	$751,792	$13,080,929

SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY

COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND SIMILAR FIDUCARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Governmental Fund Types			Fiduciary Fund Type	Totals
	General	Special Revenue	Capital Projects	Expendable Trust	(Memorandum Only)
Revenues:					
Taxes	$2,244,248		$99,256		$2,343,504
Tuition and Fees	103,199				103,199
Intergovernmental	4,302,688	$315,768	23,058		4,641,514
Interest	60,158	2,548	46,136		108,842
Extracurricular Activities		85,539			85,539
Gifts and Donations	339	62,822		$623	63,784
Customer Services	1,975				1,975
Miscellaneous	11,878			1,617	13,495
Total Revenues	6,724,485	466,677	168,450	2,240	7,361,852
Expenditures:					
Current:					
Instruction:					
Regular	3,296,736	81,211	45,587		3,423,534
Special	197,839	205,954			403,793
Vocational	55,735	1,061			56,796
Adult/Continuing	499				499
Other	512,128				512,128
Support Services:					
Pupils	313,431	52,236			365,667
Instruction	171,257	45,890			217,147
Board of Education	28,441				28,441
Administration	579,795	14,304			594,099
Fiscal	242,846		1,996		244,842
Business	53				53
Operation and Maintenance	639,791	1,867			641,658
Transportation	452,536				452,536
Central Services		6,510			6,510
Non-Instructional Services		13,433			13,433
Extracurricular Activities	180,194	139,198			319,392
Capital Outlay			189,791		189,791
Debt Service:					
Principal	30,925				30,925
Interest	15,099				15,099
Total Expenditures	6,717,305	561,664	237,374		7,516,343
Excess (Deficiency) of Revenues Over (Under) Expenditures	7,180	(94,987)	(68,924)	2,240	(154,491)
Other Financing Sources (Uses):					
Operating Transfers In		68,894			68,894
Proceeds from Sale of Fixed Assets	5	1,070			1,075
Operating Transfers Out	(78,377)		(517)		(78,894)
Other	419				419
Total Other Financing Sources (Uses)	(77,953)	69,964	(517)		(8,506)
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(70,773)	(25,023)	(69,441)	2,240	(162,997)
Fund Balances at Beginning of Year (Restated)	2,495,869	251,773	2,232,915	20,002	5,000,559
Fund Balances at End of Year	$2,425,096	$226,750	$2,163,474	$22,242	$4,837,562

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

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SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET (NONGAAP BUDGETARY BASIS) AND ACTUAL ALL GOVERNMENTAL FUND TYPES AND SIMILAR FIDUCIARY FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Governmental Fund Types		
	General Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Taxes	$1,925,463	$2,258,498	$333,035
Tuition and Fees	7,000	103,319	96,319
Intergovernmental	4,459,788	4,295,537	(164,251)
Interest	83,000	59,163	(23,837)
Extracurricular Activities			
Gifts and Donations		339	339
Customer Services	500	2,875	2,375
Miscellaneous	1,000	12,031	11,031
Total Revenues	6,476,751	6,731,762	255,011
Expenditures:			
Current:			
Instruction:			
Regular	3,589,336	3,276,159	313,177
Special	208,222	197,618	10,604
Vocational	64,458	53,061	11,397
Adult/Continuing	2,203	525	1,678
Other	694,759	536,744	158,015
Support Services:			
Pupils	384,508	318,837	65,671
Instruction	243,457	175,064	68,393
Board of Education	30,696	25,394	5,302
Administration	674,210	609,858	64,352
Fiscal	277,817	254,236	23,581
Buisiness	63	53	10
Operation and Maintenance	792,156	688,723	103,433
Transportation	590,922	471,461	119,461
Central			
Non-Instructional Services	760		760
Extracurricular Activities	176,700	173,670	3,030
Capital Outlay	3,667		3,667
Debt Service			
Debt Service - Principal	30,925	30,925	
Debt Service - Interest	15,099	15,099	
Total Expenditures	7,779,958	6,827,427	952,531
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,303,207)	(95,665)	1,207,542
Other Financing Sources (Uses):			
Operating Transfers In			
Proceeds from Sale of Fixed Assets	6,000	5	(5,995)
Advances In	12,869	12,869	
Refund of Prior Year Expenditures	2,500	80	(2,420)
Other Financing Sources	500	419	(81)
Operating Transfers Out	(257,882)	(78,377)	179,505
Refund of Prior Year Receipts	(2,470)		2,470
Advances Out	(39,984)	(39,746)	238
Other Financing Uses	(656,629)		656,629
Total Other Financing Sources (Uses)	(935,096)	(104,750)	830,346
Excess (Deficiency) of Revenues and Other Sources Over(Under) Expenditures and Other Uses	(2,238,303)	(200,415)	2,037,888
Fund Balances (Deficit) at Beginning of Year	2,411,262	2,411,262	
Prior Year Encumbrances Appropriated	379,057	379,057	
Fund Balances (Deficit) at End of Year	$552,016	$2,589,904	$2,037,888

