



**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 financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Spencerville Local School District, Allen County, (the School District), as of and for the years ended June 30, 2005 and June 30, 2004, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Spencerville Local School District, Allen County, as of June 30, 2005 and June 30, 2004, and the respective changes in modified cash financial position and the respective budgetary comparison for the General Fund thereof for the years then ended in conformity with the basis of accounting Note 2 describes.

For the year ended June 30, 2004, the School District revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

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

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

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

**Betty Montgomery**  
Auditor of State

March 10, 2006

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
ALLEN COUNTY**

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

This discussion and analysis provides key information from management highlighting the financial performance of the Spencerville Local School District for the year ended June 30, 2005. This is meant to be an easily readable summary of the most important financial information regarding the accompanying financial statements. Please read it in conjunction with the School District's financial statements.

**HIGHLIGHTS**

Key highlights for fiscal year 2005 are as follows:

Net assets of governmental activities decreased \$1,840,818, or 9.7 percent. The decrease is because although revenues related to construction increased, expenditures for the construction of school facilities were in excess of revenues.

The School District's general receipts are primarily property taxes, income taxes and grants and entitlements not restricted to specific programs. These receipts represent respectively 13.1, 5.8 and 26.8 percent of the total revenue received for governmental activities during the fiscal year.

The School District has undertaken the construction of new school facilities through the Ohio School Facilities Construction Program. Revenues and expenditures represent 44.4 percent and 50.5 percent respectively, of governmental activities for this construction project.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the School District's basic financial statements. The report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement 34, as applicable to the School District's modified cash basis of accounting. The School District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and (3) notes to the financial statements.

**Government-wide financial statements** - The government-wide financial statements are designed to provide readers with a broad overview of the School District's finances and provide information about the cash activities of the School District as whole. The statement of net assets presents the cash balances and investments of the governmental activities at year end. The statement of activities compares cash disbursements with program receipts for each governmental program activity. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the School District's general receipts.

Both of the government-wide financial statements distinguish functions of the School District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the School District include instruction, support services, administration, operation and maintenance of plant and extracurricular activities. The School District has no business-type activity.

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

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
ALLEN COUNTY**

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

**Governmental funds** - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements and both are presented on the modified cash basis of accounting. The School District accounts for its activities using many individual funds. The most significant funds are reported in separate columns in the governmental fund financial statements. These statements provide detailed information about the individual major funds - unlike the government-wide financial statements, which report on the School District as a whole. The General Fund and the Ohio School Facilities Construction Fund are the School District's only major funds.

**Fiduciary funds** - Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. These funds are not reflected in the government-wide financial statements because the resources are not available to support the School District's own programs.

**Notes to the financial statements** – The notes are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

**Basis of Accounting** - The basis of accounting is a set of guidelines that determine when financial events are recorded. The School District has elected to present its financial statements on the modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the School District's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

**THE SCHOOL DISTRICT AS A WHOLE**

Table 1 provides a summary of the School District's net assets for fiscal year 2005 compared to fiscal year 2004 on a modified cash basis:

**(Table 1)**  
**Net Assets**

	<b>Governmental Activities</b>	
	<b>2005</b>	<b>2004</b>
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$10,182,938	\$5,313,607
Investments	6,932,176	13,642,325
<b>Total Assets</b>	<b>17,115,114</b>	<b>18,955,932</b>
<b>Net Assets</b>		
Restricted for:		
Capital Outlay	14,568,901	16,146,430
Debt Service	183,495	216,331
Other Purposes	383,513	310,574
Set-asides	71,304	24,168
Unrestricted	1,907,901	2,258,429
<b>Total Net Assets</b>	<b>\$17,115,114</b>	<b>\$18,955,932</b>



**SPENCERVILLE LOCAL SCHOOL DISTRICT  
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
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As mentioned previously, net assets of governmental activities decreased \$1,840,818 or 9.7 percent during fiscal year 2005. The primary reason contributing to the decrease in net assets is due to a major school facilities construction project.

Table 2 reflects the changes in net assets for fiscal year 2005 as compared with fiscal year 2004.

**(Table 2)  
Changes in Net Assets**

	<b>Governmental Activities 2005</b>	<b>Governmental Activities 2004</b>
<b>Receipts:</b>		
Program Receipts:		
Charges for Services and Sales	\$328,911	\$335,571
Operating Grants and Contributions	713,084	681,593
Capital Grants and Contributions	<u>6,829,868</u>	<u>784,073</u>
Total Program Receipts	7,871,863	1,801,237
General Receipts:		
Property Taxes	2,012,681	1,764,999
Income Taxes	895,447	842,710
Tuition and Fees	294,482	126,745
Grants and Entitlements Not Restricted to Specific Programs	4,107,703	3,975,374
Interest	109,144	61,584
Gifts and Donations	275	20,250
Bond and Note Issues		13,616,991
Bond Issuance Premium	7,374	126,245
Proceeds From the Sale of Fixed Assets	5,704	1,169
Miscellaneous	<u>19,595</u>	<u>10,345</u>
Total General Receipts	<u>7,452,405</u>	<u>20,546,412</u>
Total Receipts	15,324,268	22,347,649
<b>Disbursements:</b>		
Instruction	4,684,297	4,411,070
Support Services:		
Pupils and Instructional Staff	750,008	574,764
Board of Education, Administration and Fiscal	939,194	1,072,951
Operation and Maintenance of Plant	711,832	666,243
Pupil Transportation	493,405	482,327
Central	4,933	10,936
Operation of Non-Instructional Services	12,877	20,401
Operation of Food Service	358,134	356,768
Extracurricular Activities	353,025	310,661
Capital Outlay	1,467,525	643,370
Debt Service	<u>7,389,856</u>	<u>44,586</u>
Total Disbursements	<u>17,165,086</u>	<u>8,594,077</u>
Increase (Decrease) in Net Assets	(1,840,818)	13,753,572
Net Assets, July 1, 2004	<u>18,955,932</u>	<u>5,202,360</u>
Net Assets, June 30, 2005	<u>\$17,115,114</u>	<u>\$18,955,932</u>

Program receipts of \$7,871,863 represent 51.4 percent of the total governmental activities receipts of \$15,324,268. The percentage is up 43.3 percent from last year. The increase in the percentage of program receipts occurred because \$6,045,795 or 771 percent more in capital grants was received over the previous year.

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

These grants are mostly from the State and are actually drawdowns from the Ohio School Facilities Commission (OSFC) building project. The drawdowns are made on a quarterly basis and are determined by the projected expenses on the OSFC building project for the quarter.

The government still relies on general receipts to fund the majority of the cost of services provided to the students. Of these general receipts 39 percent (\$2,908,128) comes from tax levies and 55.1 percent (\$4,107,703) is from state and federal funding. The School District's operations are reliant upon its tax levies and the state's foundation program.