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

Governmental Fund Types						Fiduciary Fund Type		
Special Revenue Funds			Capital Projects Funds			Expendable Trust Funds		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
			$106,370	$98,894	($7,476)			
$326,574	$294,741	($31,833)	22,515	23,058	543			
6,100	2,548	(3,552)	11,645	46,136	34,491			
87,757	85,329	(2,428)						
34,300	62,917	28,617				$2,000	$623	($1,377)
						3,500	1,617	(1,883)
454,731	445,535	(9,196)	140,530	168,088	27,558	5,500	2,240	(3,260)
112,476	99,799	12,677	45,587	45,587				
233,972	208,008	25,964						
1,061	1,061							
75,614	58,226	17,388						
61,015	56,502	4,513						
18,774	15,692	3,082						
			8,000	1,995	6,005			
2,512	1,867	645						
1,116	1,116							
12,172	6,435	5,737						
18,625	18,625					9,200	8,500	700
168,146	148,354	19,792						
			413,530	295,554	117,976			
705,483	615,685	89,798	467,117	343,136	123,981	9,200	8,500	700
(250,752)	(170,150)	80,602	(326,587)	(175,048)	151,539	(3,700)	(6,260)	(2,560)
3,637	68,894	65,257						
2,070	1,070	(1,000)						
23,746	23,746							
1,773	1,903	130						
			(517)	(517)				
(160)	(160)							
			(345)	(345)				
31,066	95,453	64,387	(862)	(862)				
(219,686)	(74,697)	144,989	(327,449)	(175,910)	151,539	(3,700)	(6,260)	(2,560)
304,792	304,792		2,178,426	2,178,426		7,642	7,642	
29,962	29,962		52,962	52,962				
$115,068	$260,057	$144,989	$1,903,939	$2,055,478	$151,539	$3,942	$1,382	($2,560)

SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY

COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS/FUND EQUITY
ALL PROPRIETARY FUND TYPES AND SIMILAR FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Proprietary Fund Types		Fiduciary Fund Type	Totals
	Enterprise	Internal Service	Nonexpendable Trust	(Memorandum Only)
Operating Revenues:				
Sales	$251,914	$673		$252,587
Charges for Services	47			47
Other Revenues	537			537
Interest			$1,747	1,747
Tuition	2,078			2,078
Total Operating Revenue	254,576	673	1,747	256,996
Operating Expenses:				
Salaries	109,413			109,413
Fringe Benefits	68,077			68,077
Purchased Services	12,897			12,897
Materials and Supplies	184,995	673		185,668
Depreciation	5,624			5,624
Miscellaneous	2,095		1,800	3,895
Capital Outlay	1,411			1,411
Total Operating Expenses	384,512	673	1,800	386,985
Operating Income (Loss)	(129,936)		(53)	(129,989)
Non-Operating Revenues (Expenses):				
Interest	120			120
Operating Grants	81,099			81,099
Federal Donated Commodities	31,792			31,792
Total Non-Operating Revenues and (Expenses)	113,011			113,011
Income (Loss) before Transfers	(16,925)		(53)	(16,978)
Operating Transfers In	10,000			10,000
Net Income (Loss)	(6,925)		(53)	(6,978)
Retained Earnings/Fund Equity at Beginning of Year	21,554		93,068	114,622
Retained Earnings/Fund Equity at End of Year	$14,629		$93,015	$107,644

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

SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND SIMILAR FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Proprietary Fund Types		Fiduciary Fund	Totals
	Enterprise	Internal Service	Non-Expendable Trust	(Memorandum Only)
Increase (Decrease) in Cash and Cash Equivalents:				
Cash Flows from Operating Activities:				
Cash Received from Customers	$252,774	$673	$1,747	$255,194
Cash Payments to Suppliers for Goods and Services	(178,500)	(673)	(1,800)	(180,973)
Cash Payments to Employees for Services	(126,034)			(126,034)
Cash Payments for Employee Benefits	(59,898)			(59,898)
Net Cash Provided by (Used for) Operating Activities	(111,658)		(53)	(111,711)
Cash Flows from Noncapital Financing Activities:				
Operating Transfers - In	10,000			10,000
Operating Grants Received	90,417			90,417
Advances In	16,000			16,000
Advances Out	(12,524)			(12,524)
Net Cash Provided by Noncapital Financing Activities	103,893			103,893
Cash Flows from Investing Activities:				
Interest	120			120
Net Increase (Decrease) in Cash and Cash Equivalents	(7,645)		(53)	(7,698)
Cash and Cash Equivalents at Beginning of Year	17,729		93,068	110,797
Cash and Cash Equivalents at End of Year	10,084		93,015	103,099
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:				
Operating Income (Loss)	(129,936)		(53)	(129,989)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:				
Depreciation	5,624			5,624
Donated Commodities Used During Year	31,792			31,792
Changes in Assets and Liabilities:				
(Increase)/Decrease in Accounts Receivable	(1,802)			(1,802)
(Increase)/Decrease in Commodities Inventory	(8,938)			(8,938)
Increase/(Decrease) in Accrued Salaries and Benefits	(302)			(302)
Increase/(Decrease) in Intergovernmental Payables	(3,222)			(3,222)
Increase/(Decrease) in Compensated Absences Payable	(4,874)			(4,874)
Total Adjustments	18,278			18,278
Net Cash Provided by Operating Activities	($111,658)	$0	($53)	($111,711)