Approximately 45.9 percent of the disbursements of the general government programs were recouped through program receipts. Instruction costs were \$4,684,297, or 27.3 percent of disbursements, but program receipts contributed to fund 8.6 percent of those costs. Thus, general revenues of \$4,279,909 were used to support the remainder of the instruction costs.

The District's total cost for services for non-instructional services increased by almost \$8.3 million. This increase was mostly created by the District retiring \$6.81 million bond anticipation notes and 1.3 million in capital facilities construction costs. The total cost of services is expected to decrease for future years. Also, the District's net cost of services for principal and interest should also decrease in future years since the bond anticipation note has been repaid.

The School District's governmental activities cash balances decreased by \$1,840,818. During the year, the District repaid the short term bond anticipation note, and the District had a full year of expenses from the OSFC building project. This cash balance is projected to slowly decline over the next couple of years, as the OSFC building project is completed.

The following table presents the total disbursements of each of the government's primary services, and the comparative net amount after deducting the revenues generated by each function. A comparison between the total cost of services and net cost for both 2005 and 2004 is presented in Table 3.

**(Table 3)  
Governmental Activities**

	<b>Total Cost Of Services 2005</b>	<b>Net Cost of Services 2005</b>	<b>Total Cost Of Services 2004</b>	<b>Net Cost of Services 2004</b>
Instruction	\$4,684,297	\$4,279,909	\$4,411,070	\$3,994,349
Support Services:				
Pupils and Instructional Staff	750,008	637,692	574,764	457,284
Board of Education, Administration and Fiscal	939,194	925,366	1,072,951	1,053,657
Operation and Maintenance of Plant	711,832	693,126	666,243	665,294
Pupil Transportation	493,405	456,750	482,327	455,868
Central	4,933	(67)	10,936	5,936
Operation of Non-Instructional Services	12,877	7,529	20,401	8,245
Operation of Food Service	358,134	44,409	356,768	60,382
Extracurricular Activities	353,025	218,421	310,661	187,942
Capital Outlay	1,467,525	(5,359,768)	643,370	(140,703)
Debt Service	7,389,856	7,389,856	44,586	44,586
<b>Total Expenses</b>	<b>\$17,165,086</b>	<b>\$9,293,223</b>	<b>\$8,594,077</b>	<b>\$6,792,840</b>

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
ALLEN COUNTY**

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

**FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S INDIVIDUAL FUNDS**

**Governmental Funds**

The School District has two major governmental funds: the General Fund, and the Ohio School Facilities Construction Fund (OSFC). Receipts of the General Fund comprise \$7,024,162 (45.8 percent) of the total \$15,324,268 governmental funds receipts. Receipts of the OSFC Fund comprise \$6,795,575 (44.4 percent) of that same total. Both of these funds also carried 41 percent each of the total expenses for the governmental funds.

**General Fund** – The General Fund cash balance at June 30, 2005 was \$1,979,205 which represents 11.6 percent of total governmental fund cash balances for fiscal year 2005. General fund receipts were less than disbursements by \$303,392 indicating that the general fund is in a deficit spending situation. The change in the General Fund cash balance was due mainly to transfers of cash to fund other funds' projects. Also, the increases in the cost of all services, fuel, as well as an increase in the cost of employee benefits, have contributed to the decrease in cash in the General Fund.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The statement comparing the School Districts original and final budgets and actual results is presented as part of the basic financial statements. The original budget for a fiscal year is prepared no later than January 15. The Board must adopt this budget and file it with the Allen County Budget Commission no later than January 20. The final budget is adopted by the board prior to June 30. The significant differences between the final budget and the actual numbers after twelve months of activity include:

Property tax receipts increased beyond projections due to the county auditor doing reappraisals during fiscal year 2004. The reappraisal increased the property values on homes within the School District creating an increase in property tax received by the county. The income tax receipts increase can be attributed to relaxing economic pressures in this rural area. Taxpayers' income increased during the tax period and, therefore, income tax receipts were higher than in previous years. Taxpayers also had to pay for a full year of the OSFC building project tax increase. The rate increase started in the middle of fiscal year 2004.

Tuition and fees increased beyond projection due to an increase in the number of open enrollment students that applied and were accepted to attend our School District. The open enrollment program allows students of other school districts to apply to attend our School District tuition free. Their home school district is billed for the cost of educating these children through a deduction from their foundation payments and we receive this money from the State as a tuition payment.

The intergovernmental receipts showed an increase due largely in part to the District receiving more in foundation payments from the State.

Current instruction and current support services decreased beyond projection due to various reasons. One reason for this decrease is that there was less spending done throughout the school district due to the building project that is currently taking place. Also, less was spent this year on teacher benefits and substitute teachers. Another contributing factor was that there were less than expected costs for maintenance of the buildings, as well as less than expected increases in the cost of insurance premiums.

Other financing uses decreased from what was budgeted, but not to the surprise of management. The budget includes the contingency money the School District holds in case of emergencies in this account. The School District had no plans to spend this money, but it must be included in the budget.

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
ALLEN COUNTY**

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

**CAPITAL ASSET AND DEBT ADMINISTRATION**

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

**Debt** – At June 30, 2005, the District's outstanding debt included an energy conservation improvement note in the amount of \$247,400 and a bond issue in the amount of \$6,631,991 for the construction of new school facilities. During the fiscal year 2005, the School District paid principal on its HB-264 energy conservation improvement note in the amount of \$30,925; redeemed \$6,810,000 in school facility note debt and \$175,000 on the school facility bond issue. Further information on these debt instruments can be found at Notes 14 and 15 in the notes to the basic financial statements.

**ECONOMIC FACTORS**

The School District, like all other taxing entities in the State of Ohio, faces the uncertainty of the economy. The School District's operating revenue is composed primarily of property taxes and a local income tax. With a weak economy, these reserves can fluctuate in great amounts from year to year.

As for expenses, the School District faces continued significant increases in the cost of health care for its employees. The School District also faces an increasing number of children requiring special education and services. Charges to provide these services increase every year. The School District has faced these challenges the last few years by making cuts to its budget and services offered.

**REQUESTS FOR ADDITIONAL INFORMATION**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Treasurer's office at the Spencerville Local School District, 600 School Street, Spencerville, Ohio 45887.