Cash and Cash Equivalents - Trust and Agency	$128,715
Cash and Cash Equivalents - Expendable Trust and Agency	(35,700)
Cash and Cash Equivalents - Non-Expendable	$93,015

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

SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES - BUDGET (NONGAAP BUDGETARY BASIS) AND ACTUAL ALL PROPRIETARY FUND TYPES AND SIMILAR FIDUCIARY FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Proprietary Fund Types Enterprise Funds		
	Revised Budget	**Actual**	**Variance Favorable (Unfavorable)**
Revenues:			
Sales	$259,100	$252,727	($6,373)
Charges for Services		47	47
Federal and State Subsidies	76,600	90,416	13,816
Interest	300	120	(180)
Total Revenues	336,000	343,310	7,310
Expenses:			
Salaries	126,325	126,034	291
Fringe Benefits	68,494	65,407	3,087
Purchased Services	14,818	14,725	93
Materials and Supplies	172,490	165,342	7,148
Other	2,149	2,095	54
Capital Outlay	1,453	1,411	42
Total Expenses	385,729	375,014	10,715
Excess (Deficiency) of Revenues Over (Under) Expenses	(49,729)	(31,704)	18,025
Non Operating Revenues and Expenses			
Advances In		16,000	16,000
Refund of Prior Year Expenses		79	79
Operating Transfer -In	7,000	10,000	3,000
Advances Out	(12,525)	(12,525)	
Total Non Operating Revenues and Expenses	(5,525)	13,554	19,079
Excess (Deficiency) of Revenues And Other Sources Over (Under) Expenses and Other Uses	(55,254)	(18,150)	37,104
Fund Balance at Beginning of Year	6,342	6,342	
Prior Year Encumbrances	11,387	11,387	
Fund Balance at End of Year	($37,525)	($421)	$37,104

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

Proprietary Fund Types Internal Service Funds			Fiduciary Fund Type Non-Expendable Trust		
Revised Budget	**Actual**	**Variance Favorable (Unfavorable)**	**Revised Budget**	**Actual**	**Variance Favorable (Unfavorable)**
$1,000	$673	($327)			
			$3,000	$1,747	($1,253)
1,000	673	(327)	3,000	1,747	(1,253)
1,000	673	327			
			3,000	1,800	1,200
1,000	673	327	3,000	1,800	1,200
				(53)	(53)
				(53)	(53)
			93,068	93,068	
$0	$0	$0	$93,068	$93,015	($53)

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1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Spencerville Local 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 is located in Allen County. The School District is the 485th largest in the State of Ohio (among 613 school districts) in terms of enrollment. It is staffed by 37 noncertificated employees and 80 certificated full-time teaching personnel who provide services to 1,046 students and other community members. The School District currently operates 2 elementary schools, 1 middle school, and 1 high school.

The reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the 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 Spencerville Local School District, this includes general operations, food service, and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes.

A. Blended Component Unit

The Spencerville Education Foundation is a component unit that is blended with the primary government. It is blended with the primary government because it is so intertwined with the primary government that it is, in substance, the same as the primary government.

The Spencerville Education Foundation, Inc. - (the Foundation) was organized in 1992 under the non-profit corporation law of Ohio to operate exclusively for the benefit of the School District. The Foundation receives and administers donations for educational and public charitable purposes for which the School District was formed.

The Foundation is governed by a nine member board of trustees. Two trustees shall at all times be members of the Board of Education, appointed by the Board of Education. One trustee shall at all times be the Superintendent of the School District, one trustee shall at all times be the Treasurer of the School District, and one trustee shall at all times be the Guidance Counselor of the School District. Two trustees shall at all times be a representative selected by the Spencerville Chamber of Commerce and the Spencerville Parent-Teacher Organization. The remaining two Trustees shall be elected at the annual meeting of the Members. The financial statements of the Foundation for the year ended June 30, 2003, are included as a special revenue fund in the School District's financial statements.

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY (Continued)

The School District is associated with four jointly governed organizations and three insurance purchasing pools. These organizations include the Northwest Ohio Area Computer Services Cooperative (NOACSC), Apollo Career Center, the West Central Regional Professional Development Center, the West Central Ohio Special Education Regional Resource Center (SERRC), the Ohio School Plan, the Allen County Schools Health Benefit Plan, and the Northwest Ohio Area Computer Services Cooperative Workmens' Compensation Group Rating Plan. These organizations are presented in Notes 18 and 19 to the general purpose financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation - Fund Accounting

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

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

1. Governmental Fund Types

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

2. Proprietary Fund Types

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

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

Internal Service Fund - The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis.

3. Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The School District's fiduciary funds include expendable trust, nonexpendable trust and agency funds. Expendable trust funds are accounted for in essentially the same manner as governmental funds. Nonexpendable trust funds are accounted for in essentially the same manner as proprietary funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

4. Account Groups

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds and nonexpendable trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary and nonexpendable trust fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

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

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

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recognized in the accounting period when it becomes both measurable and available. "Measurable" means the amount of the transaction can be determined and "Available" means collectible within the current fiscal year or expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year end.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from income taxes is recognized in the period in which the income is earned. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The School District reports deferred revenues on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Property taxes measurable as of June 30, 2003, and delinquent property taxes, whose availability is indeterminable and which are intended to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On the modified accrual basis, revenues that are not collected within the available period are recorded as deferred revenue.

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

The accrual basis of accounting is utilized for reporting purposes by the proprietary fund types and the nonexpendable trust funds. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported on the operating statement as an expense with a like amount reported as donated commodities revenue.

C. Budgetary Process

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

All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Advances in and advances out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

1. Tax Budget

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates.

By no later than January 20, the Board adopted budget is filed with the Allen County Budget Commission for rate determination.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Estimated Resources

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2003.

3. Appropriations

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions.

4. Encumbrances

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Expenditures plus encumbrances may not legally exceed appropriations. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent year expenditures for governmental funds and reported in the notes to the financial statements for proprietary funds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. Lapsing of Appropriations

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

D. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled in a central bank account. Monies for all funds, including proprietary funds, are maintained in this account or temporarily used to purchase short term investments. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as Cash on the balance sheet.

During fiscal year 2003, investments were limited to non-negotiable certificates of deposit, money market accounts, premium interest-bearing accounts and STAR Ohio. Non negotiable certificates of deposit, money market accounts, and premium interest-bearing accounts which are stated at cost or amortized cost.

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, 2003.

Following, Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund was $60,158, which includes $16,156 assigned from other funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months, and not purchased from the pool, are reported as investments.

E. Inventory

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

G. Interfund Assets/Liabilities

Short-term interfund loans are classified as “Interfund Receivables/Payables” on the combined balance sheet. Long-term interfund loans are classified as “advances to/from other funds” and are equally offset by a fund balance reserve account which indicates that they do not constitute available expendable resources since they are not a component of net current assets.

H. Fixed Assets and Depreciation

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

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

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

I. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences, contractually required pension contributions, and special termination benefits that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after the fiscal year end are considered not to have used current available expendable resources. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

K. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

L. Fund Balance Reserves

The School District records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances, inventories of supplies and materials, prepaid items, taxes, notes receivable and trusts. The reserve for taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. The reserve for trusts signifies legal restrictions on the use of principal in the nonexpendable trust fund.

M. Estimates

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

N. Total Columns on General Purpose Financial Statements

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

3. BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosure in the proprietary fund type (GAAP basis).

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

Governmental and Similar Trust Funds

	General	Special Revenue	Capital Projects	Expendable Trust
GAAP basis	$ (70,773)	$(25,023)	$(69,441)	$2,240
Revenue accruals	7,357	(19,239)	(362)	
Expenditure accruals	34,802	(42,307)	55,140	(4,100)
Prepaid items	(36,644)	-	-	-
Advances In	12,869	23,746	-	-
Advances Out	(39,746)	-	(345)	
Encumbrances	(108,280)	(11,874)	(160,902)	(4,400)
Budget basis	$(200,415)	$(74,697)	$(175,910)	$(6,260)

Proprietary and Similar Trust Funds

	Enterprise	NonExpendable Trust
GAAP basis	$(6,925)	$(53)
Revenue accrual	(13,189)	-
Expense accrual	20,002	-
Inventory held for resale	(11,009)	-
Advances In	16,000	-
Advances Out	(12,525)	-
Encumbrances	(10,504)	-
Budget basis	$ (18,150)	$(53)

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.

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

Protection of 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.

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

1. United/States Treasury notes, bills, bonds, or other obligations or security issued by the United States or any other obligation guaranteed as to principal and interest by the United States;

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association;

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. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

6. The State Treasurer's investment pool (STAR Ohio) and

4. DEPOSITS AND INVESTMENTS (Continued)

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited.

An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

Deposits - At fiscal year end, the carrying amount of the School District's deposits was $2,345,144 and the bank balance was $2,567,700. Of the bank balance, $200,000 was covered by federal depository insurance. $2,367,700 was uninsured and uncollateralized.

Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name and 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.

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. The School District's investments consist solely of STAR Ohio, an investment pool operated by the Ohio State Treasurer. These are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	Carrying Value	Market Value
STAR Ohio	$2,980,151	$2,980,151

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement 9	$ 5,325,295	$ -
Investments in STAR Ohio	(2,980,151)	2,980,151
GASB Statement 3	$ 2,345,144	$2,980,151

5. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, 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 revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002, and are collected in 2003 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 revenue received during calendar 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2003, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, 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, Auglaize and Van Wert Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2003, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2003, was $165,197 in the General Fund, $2,234 in the Permanent Improvement Capital Projects Fund.

5. PROPERTY TAXES (Continued)

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

	2002 Second-Half Collections		2003 First-Half Collections	
	Amount	**Percent**	**Amount**	**Percent**
Agricultural/Residential and Other Real Estate	$64,079,610	84.36%	$65,297,550	83.77%
Public Utility	4,087,800	5.38	5,078,960	6.52
Tangible Personal Property	7,791,798	10.26	7,572,490	9.71
Total Assessed Value	$75,959,208	100.00%	$77,949,000	100.00%
Tax rate per $1,000 of assessed valuation	$31.37		$31.37	

6. INCOME TAX

The School District renewed a tax levy of one percent for general operations on the income of residents and estates. The renewed tax was effective on January 1, 2003, and will continue for five years. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

7. RECEIVABLES

Receivables at June 30, 2003, consisted of both property and income taxes, accounts (student fees), interfund, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds.