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
ALLEN COUNTY**

**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS  
JUNE 30, 2005**

	<b><u>Governmental Activities</u></b>
<b>Assets:</b>	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$10,182,938
Investments	<u>6,932,176</u>
Total Assets	<u><u>17,115,114</u></u>
<b>Net Assets:</b>	
Restricted for Debt Service	183,495
Restricted for Capital Outlay	14,568,901
Restricted for Other Purposes	383,513
Restricted for Textbooks	71,304
Unrestricted	<u>1,907,901</u>
<b>Total Net Assets</b>	<u><u>\$17,115,114</u></u>

*See accompanying notes to the basic financial statements.*

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
ALLEN COUNTY**

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

	Cash Disbursements	Program Receipts			Net(Disbursements) Receipts and Changes in Net Assets
		Charges For Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
<b>Governmental Activities:</b>					
Instruction:					
Regular	\$3,628,829		\$55,270		(\$3,573,559)
Special	453,021		327,916		(125,105)
Vocational	52,784		19,177		(33,607)
Adult/Continuing	2,785				(2,785)
Other	546,878		2,025		(544,853)
Support Services:					
Pupils	423,199		75,208	\$2,575	(345,416)
Instructional Staff	326,809		34,533		(292,276)
Board of Education	24,503				(24,503)
Administration	642,390	\$660	9,197		(632,533)
Fiscal	271,956		3,971		(267,985)
Business	345				(345)
Operation and Maintenance of Plant	711,832		18,706		(693,126)
Pupil Transportation	493,405		36,655		(456,750)
Central	4,933		5,000		67
Operation of Non-Instructional Services	12,877	1,350	3,998		(7,529)
Food Service Operations	358,134	226,379	87,346		(44,409)
Extracurricular Activities	353,025	100,522	34,082		(218,421)
Capital Outlay	1,467,525			6,827,293	5,359,768
Debt Service:					
Principal	7,015,925				(7,015,925)
Interest and Fiscal Charges	373,931				(373,931)
<b>Total Governmental Activities</b>	<b>\$17,165,086</b>	<b>\$328,911</b>	<b>\$713,084</b>	<b>\$6,829,868</b>	<b>(9,293,223)</b>

**General Receipts:**

Taxes:	
Taxes Levied for General Purposes	1,493,187
Taxes Levied for Debt Service	384,873
Taxes Levied for Other Purposes	134,621
Income Taxes	895,447
Tuition and Fees	294,482
Grants and Entitlements not Restricted to Specific Programs	4,107,703
Gifts and Donations	275
Investment Earnings	109,144
Miscellaneous	19,595
Bond Issuance Premium	7,374
Proceeds from Sale of Fixed Assets	5,704
<b>Total General Receipts</b>	<b>7,452,405</b>
Change in Net Assets	(1,840,818)
Net Assets at Beginning of Year	18,955,932
<b>Net Assets at End of Year</b>	<b>\$17,115,114</b>

See accompanying notes to the basic financial statements.

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
ALLEN COUNTY**

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

	<u>General</u>	<u>Ohio School Facilities Construction</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$1,907,901	\$5,095,025	\$3,108,708	\$10,111,634
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	71,304			71,304
Investments		6,300,000	632,176	6,932,176
<b>Total Assets</b>	<u>1,979,205</u>	<u>11,395,025</u>	<u>3,740,884</u>	<u>17,115,114</u>
<b>Fund Balances</b>				
Reserved for Encumbrances	219,752	22,657,246	131,687	23,008,685
Reserved for Textbooks and Instructional Materials	71,304			71,304
Unreserved, Undesignated, Reported in:				
General Fund	1,688,149			1,688,149
Special Revenue Funds			383,513	383,513
Debt Service Fund			183,495	183,495
Capital Projects Fund		(11,262,221)	3,042,189	(8,220,032)
<b>Total Fund Balances</b>	<u>\$1,979,205</u>	<u>\$11,395,025</u>	<u>\$3,740,884</u>	<u>\$17,115,114</u>

*See accompanying notes to the basic financial statements*

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
ALLEN COUNTY**

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

	<u>General</u>	<u>Ohio School Facilities Construction</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Cash Receipts</b>				
Property Taxes	\$1,493,187		\$519,494	\$2,012,681
Income Tax	895,447			895,447
Intergovernmental	4,255,066	\$6,621,000	522,980	11,399,046
Interest	65,267	174,575	75,595	315,437
Tuition and Fees	293,995		487	294,482
Extracurricular Activities			101,786	101,786
Gifts and Donations	2,850		42,741	45,591
Charges for Services	746		226,379	227,125
Miscellaneous	12,867		6,728	19,595
Total Cash Receipts	<u>7,019,425</u>	<u>6,795,575</u>	<u>1,496,190</u>	<u>15,311,190</u>
<b>Cash Disbursements</b>				
Current:				
Instruction:				
Regular	3,508,950		119,879	3,628,829
Special	220,109		232,912	453,021
Vocational	52,784			52,784
Adult Continuing	2,785			2,785
Other	529,623		17,255	546,878
Support Services:				
Pupil	334,247		88,952	423,199
Instructional Staff	157,699		169,110	326,809
Board of Education	24,503			24,503
Administration	616,521		25,869	642,390
Fiscal	259,673		12,283	271,956
Business	345			345
Operation and Maintenance of Plant	693,832		18,000	711,832
Pupil Transportation	441,424		51,981	493,405
Central			4,933	4,933
Operation of Non-Instructional Services	470		12,407	12,877
Operation of Food Services			358,134	358,134
Extracurricular Activities	197,968		155,057	353,025
Capital Outlay	386	1,315,741	151,398	1,467,525
Debt Service:				
Principal Retirement	30,925	5,599,000	1,386,000	7,015,925
Interest and Fiscal Charges	12,223	58,903	302,805	373,931
Total Cash Disbursements	<u>7,084,467</u>	<u>6,973,644</u>	<u>3,106,975</u>	<u>17,165,086</u>
Excess of Receipts Over (Under) Disbursements	(65,042)	(178,069)	(1,610,785)	(1,853,896)
<b>Other Financing Sources (Uses)</b>				
Sale of Fixed Assets	4,737		967	5,704
Bond Issuance Premium			7,374	7,374
Advances In	15,148		33,300	48,448
Transfers In			224,935	224,935
Advances Out	(33,300)		(15,148)	(48,448)
Transfers Out	(224,935)			(224,935)
Total Other Financing Sources (Uses)	<u>(238,350)</u>		<u>251,428</u>	<u>13,078</u>
Net Change in Fund Balances	(303,392)	(178,069)	(1,359,357)	(1,840,818)
Fund Balances Beginning of Year	<u>2,282,597</u>	<u>11,573,094</u>	<u>5,100,241</u>	<u>18,955,932</u>
<b>Fund Balances End of Year</b>	<u><u>\$1,979,205</u></u>	<u><u>\$11,395,025</u></u>	<u><u>\$3,740,884</u></u>	<u><u>\$17,115,114</u></u>

See accompanying notes to the basic financial statements.