8. NOTES RECEIVABLE

The Diesel Scholarship Fund was established on November 7, 1967 through a trust agreement. Qualified students may borrow amounts determined yearly dependent on the ability of the fund to pay for the costs of higher education. Repayments begin after termination of college attendance.

At the close of fiscal year 2003, there were 8 students with a total principal balance of $16,460. Of the balance, $8,910 represents the portion that is collectable. The remaining $7,550 is deferred until the student completes or leaves post secondary schooling.

9. INTERFUND ASSETS/LIABILITIES

At June 30, 2003, receivables and payables that resulted from various interfund transactions were as follows:

Fund Type / Funds	Interfund Receivable	Interfund Payable
General Fund	$39,746	$ -
Special Revenue Funds		
Title V	-	767
Title II	-	22,979
Enterprise Funds		
Food Service Fund	-	16,000
Totals	$39,746	$39,746

10. FIXED ASSETS

A summary of the enterprise funds' fixed assets at June 30, 2003, follows:

Furniture and Equipment	$125,896
Less Accumulated Depreciation	(91,902)
Net Fixed Assets	$ 33,994

A summary of the changes in general fixed assets during fiscal year 2003 follows:

Asset Category	Balance at 6/30/02	Additions	Disposals	Balance at 6/30/03
Land and Land Improvements	$ 478,146	$ -	$ -	$ 478,146
Buildings and Improvements	2,073,054	96,190	-	2,169,244
Furniture, Fixtures, and Equipment	591,958	65,639	-	657,597
Vehicles	675,100	54,750	32,865	696,985
Construction in Progress	-	66,337	-	66,337
Total	$3,818,258	$282,916	$32,865	$4,068,309

11. RISK MANAGEMENT

A. Public Liability

The School District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2003, the School District contracted with Indiana Insurance (through O'Conner-McLaughlin Ins. Co.) for property and general liability insurance, and boiler and machinery insurance. Boiler and machinery coverage has $1,000 deductible per object.

11. RISK MANAGEMENT (Continued)

General and professional liability was obtained through The Ohio School Plan (through Harcum-Hyre Insurance Co.) with $1,000,000 each occurrence and $3,000,000 aggregate limit for general liability and $1,000,000 each occurrence and $2,000,000 aggregate limit for professional liability. The Plan is an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant

Vehicles are covered by The Ohio School Plan (through The Selective Insurance Company), and hold a $500 deductible for comprehensive and $500 for collisions. Automobile liability has a $2,000,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past three years.

Public officials bond insurance for the Board President, Superintendent and Treasurer is provided by the Employer Mutual Casualty Company for a total of $60,000 ($20,000 each). The School District has a $2,500 ($500 deductible) dishonesty bond covering all employees who handle money. The dishonesty bond is provided by O-Conner Mclaughlin Insurance Company.

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

B. Worker's Compensation

For fiscal year 2003, the School District participated in the Northwest Ohio Area Computer Services Cooperative Worker's Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 19). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP.

The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all members in the GRP. Each participant pays its workers' compensation premium to the Cooperative based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP.

C. Employee Medical Benefits

The School District participates in the Allen County Schools Health Benefit Plan (the Plan), a public entity shared risk pool consisting 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.

12. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit 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 writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board.

The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were $50,510, $36,544, and $34,605, respectively; 49.17 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. 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 43215-3371 or by calling (614) 227-4090.

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 member contributions and earned interest matched by STRS Ohio funds times 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 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. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

12. DEFINED BENEFIT PENSION PLANS (Continued)

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 dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 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 the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001 were $436,324, $297,144, and $183,441, respectively; 82 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. Contributions to the DC and Combined Plans for fiscal year 2003 were $7 made by the School District and $52 made by the plan members.

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 have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2003, three members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

13. POSTEMPLOYMENT BENEFITS

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

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled $33,565 for fiscal year 2003.

13. POSTEMPLOYMENT BENEFITS (Continued)

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2002, (the latest information available) the balance in the Fund was $3.011 billion. For the fiscal year ended June 30, 2002, net health care costs paid by STRS Ohio were $354,697,000 and STRS Ohio had 105,300 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at $14,500. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled $71,921.

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

14. EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one fourth days per month which is 15 day annually. For administrators, teachers, and classified employees, such days shall accumulate equal to 200 days. Vested sick leave is accumulated and, if unused, is paid upon retirement at the rate of one fourth of the accumulated sick leave when an employee has 10 years with the School District. Administrative, classified, and certified employees are limited to a maximum of 50 paid days. Those who retire early and are eligible for double severance, receive an additional amount of severance equal to the original amount, as an incentive to retire.