**SPENCERVILLE LOCAL SCHOOL DISTRICT  
ALLEN COUNTY**

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Receipts</b>				
Property and Other Local Taxes	\$1,375,416	\$1,375,416	\$1,493,187	\$117,771
Income Tax	867,992	867,992	895,447	27,455
Intergovernmental	4,031,633	4,028,379	4,256,994	228,615
Interest	30,602	33,858	65,267	31,409
Tuition and Fees	152,497	152,497	293,995	141,498
Gifts and Donations	250	250	2,850	2,600
Customer Sales and Services		403	746	343
Miscellaneous	9,333	8,930	12,867	3,937
<b>Total Receipts</b>	<u>6,467,723</u>	<u>6,467,725</u>	<u>7,021,353</u>	<u>553,628</u>
<b>Disbursements</b>				
Current:				
Instruction:				
Regular	3,618,832	3,598,668	3,581,719	16,949
Special	257,715	237,565	220,826	16,739
Vocational	67,870	61,198	52,949	8,249
Adult Continuing	2,700	3,153	2,785	368
Other	613,139	776,315	582,059	194,256
Support Services:				
Pupil	333,824	357,090	338,397	18,693
Instructional Staff	189,570	190,963	170,234	20,729
Board of Education	51,630	53,250	24,964	28,286
Administration	663,744	660,808	626,450	34,358
Fiscal	302,313	311,008	284,903	26,105
Business	383	383	345	38
Operation and Maintenance of Plant	684,034	739,119	725,864	13,255
Pupil Transportation	464,765	463,700	448,945	14,755
Central	850	1,742	892	850
Operation of Non-Instructional Services				
Food Service Operations		892	399	493
Other		540	470	70
Extracurricular Activities				
Academic Oriented	21,259	20,259	18,247	2,012
Occupation Oriented	3,174	3,174	2,572	602
Sport Oriented	171,961	171,961	170,154	1,807
School and Public Service Co-curricular	8,892	8,892	7,511	1,381
Capital Outlay				
Site Acquisition Services		390	386	4
Debt Service				
Principal	30,925	30,925	30,925	
Interest	12,223	12,223	12,223	
<b>Total Disbursements</b>	<u>7,499,803</u>	<u>7,704,218</u>	<u>7,304,219</u>	<u>399,999</u>
Excess of Receipts Over (Under) Disbursements	(1,032,080)	(1,236,493)	(282,866)	953,627
<b>Other Financing Sources (Uses)</b>				
Proceeds from Sale of Fixed Assets	463	463	4,737	4,274
Refund of Prior Year Expenditures	2,500	2,500		(2,500)
Refund of Prior Year Receipts		(1,928)	(1,928)	
Advances In	15,148	15,148	15,148	
Advances Out	(15,754)	(33,300)	(33,300)	
Transfers Out	(137,354)	(230,330)	(224,935)	5,395
Other Financing Uses	(584,444)	(267,579)		267,579
<b>Total Other Financing Sources (Uses)</b>	<u>(719,441)</u>	<u>(515,026)</u>	<u>(240,278)</u>	<u>274,748</u>
Net Change in Fund Balance	(1,751,521)	(1,751,519)	(523,144)	1,228,375
Fund Balance Beginning of Year	2,120,261	2,120,261	2,120,261	
Prior Year Encumbrances Appropriated	162,336	162,336	162,336	
<b>Fund Balance End of Year</b>	<u>\$531,076</u>	<u>\$531,078</u>	<u>\$1,759,453</u>	<u>\$1,228,375</u>

See accompanying notes to the basic financial statements.

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
ALLEN COUNTY**

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

	<u>Private Purpose Trust</u>	<u>Agency</u>
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$94,585	\$31,373
Total Assets	<u>94,585</u>	<u>31,373</u>
 <b>Net Assets</b>		
Held in Trust for Scholarships:		
Expendable	1,562	
Non-expendable	93,023	
Held For Students		31,373
<b>Total Net Assets</b>	<u>\$94,585</u>	<u>\$31,373</u>

*See accompanying notes to the basic financial statements.*

SPENCERVILLE LOCAL SCHOOL DISTRICT  
ALLEN COUNTY

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

	<u>Private Purpose Trust</u>
<b>Additions</b>	
Interest	<u>\$2,402</u>
Total Cash Additions	2,402
<b>Deductions</b>	
Payments in Accordance with Trust Agreements	<u>1,500</u>
Change in Net Assets	902
Net Assets - Beginning of Year	<u>93,683</u>
<b>Net Assets - End of Year</b>	<u><u>\$94,585</u></u>

*See accompanying notes to the basic financial statements.*

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**SPENCERVILLE LOCAL SCHOOL DISTRICT  
ALLEN COUNTY**

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

**1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

Spencerville Local 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, Auglaize and Van Wert Counties. It is staffed by 36 non-certificated employees and 77 certificated full-time teaching personnel who provide services to 1,039 students and other community members. The School District currently operates 2 elementary schools, 1 middle school, and 1 high school.

**A. Reporting Entity**

The reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the 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. The School District has the following component unit:

**1. 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 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 School District is associated with five jointly governed organizations and three insurance purchasing pools. These organizations include the Northwest Ohio Area Computer Services Cooperative, Apollo Career Center, the West Central Regional Professional Development Center, the West Central Ohio Special Education Regional Resource Center, Northwestern Ohio Educational Research Council, Inc., the Ohio School Plan, the Allen County Schools Health Benefit Plan, and Sheakley Uniservice, Inc. These organizations are presented in Notes 19 and 20 to the basic financial statements.

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
ALLEN COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Basis of Presentation**

**1. Government-wide Financial Statements**

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

The statement of net assets presents the cash balance of the governmental activities of the School District at fiscal year end. The statement of activities presents a comparison between direct disbursements and program receipts for each function of the governmental activities. Direct disbursements are those that are specifically associated with a service, program or department and are therefore identifiable to a particular function.

Program receipts include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Receipts which are not classified as program receipts are presented as general receipts of the School District, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on the modified cash basis of accounting or draws from the general receipts of the School District.

**2. Fund Financial Statements**

Fund financial statements report detailed information about the School District. The focus of governmental financial statements is on major funds rather than reporting funds by type. The School District has two major funds, the General Fund and Ohio School Facilities Construction Fund, which are presented in separate columns. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

**B. Fund Accounting**

The School District uses funds to maintain its financial records during the year. 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, 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.

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 and fiduciary.

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
ALLEN COUNTY**

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

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

**1. Governmental Funds**

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 (except those accounted for in fiduciary funds) are accounted for through governmental funds. The School District's major funds are the General Fund and the Ohio School Facilities Construction Fund.

**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.

**Ohio School Facilities Construction Fund**

This fund is used to account for the state and local monies received and expended under the State of Ohio Classroom Facilities Assistance Program for the construction of new school facilities.

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

**2. Fiduciary Funds**

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 private purpose trust funds and agency funds. Private purpose trust funds are used to account for assets held by the School District that are not available to fund the School District's programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**C. Basis of Accounting**

The School District's financial statements are prepared using the modified cash basis of accounting. Receipts are recorded in the School District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in the financial statements.

**D. Budgetary Process**

All funds, except agency funds, are required to be budget and appropriated. 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 tax budget demonstrates the need for existing or increased tax rates.

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
ALLEN COUNTY**

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

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

The certificate of estimated resources sets a limit on the amount the Board may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on cash disbursements plus encumbrances at the level of control selected by the Board. The legal level of control has been established by the Board at the fund level for all funds. Budgetary allocations at the function and object level within all funds are made by the Treasurer.

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

The appropriations resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriations resolution for the General fund that covered the entire fiscal year. The amounts reported as the final budgeted amounts represent the final appropriations amounts passed by the Board during the fiscal year.

**E. Cash and Cash Equivalents**

To improve cash management, all cash received by the School District is pooled, except for cash and investments related to the school facilities construction project. Monies for the remaining funds are maintained in this pool 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 "Equity in Pooled Cash and Cash Equivalents".

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

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively

During fiscal year 2005, investments were limited to non-negotiable certificates of deposit, money market accounts, premium interest-bearing accounts, mutual funds, Federal Home Loan Bank Bonds and STAR Ohio. Non negotiable certificates of deposit and premium interest-bearing accounts are stated at 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, 2005.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2005 was \$65,267, which included \$9,137, assigned from other funds.



**SPENCERVILLE LOCAL SCHOOL DISTRICT  
ALLEN COUNTY**

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

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

**F. Inventory and Prepaid Items**

On the modified cash-basis of accounting, inventories of supplies and prepaid items are reported as disbursements when purchased.

**G. Capital Assets**

Property, plant, and equipment acquired or constructed by the School District are recorded as disbursements. Depreciation is not recorded for these fixed assets.

**H. Accumulated Leave**

Accumulated unpaid vacation, sick leave, and personal leave are not accrued under the modified cash basis of accounting as described in Note 2. All leave will either be utilized by time off from work or, within certain limitations, be paid to employees.

**I. Long-Term Obligations**

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

**J. Net Assets/Restricted Assets**

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to expenditure for specified purposes. As of June 30, 2005, net assets restricted by enabling legislation were \$574,932.

The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**K. Fund Balance Reserves**

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

**L. Interfund Activity**

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

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

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
ALLEN COUNTY**

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

**3. CHANGE IN ACCOUNTING PRINCIPLES**

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

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

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

**4. ACCOUNTABILITY AND COMPLIANCE**

Ohio Administrative Code Section 117-02-03(B), requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the School District prepared its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The School District can be fined and various other administrative remedies may be taken against the School District.

**5. BUDGETARY BASIS OF ACCOUNTING**

While the School District is reporting financial position, results of operations, and changes in fund balances on the basis of cash, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Cash Receipts, Cash Disbursements, and Change in Fund Balance - Budget and Actual - Budget Basis, for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major difference between the budget basis and the modified cash basis is that encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (cash basis).

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

<b>Change in Fund Balance</b>	
Cash Basis	(\$303,392)
Increase (Decrease) Due To:	
Encumbrances Outstanding at Fiscal Year End	<u>(219,752)</u>
Budget Basis	<u><u>(\$523,144)</u></u>

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
ALLEN COUNTY**

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

**6. 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 two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

1. United/States Treasury 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. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
7. The State Treasurer's investment pool (STAR Ohio).

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

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
ALLEN COUNTY**

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

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

**Deposits** - At fiscal year end, the carrying amount of the School District's deposits was \$1,611,372 and the bank balance was \$1,904,217. 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.

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$1,604,217 of the School District's bank balance of \$1,904,217 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

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

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

	<u>Carrying Value</u>	<u>Market Value</u>	<u>Maturity</u>
Mutual Funds	\$632,176	\$632,176	Various
Federal Home Loan Bank Bonds	1,000,000	984,800	February 13, 2007
Federal Home Loan Bank Bonds	1,000,000	988,200	August 25, 2006
Federal Home Loan Bank Bonds	1,000,000	999,500	July 8, 2005
Federal Home Loan Bank Bonds	800,000	788,240	November 27, 2006
Federal Home Loan Bank Bonds	<u>2,500,000</u>	<u>2,461,500</u>	June 23, 2006
Totals	6,932,176	6,854,416	
Star Ohio	<u>8,697,524</u>		
Total Investments	<u>\$15,629,700</u>	<u>\$6,854,416</u>	

Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The School District's investment policy addresses interest rate risk by requiring that the School District's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding that need to sell securities on the open market prior to maturity, and by investing operating funds primarily in short-term investments.

The investment policy restricts the Treasurer from investing in anything other than as identified in the Ohio Revised Code and that all investments must mature within five years from the date of investment unless they are matched to a specific obligation or debt of the School District. The Treasurer is also restricted from purchasing investments that cannot be held until the maturity date.

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

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

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Federal Home Loan Bank Bonds are exposed to custodial credit risk as they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the School District's name.

The School District has no investment policy dealing with credit risk beyond the requirements in state statutes. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the mutual funds be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service.

The Federal Home Loan Bank Bonds, mutual funds, and Star Ohio carry a rating of AAA by Standard and Poor's.

The School District has no investment policy dealing with investment custodial risk beyond the requirements in ORC 135.14(M)(2) which states, "Payment for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee."

The School District places no limit on the amount of its interim monies it may invest in a particular security. The following table indicates the percentage of each investment to the School District's total portfolio.

	<b>Carrying Value</b>	<b>Percentage of Portfolio</b>
Mutual Funds	\$ 632,176	4.0%
Federal Home Loan Bank Bonds	6,300,000	40.3
Star Ohio	8,697,524	55.7
Total Investments	\$15,629,700	100.00%

**7. PROPERTY TAXES**

Property taxes are levied and assessed on a calendar year basis while the School District's fiscal year runs from July through June. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the School District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years.

Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are 25 percent of true value.

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**7. PROPERTY TAXES (Continued)**

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.

Tangible personal property taxes paid 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.

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, 2004, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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

	<b>2004 Second-Half Collections</b>		<b>2005 First-Half Collections</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Agricultural/Residential and Other				
Real Estate	\$72,596,070	88.43%	\$73,318,790	88.61%
Public Utility	4,057,620	4.94	4,100,860	4.96
Tangible Personal Property	<u>5,440,233</u>	<u>6.63</u>	<u>5,322,937</u>	<u>6.43</u>
Total Assessed Value	<u>\$82,093,923</u>	<u>100.00%</u>	<u>\$82,742,587</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation		\$37.24		\$37.37

**8. INCOME TAX**

The School District renewed a tax levy of one percent for general operations on the income of residents and of 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.

**9. DIESEL SCHOLARSHIP FUND**

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 2005, there were 13 students with a total principal balance of \$17,090. Of the balance, \$ 8,120 represents the portion that is collectable. The remaining \$8,970 is deferred until the student completes or leaves post secondary schooling. The Fund lost \$2,100 during the year, when a past student filed for bankruptcy, making the amount the student owed uncollectible.

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**10. 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 2005, the School District contracted with Indiana Insurance (through O'Conner-McLaughlin Ins. Co.) for property and contents insurance. Property coverages amounted to \$17,737,900. The District has a \$2,500 deductible on this coverage.

General and professional liability is protected by The Ohio School Plan (through Harcum-Schuett Insurance Co.) with \$1,000,000 each occurrence and \$3,000,000 aggregate limit. There is a minimum \$2,500 deductible on this coverage. The School violence policy is through Harcum-Schuett with \$1,000,000 each per planned aggregate and violent act.