14. EMPLOYEE BENEFITS (Continued)

B. Life Insurance

The School District provides $40,000 in life insurance and accidental death and dismemberment insurance to its full time employees through CoreSource, Inc. All employees with half time positions but less than full time receive a percentage of life insurance and accidental death and dismemberment insurance. The Superintendent, Treasurer, and Principals receive $50,000 in life insurance and accidental death and dismemberment insurance.

15. OPERATING LEASES

The School District is obligated under various operating lease agreements with Perry Corporation for copiers. These agreements do not give rise to property rights and are not reflected in the School's account group. The minimum requirement of the lease is 2,400,000 copies in each 12 month period at $.0109 per copy, and a total of 12,000,000 copies per lease. The School District is also obligated under an operating lease agreement for a vehicle. Finally, the School District is obligated under a 60 month operating lease agreement for a postage meter. The future rental payments are as follows:

Year Ending June 30,	Copier Lease Amounts	Vehicle Lease Amounts	Postage Meter
2004	$26,160	$1,041	$1,673
2005	26,160	-	1,848
2006	14,126	-	1,848
2007	-	-	1,848
2008	-	-	770
Total	$66,446	$1,041	$7,987

16. LONG-TERM OBLIGATIONS

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

	Principal Outstanding 6/30/02	Additions	Deductions	Principal Outstanding 6/30/03
Note Payable; HB 264 Project; 4.65% interest; Matures 12/01/12	$ 340,176	$ -	$ 30,925	$ 309,251
Compensated Absences	448,369	-	42,861	405,508
Intergovernmental Payables	41,847	37,033	41,847	37,033
Total General Long-Term Obligations	$ 830,392	$ 37,033	$115,633	$ 751,792

Compensated absences and intergovernmental payables will be paid from the fund which the employees' salary is paid. The note payable will be paid from the General Fund.

16. LONG-TERM OBLIGATIONS

On February 2, 1998, the School District issued $463,876 in energy conservation improvement notes in accordance with House Bill 264. The notes were issued to finance modification, installation and remodeling of school buildings for the purpose of reducing energy consumption and thereby reducing current expenses of the School District. The notes were issued for a period of fifteen years with final maturity on December 1, 2012. The notes will be retired from the General Fund.

Principal and interest requirements to retire debt outstanding at June 30, 2003, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2004	$ 30,925	$13,661	$ 44,586
2005	30,925	12,223	43,148
2006	30,925	10,785	41,710
2007	30,925	9,347	40,272
2008	30,925	7,909	38,834
2009-2013	154,626	17,975	172,601
Total	$309,251	$71,900	$381,151

17. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The School District maintains two enterprise funds to account for the operations of food service and uniform school supplies. The table below reflects the more significant financial data relating to the enterprise funds of the Spencerville Local School District as of and for the fiscal year ended June 30, 2003.

	Food Service	Uniform School Supplies	Total Enterprise Funds
Operating Revenues	$226,106	$28,470	$ 254,576
Operating Expenses Less Depreciation	352,557	26,331	378,888
Depreciation Expense	5,624	-	5,624
Operating Income (Loss)	(132,075)	2,139	(129,936)
Donated Commodities	31,792	-	31,792
Operating Grants	81,099	-	81,099
Interest	120	-	120
Transfers In	10,000	-	10,000
Net Income (Loss)	(9,064)	2,139	(6,925)
Net Working Capital	(32,232)	21,040	(11,192)
Total Assets	57,601	21,040	78,641
Total Equity	(6,411)	21,040	14,629
Encumbrances Outstanding at June 30, 2003	7,400	3,104	10,504

18. JOINTLY GOVERNED ORGANIZATIONS

Northwest Ohio Area Computer Services Cooperative

The Northwest Ohio Area Computer Services Cooperative (NOACSC) is a jointly governed organization among forty-seven school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions amount member school districts. Each of the governments of these schools supports NOACSC based upon a per pupil charge dependent upon the software package utilized.

The NOACSC Assembly consists of a representative from each participating school district and the superintendent from the fiscal agent. The Board of Directors consists of the superintendent from the fiscal agent, the two Assembly members from each county in which participating school districts are located. The degree of control exercised by any participating school district is limited to its representation of the Board. Financial information can be obtained from Michael Wildermuth, who serves as Director, at 645 South Main Street, Lima, Ohio 45804.

Apollo Career Center

The Apollo Career Center (Center) is a distinct political subdivision of the State of Ohio which provides vocational education to students. The Center is operated under the direction of a Board consisting of one representative from each of the participating school districts' elected boards. The Board is its own budgeting and taxing authority. Financial information can be obtained from Apollo Career Center, Greg Bukowski, Treasurer, at 3325 Shawnee Road, Lima, Ohio 45806.

West Central Regional Professional Development Center

The West Central Regional Professional Development Center (Center) is a jointly governed organization among the school districts located in Allen, Auglaize, Hancock, Hardin, Mercer, Paulding, Putnam and Van Wert counties. The organization was formed 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 that are tied directly to school improvement and, in particular, to improvements in instructional programs.