Vehicles are covered by Harcum-Schuett Insurance Co. and hold a \$1,000 deductible for bus and \$500 for auto 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 Mueller-Paulus-Homan Insurance 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.

For the life of the building project, the School District will maintain Builders-at-Risk insurance with Indiana Insurance (through O'Conner-McLaughlin Co.). Coverage is set by OSFC standards and the deductible is \$5,000.

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 2005, the School District participated in the Sheakley Uniservice, Inc. Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool (Note 20). The intent of the Plan 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 Plan. The workers' compensation experience of the participants is calculated as one experience and a common premium is applied to all participants in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual total. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the Plan. 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 share equally in the overall performance of the Plan.

**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.

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**11. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute an actuarially determined rate. The rate for fiscal year 2005 was 14 percent of annual covered payroll; 10.57 percent was the portion used to fund pension obligations. For fiscal year 2004, 9.09 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 statutory maximum amounts, by the SERS Retirement Board. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003, were approximately \$100,502, \$84,196 and \$50,510.

**B. State Teachers Retirement System**

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

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

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



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(Continued)**

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

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

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

The School District's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2005, 2004, and 2003 was \$474,183, \$455,748, and \$436,324, respectively; 84 percent has been contributed for fiscal year 2005 and 100 percent has been contributed for fiscal years 2004 and 2003. Contributions for the DCP and CP for the fiscal year ended June 30, 2005, were \$624 made by the School District and \$597 made by 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, 2005, three members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

**12. POSTEMPLOYMENT BENEFITS**

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

STRS retirees who participated in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2005, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount was \$36,476.

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**12. POSTEMPLOYMENT BENEFITS (Continued)**

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

For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the School District, the amount to fund health care benefits, including the surcharge, was \$47,278 for fiscal year 2005.

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

**13 OPERATING LEASES**

The District is obligated under various operating lease agreements with Perry Corporation for copiers. 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 District is also obligated under a 60 month operating lease agreement for a postage meter. The future rental payments are as follows:

<u>Year Ending June 30</u>	<u>Copier Lease</u>	<u>Postage Meter</u>
2006	\$14,126	\$1,848
2007		1,848
2008		700
Total	<u>\$14,126</u>	<u>\$4,396</u>

**14. NOTES PAYABLE**

A summary of the School District's note transactions for the fiscal year ended June 30, 2005 is as follows:

	<u>Principal Outstanding 6/30/2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Principal Outstanding 6/30/2005</u>
Bond Anticipation Note 1.83% Matures 8/26/2004	<u>\$6,810,000</u>	<u>\$0</u>	<u>\$6,810,000</u>	<u>\$0</u>

**Bond Anticipation Note** - By Ohio law, notes can be issued in anticipation of bond proceeds, special assessment bond proceeds and levies, or for up to 50 percent of anticipated revenue collections. The School District issued bond anticipation notes which were repaid at maturity with bond proceeds.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**15. LONG TERM OBLIGATIONS**

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

	<b>Principal Outstanding 6/30/2004</b>	<b>Additions</b>	<b>Deductions</b>	<b>Principal Outstanding 6/30/2005</b>
Note payable HB 264				
4.65% - Matures 12/1/12	\$278,325		\$30,925	\$247,400
School Improvement Bonds				
Serial 2.0 - 2.7%	695,000		175,000	520,000
Term - 3.30 - 5.125%	5,960,000			5,960,000
Capital Appreciation	151,991			151,991
Capital Accretion		\$17,374		17,374
Total Long-Term Obligations	<u>\$7,085,316</u>	<u>\$0</u>	<u>\$205,925</u>	<u>\$6,879,391</u>

**Note Payable HB 264** - On February 2, 1998, the 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 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 this debt outstanding at June 30, 2005, are as follows:

<b>Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2006	\$30,925	\$10,785	\$41,710
2007	30,925	9,347	40,272
2008	30,925	7,909	38,834
2009	30,925	6,471	37,396
2010	30,925	5,033	35,958
2011-2013	92,775	6,471	99,246
	<u>\$247,400</u>	<u>\$46,016</u>	<u>\$293,416</u>

**School Improvement Bonds – 2004** - The District issued \$6,806,991 in voted general obligation bonds for constructing, improving, and making additions to school buildings and related site development. The bonds were issued in June 2004. The bond issue included serial, term, and capital appreciation bonds in the amounts of \$695,000, \$5,960,000, and \$151,991 respectively. The bonds will be retired with a voted property tax levy from the debt service fund.

**Current Interest Bonds 2004 (Serial)** - The Current Interest Bonds mature on December 01, 2007. The remaining principal amount to be redeemed as of June 30, 2005 is \$520,000.

**Current Interest Bonds 2004 (Term)** - The Current Interest Bonds due December 1, 2009 are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2008 at 100 percent of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

<b>Year</b>	<b>Principal Amount to be Redeemed</b>
2008	\$185,000

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(Continued)**

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

Unless otherwise called for redemption, the remaining \$190,000 principal amount of the Bonds due December 1, 2009 is to be paid at stated maturity.

The Current Interest Bonds due December 1, 2011 are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2010, at 100 percent of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

<b>Year</b>	<b>Principal Amount to be Redeemed</b>
2010	\$195,000

Unless otherwise called for redemption, the remaining \$200,000 principal amount of the Bonds due December 1, 2011 is to be paid at stated maturity.

The Current Interest Bonds due December 1, 2013 are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2012, at 100 percent of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

<b>Year</b>	<b>Principal Amount to be Redeemed</b>
2012	\$210,000

Unless otherwise called for redemption, the remaining \$220,000 principal amount of the Bonds due December 1, 2013 is to be paid at stated maturity.

The Current Interest Bonds due December 1, 2015 are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2014, at 100 percent of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

<b>Year</b>	<b>Principal Amount to be Redeemed</b>
2014	\$225,000

Unless otherwise called for redemption, the remaining \$235,000 principal amount of the Bonds due December 1, 2015 is to be paid at stated maturity.

The Current Interest Bonds due December 1, 2017 are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2016, at 100 percent of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

<b>Year</b>	<b>Principal Amount to be Redeemed</b>
2016	\$245,000

Unless otherwise called for redemption, the remaining \$255,000 principal amount of the Bonds due December 1, 2017 is to be paid at stated maturity.

The Current Interest Bonds due December 1, 2025 are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2021, and on each December 1 thereafter at 100 percent of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

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

Year	Principal Amount to be Redeemed
2021	\$270,000
2022	280,000
2023	290,000
2024	310,000

Unless otherwise called for redemption, the remaining \$325,000 principal amount of the Bonds due December 1, 2025 is to be paid at stated maturity.

The Current Interest Bonds due December 1, 2031 are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2026, and on each December 1 thereafter at 100 percent of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

Year	Principal Amount to be Redeemed
2026	\$340,000
2027	360,000
2028	375,000
2029	395,000
2030	415,000

Unless otherwise called for redemption, the remaining \$440,000 principal amount of the Bonds due December 1, 2031 is to be paid at stated maturity.

**Capital Appreciation Bonds 2004** - The Capital Appreciation Bonds will mature in fiscal years 2018 through 2020. The maturity amount of the bonds is \$270,000. During 2005, the accretion for the Capital Appreciation bonds was \$17,374 for an accreted value of \$169,365 at June 30, 2005. Capital Appreciation Bonds are not subject to redemption prior to maturity.

**16. INTERFUND TRANSFERS**

During 2005, the following transfers were made:

Transfers from the General Fund to Other Governmental Funds	<u>\$224,935</u>
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Transfers represent the allocation of unrestricted receipts collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**17. INTERFUND ADVANCES**

Interfund balances at June 30, 2005 consisted of the following individual fund receivables and payables:

Due to the General Fund from Other Governmental Funds	<u>\$33,300</u>
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**SPENCERVILLE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**18. CONTRACTUAL COMMITMENTS**

<u>Ohio School Facilities Building Project</u>	<u>Vendor</u>	<u>Amount</u>
General Trades	Ferguson Construction	\$11,858,819
Geothermal Well Field	Loopmaster International	878,000
Plumbing and Mechanical	Schumm Plumbing and Heating	4,080,000
Sitework	Miller Contracting Group	1,202,078
Fire Suppression	Vulcan Fire Protection	335,063
Electrical	Woolace Electric Corporation	2,521,873
Roofing and Sheet Metal	RAME Incorporated	1,322,500
Food Service Equipment	C7T Design and Equipment	340,320
Technology System	Area Energy and Electric	269,565
Total Commitments		<u>\$22,808,218</u>

**19. JOINTLY GOVERNED ORGANIZATIONS**

**Northwest Ohio Area Computer Services Cooperative (NOACSC)** - The School District is a participant in NOACSC which is a computer consortium. NOACSC is an association of public school districts within the boundaries of Allen, Hancock, Mercer, Paulding, Putnam, and Van Wert Counties and Cities of St. Marys and Wapakoneta. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts.

The governing board of NOACSC consists of two representatives from each county elected by majority vote of all charter member school districts within each county plus one representative from the fiscal agent. Financial information can be obtained from Ray Burden, who serves as Director, at 645 South Main Street, Lima, Ohio 45804.

**Apollo Career Center** - The Apollo Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the participating school districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information, write to Apollo Career Center, Greg Bukowski, Treasurer, at 3325 Shawnee Road, Lima, Ohio 45806.

**West Central Regional Professional Development Center (Center)** - The Center is a jointly governed organization among the school districts located in Allen, Auglaize, Hancock, Hardin, Mercer, Paulding, Putnam and Van Wert counties. The jointly governed organization was formed for the purpose of establishing an articulated, regional structure for professional development, in which school districts, the business community, higher education and other groups cooperatively plan and implement effective professional development activities 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.

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

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

**West Central Ohio Special Education Regional Resource Center (SERRC)** - The 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, Treasurer, Hardin County Educational Service Center, 1121 West Lima Street, Suite A, Kenton, Ohio 43326-2385.

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

The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., Box 456, Ashland, Ohio 44805.

**20. INSURANCE POOLS**

**Allen County Schools Health Benefit Plan (the Plan)** - The Allen County Schools Health Benefit Plan is a jointly governed organization among ten school districts and the Allen County Educational Service Center. The purpose of the jointly governed organization was to form a voluntary employee benefit association to provide sick, dental, and vision benefits to participants at a lower rate than if the individual districts acted independently. Each district pays a monthly premium to the fund trustee for insurance coverage which is provided by CoreSource.

The Plan is governed by an administrative committee consisting of the superintendent from each participating district. The degree of control exercised by any participating school district is limited to each representation on the committee. Financial information can be obtained from Karla Wireman, who serves as Treasurer, at 1920 Slabtown Road, 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.

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
ALLEN COUNTY**

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

**20. INSURANCE POOLS (Continued)**

**Sheakley Uniservice, Inc.** - The School District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

**21. STATUTORY RESERVES**

State statute annually requires the School District to set aside in the general fund an amount based on a statutory formula to purchase textbooks and other instructional materials and an equal amount to acquire and construct capital improvements. Amounts not spent by fiscal year-end, or offset by similarly restricted resources received during the fiscal year, must be held in cash at fiscal year-end and carried forward to be used for the same purposes in future fiscal years.

The following cash basis information describes the change in the fiscal year-end set-aside amounts for textbooks and capital acquisition. State statute requires disclosing this information. For fiscal year ended June 30, 2004, the reserve activity was as follows:

	<b>Textbooks</b>	<b>Capital Maintenance</b>
Set-aside Reserve Balance At June 30, 2004	\$24,168	(\$6,806,991)
Required Set-aside	142,859	142,859
Qualifying Expenditures	(95,723)	(247,136)
Total	71,304	(6,911,268)
Offset Carried Forward to Fiscal Year 2006		(\$6,806,991)
Cash Reserve Balance Carried Forward to 2006	\$71,304	

The School District had qualifying disbursements during the year that reduced the set-aside amount for capital acquisitions below zero. For capital acquisitions, the extra amount of qualifying offsets may be used to reduce the set-aside requirements of future years. The textbook balance must be set-aside for the purchase of textbook and related materials in future years.

**22. GRANTS**

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



**SPENCERVILLE LOCAL SCHOOL DISTRICT  
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

This discussion and analysis provides key information from management highlighting the financial performance of the Spencerville Local School District for the year ended June 30, 2004. This is meant to be an easily readable summary of the most important financial information regarding the accompanying financial statements. Please read it in conjunction with the School District's financial statements.

**HIGHLIGHTS**

Key highlights for fiscal year 2004 are as follows:

Net assets of governmental activities increased \$13,753,572 or 264.4 percent. The increase was due to the issuance of bond anticipation notes and school improvement bonds for the construction of school facilities.

The School District's general receipts are primarily property taxes, income taxes and grants and entitlements not restricted to specific programs. These receipts represent respectively 7.9, 3.8 and 17.8 percent of the total revenue received for governmental activities during the fiscal year.

The School District has undertaken the construction of new school facilities through the Ohio School Facilities Loan Commission. Revenues and expenditures represent 65 percent and 7.5 percent respectively, of governmental activities for this construction project.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the School District's basic financial statements. The report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement 34, as applicable to the School District's modified cash basis of accounting. The School District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and (3) notes to the financial statements.

**Government-wide financial statements** - The government-wide financial statements are designed to provide readers with a broad overview of the School District's finances and provide information about the cash activities of the School District as whole. The statement of net assets presents the cash balances and investments of the governmental activities at year end. The statement of activities compares cash disbursements with program receipts for each governmental program activity. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the School District's general receipts.

Both of the government-wide financial statements distinguish functions of the School District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the School District include instruction, support services, administration, operation and maintenance of plant and extracurricular activities. The School District has no business-type activity.