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

West Central Ohio Special Education Regional Resource Center (SERRC)

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

19. INSURANCE POOLS

Allen County Schools Health Benefit Plan

The School District participates in the Allen County Schools Health Benefit Plan (the plan), a public entity shared risk pool consisting of the school district within Allen County. The Trust is organized as a Voluntary Employee Benefit Association under 26 U.S.C. Section 501 (c)(9) and provides medical, accident and other benefits to the employees of the participating school districts.

Each participating school district's superintendent is appointed to a Board of Trustees which advises the Trustee, CoreSource, concerning aspects of the administration of the Trust. Each school district decides which plan offered by the Board of Trustees will be extended to its employees. Participation in the Trust is by written application subject to the acceptance by the Board of Trustees and payment of the monthly premium. Financial information can be obtained from Karla Wireman, who serves as Treasurer, at 204 North Main Street, Suite 303, Lima, Ohio 45801.

Ohio School Plan

The School District participates in the Ohio School Plan (Plan), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services.

The Plan's business and affairs are conducted by a fifteen member board consisting of superintendents, treasurers, the president of Harcum-Hyre Insurance Agency, Inc., and a member of the Hylant Group, Inc. The Hylant Group, Inc. is the Plan's administrator and is responsible for processing claims. Harcum-Hyre Insurance Agency serves as the sales and marketing representative which establishes agreements between the Plan and its members. Financial information can be obtained from Harcum-Hyre Insurance Agency, 246 East Sycamore Street, Columbus, Ohio 43206.

Northwest Ohio Area Computer Services Cooperative Workers' Compensation Group Rating Plan

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

The Plan's business and affairs are conducted by a twenty-five member Board of Directors consisting of two representatives from each county elected by a majority vote of all charter member schools within each county plus one representative from the fiscal agency A-site. The treasurer of Findlay City Schools serves as coordinator of the program. Each year, the participating School Districts pay an enrollment fee to cover the costs of administering the program.

20. STATUTORY RESERVES

The School District is required by state law to set aside certain general fund revenue amounts, as defined, into various reserves. For fiscal year ended June 30, 2003, the reserve activity was as follows:

	Textbooks	Capital Acquisitions
Set-Aside Reserve Balance as of June 30, 2003	$ -	$ -
Carryover	(59,430)	-
Required Set-Aside	146,680	146,680
Qualifying Expenditures	(113,822)	(361,387)
Total	$ (26,572)	$(214,707)
Cash balance carried forward to fiscal year 2004	$ (26,572)	$ -

The School District had qualifying disbursements during the year that reduced the set-aside amounts below zero. For capital acquisitions, the extra amount may not be used to reduce the set-aside requirements of future years. However, Revised Code 3315.17 allows for the extra amount to carryover into future years for textbooks.

21. ACCOUNTABILITY

At June 30, 2003, there were several special revenue funds with deficit fund balances. The deficits in the special revenue funds resulted from the application of generally accepted accounting principles. The general fund is liable for any deficit funds and provides operating transfers when cash is required, not when accruals occur.

Fund	Fund Description	Deficit Balance
Special Revenue		
458	Interactive Video Distance Learning	$ 23
572	Title I Fund	7,623
573	Chapter II Fund	4
590	Reducing Class Size	877
Enterprise Fund		
006	Food Service	6,411

22. PRIOR PERIOD ADJUSTMENTS

In fiscal year 2002, Fund 458 was classified as a capital projects fund. For fiscal hear 2003 it was reclassified to a special revenue fund. The reclassification had the following effect on the fund balances as they were previously reported as of June 30, 2002.

	Special Revenue Fund	Capital Projects Fund
Balances as previously reported	$216,877	$2,267,811
Restatement due to reclassification of funds	34,896	(34,896)
Restated balances June 30, 2002	$251,773	$2,232,915

22. PRIOR PERIOD ADJUSTMENTS (Continued)

In fiscal year 2003, it was decided that the full receivable balance be shown in the expendable trust fund. In prior fiscal years, only the current receivable amount was recorded. This adjustment had the following effect on the expendable trust fund balance as it was previously recorded as of June 30, 2002.

	Expendable Trust Fund
Balance as previously recorded	$12,267
Restatement due to adjustment of accounts receivable	7,735
Restated balance June 30, 2002	$20,002

23. CONTRACTUAL COMMITMENTS

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

Company	Project	Remaining Contract Amount
Weigandt	General Construction Manager	$44,736
Development,	Plumbing work	8,580
LTD	Bus	56,175
Riesen Plbg. &	Electrical work	1,822
Total		$111,313

24. CONTINGENCIES

A. Grants

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

B. State School Funding Decision

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

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

25. SUBSEQUENT EVENTS

In November 2003, the School District had a $5,599,000 bond levy pass for the purpose of building of a new school.

On January 29, 2004, the School District issued bond anticipation notes, in the amount of $6,810,000 for the construction of new school facilities in conjunction with the Ohio School Facilities Loan Program.

SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR YEAR ENDED JUNE 30, 2003

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
(Passed through Ohio Department of Education)						
Nutrition Cluster:						
Food Distribution Program	N/A	10.550		$31,791		$25,925
National School Lunch Program	045807-LLP4-2002	10.555	$28,246		$28,246	
	045807-LLP4-2003		58,358		58,358	
Total National School Lunch			86,604		86,604	
Total U.S. Department of Agriculture - Nutrition Cluster			86,604	31,791	86,604	25,925
U.S. DEPARTMENT OF EDUCATION						
(Passed through Ohio Department of Education)						
Title I, Part A, IASA	045807-C1S1-2003	84.010	111,819		149,241	
Technology Literacy Challenge Fund Grant	045807-TJS1-2003	84.318	3,062		2,093	
Assistive Technology Infusion Grant	045807-ATS2-2002	84.352A	3,756		3,756	
Eisenhower Professional Development State Grant	045807-MS-S1-2002	84.281			5,076	
	045807-MS-S1-2001				145	
Total Eisenhower Professional Development State Grant					5,221	
Title VI-B, Special Education Grants to States	045807-6BSF-2002-P	84.027	8,565		9,946	
	045807-6BSF-2003-P		95,813		84,412	
Total Special Education Grants to States			104,378		94,358	
Title VI, Innovative Education Program Strategies	045807-C2S1-2003	84.298	1,833		2,408	
	045807-C2S1-2002		(192)		1,837	
	045807-C2S1-2001		2,719		245	
Total Title VI, Innovative Education Program Strategies			4,360		4,490	
Title VI-R, Class Size Reduction	045807-CRS1-2002	84.340			5,940	
Drug Free Grant	045807-DRS1-2003	84.186	5,029		4,259	
Improving Teacher Quality	045807-TRS1-2003	84.367	21,691		39,049	
Total U.S. Department of Education			254,095		308,407	
Total Federal Assistance			$340,699	$31,791	$395,011	$25,925

See accompanying notes to the schedule of federal awards expenditures.

SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY

NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2003

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - NUTRITION CLUSTER

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2003, the School District had no significant food commodities in inventory.

NOTE C - MATCHING REQUIREMENTS

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

Auditor of State
Betty Montgomery

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

Spencerville Local School District
Allen County
600 School Street
Spencerville, Ohio 45887

To the Board of Education:

We have audited the financial statements of Spencerville Local School District, Allen County (the School District) as of and for the year ended June 30, 2003, and have issued our report thereon dated January 30, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.* However, we noted certain immaterial instances of noncompliance that we have reported to management of the School District in a separate letter dated January 30, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2003-001.

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402
Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688
www.auditor.state.oh.us

Internal Control Over Financial Reporting
(Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School District in a separate letter dated January 30, 2004.

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

Betty Montgomery

Betty Montgomery
Auditor of State

January 30, 2004

Auditor of State
Betty Montgomery

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

Spencerville Local School District
Allen County
600 School Street
Spencerville, Ohio 45887

To the Board of Education:

Compliance

We have audited the compliance of the Spencerville Local School District, Allen County, ("the School District") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, the School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003. We noted an instance of noncompliance that does not require inclusion in this report that we have reported to management of the School District in a separate letter dated January 30, 2004.

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402
Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688
www.auditor.state.oh.us

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Betty Montgomery

Betty Montgomery
Auditor of State

January 30, 2004

SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

1. SUMMARY OF AUDITOR'S RESULTS

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

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

FINDING NUMBER 2003-001

The School District currently does not have a detail listing of fixed assets that supports the fixed asset amounts as recorded in the general purpose financial statements, nor does it have a system in place to properly record assets based on capitalization limits established. The appraisal report initially used to record the School District's assets has not been properly updated for additions or deletions for several years. Also, the Board adopted a policy changing the capitalization threshold for reporting fixed assets during fiscal year 2001, but did not follow this policy for proprietary fixed assets. The new threshold for recording fixed assets may not meet the reporting requirements (per Ohio Administrative Code 117-2-02 (E), which requires that at least 80% of an entity's fixed assets must be reported in the financial statements).

Failure to implement procedures to properly record fixed assets and maintain a complete and accurate listing of School District owned assets could lead to a misstatement in the presentation of fixed assets in the general purpose financial statements, and allows the assets to be more susceptible to misappropriation.

To allow for proper asset recording and ensure the completeness of asset reports, the appraisal reports should be reviewed to determine that all additions and deletions, to date, have been included. Procedures should be developed to ensure that all additions and deletions are submitted and a review process established on the appraisal report to verify that assets have been properly recorded.

Additions to fixed assets should be properly identified by appropriate category and the asset listing should be able to be separated by capitalization limits and for insurance purposes. Also, entity personnel and the Board need to assess the current policy for reporting fixed assets to determine (clarify) that the proprietary assets are to be reported on a different threshold than is currently stated in the policy. In addition, the policy should be periodically reviewed to assure that fixed assets are being reported on the financial statements in accordance with the Ohio Administrative Code.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY
JUNE 30, 2003

SCHEDULE OF PRIOR AUDIT FINDINGS

Finding Number	Finding Summary	Fully Corrected	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***:
2002-10202-001	ORC 5705.41 (D) – Expenditures were not prior certified.	No	Partially Corrected; moved to management letter.
2002-10202-002	The School District failed to maintain proper fixed asset records.	No	Not Corrected; Repeated as finding 2003-001.

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Auditor of State
Betty Montgomery

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

SPENCERVILLE LOCAL 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
MARCH 11, 2004