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

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED  
(Continued)**

**Governmental funds** - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements and both are presented on the modified cash basis of accounting. The School District accounts for its activities using many individual funds. The most significant funds are reported in separate columns in the governmental fund financial statements. These statements provide detailed information about the individual major funds - unlike the government-wide financial statements, which report on the School District as a whole. The General Fund, Ohio School Facilities Commission Bond Fund, and the Ohio School Facilities Construction Fund are the School District's major funds.

**Fiduciary funds** - Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. These funds are not reflected in the government-wide financial statements because the resources are not available to support the School District's own programs.

**Notes to the financial statements** – The notes are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

**Basis of Accounting** - The basis of accounting is a set of guidelines that determine when financial events are recorded. The School District has elected to present its financial statements on the modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the School District's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

**THE SCHOOL DISTRICT AS A WHOLE**

Table 1 provides a summary of the School District's net assets for fiscal year 2004 compared to fiscal year 2003 on a modified cash basis:

**(Table 1)**  
**Net Assets**

<b>Assets</b>	<b>Governmental Activities</b>	
	<b>2004</b>	<b>2003</b>
Equity in Pooled Cash and Cash Equivalents	\$5,313,607	\$5,202,360
Investments	13,642,325	
	<u>18,955,932</u>	<u>5,202,360</u>
<b>Net Assets</b>		
Restricted for:		
Capital Outlay	16,146,430	2,216,380
Debt Service	216,331	
Other Purposes	310,574	277,713
Set-asides	24,168	
Unrestricted	<u>2,258,429</u>	<u>2,708,267</u>
Total Net Assets	<u>\$18,955,932</u>	<u>\$5,202,360</u>

As mentioned previously, net assets of governmental activities increased \$13,753,572 or 264.4 percent during fiscal year 2004. The primary reason contributing to the increase in the cash balance is due to note and bond issuances for a major school facilities construction project.

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED  
(Continued)**

Table 2 reflects the changes in net assets for fiscal year 2004. Since the School District did not prepare financial statements in this format for 2003, a comparative analysis of the government-wide statement has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

**(Table 2)  
Changes in Net Assets**

	<b>Governmental Activities 2004</b>
<b>Receipts:</b>	
Program Receipts:	
Charges for Services and Sales	\$335,571
Operating Grants and Contributions	681,593
Capital Grants and Contributions	784,073
Total Program Receipts	1,801,237
General Receipts:	
Property Taxes	1,764,999
Income Taxes	842,710
Tuition and Fees	126,745
Grants and Entitlements Not Restricted to Specific Programs	3,975,374
Interest	61,584
Gifts and Donations	20,250
Bond and Note Proceeds	13,616,991
Premium on Bond Issue	126,245
Proceeds From the Sale of Fixed Assets	1,169
Miscellaneous	10,345
Total General Receipts	20,546,412
Total Receipts	22,347,649
<b>Disbursements:</b>	
Instruction	4,411,070
Support Services:	
Pupils and Instructional Staff	574,764
Board of Education, Administration and Fiscal	1,072,951
Operation and Maintenance of Plant	666,243
Pupil Transportation	482,327
Central	10,936
Operation of Non-Instructional Services	20,401
Operation of Food Service	356,768
Extracurricular Activities	310,661
Capital Outlay	643,370
Debt Service	44,586
Total Disbursements	8,594,077
Increase in Net Assets	13,753,572
Net Assets, July 1, 2003	5,202,360
Net Assets, June 30, 2004	\$18,955,932

Of the total governmental activities receipts of \$8,604,413, net of note and bond proceeds, \$1,801,237 or 20.9 percent is from program receipts. This means that the government relies on general receipts to fund the majority of the cost of services provided to the citizens. Of these general receipts, net of note and bond proceeds, 37.6 percent (\$2,607,709) comes from tax levies and 57.4 percent (\$3,975,374) is from state and federal funding. The School District's operations are reliant upon its tax levies and the state's foundation program.

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED  
(Continued)**

Approximately 21 percent of the disbursements of the general government programs were recouped through program receipts. Instruction costs were \$4,411,070, or 51.3 percent of disbursements, but program receipts contributed to fund 9.4 percent of those costs. Thus, general revenues of \$3,994,349 were used to support the remainder of the instruction costs.

The total cost of services is expected to increase for future years. Also, the District's net cost of services for principal and interest should also increase in future years since the bond anticipation note will be repaid and payment will be made on the bond issue.

The School District's governmental activities' cash balances increased by \$13,753,572. This increase occurred through the proceeds from the sale of notes for \$6,810,000, and the issuance of bonds for \$6,806,991. The School District is in the beginning stages of an Ohio School Facilities Commission (OSFC) building project, and plans on having the new school building completed within three years. These two items, which make up 99 percent of the total government cash increase, are non-reoccurring events and will not be available to bolster the cash balances in the future. The cash balance is projected to slowly decline over the next couple of years, as the OSFC building project is completed.

The following table presents the total disbursements of each of the government's primary services, and the comparative net after deducting the receipts generated by each function.

**(Table 3)  
Governmental Activities**

	<b>Total Cost Of Services 2004</b>	<b>Net Cost of Services 2004</b>
Instruction	\$4,411,070	\$3,994,349
Support Services:		
Pupils and Instructional Staff	574,764	457,284
Board of Education, Administration and Fiscal	1,072,951	1,053,657
Operation and Maintenance of Plant	666,243	665,294
Pupil Transportation	482,327	455,868
Central	10,936	5,936
Operation of Non-Instructional Services	20,401	8,245
Operation of Food Service	356,768	60,382
Extracurricular Activities	310,661	187,942
Capital Outlay	643,370	(140,703)
Debt Service	44,586	44,586
Total Expenses	<u>\$8,594,077</u>	<u>\$6,792,840</u>

**FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S INDIVIDUAL FUNDS**

**Governmental Funds**

The School District has three major governmental funds: the General Fund, the OSFC Bond Fund, and the OSFC Construction Fund. Receipts of the General Fund comprise \$6,576,188 (76.4 percent) of the total \$8,604,413 governmental funds receipts, net of note and bond proceeds. Other financing sources of the OSFC Bond Fund and the OSFC Fund comprise \$2,443,090 (17.8 percent) and \$11,300,146 (82.2 percent), respectively, of the total \$13,744,405 governmental funds other financing sources.

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED  
(Continued)**

**General Fund** - The fund cash balance at June 30, 2004 was \$2,282,597 which represents 12 percent of total fund cash balances for fiscal year 2004. The General Fund cash balance at June 30, 2004 was \$421,482 less than the cash balance at June 30, 2003. The change in the General Fund cash balance is due mainly to cut backs on money received from the State and Federal Governments. Because of these cut backs less cash for the School District was available to use during fiscal year 2004. These cut backs in conjunction with the increase in cost of the preschool program, as well as an increase in the cost of employee benefits, have contributed to the decrease in cash in the General Fund.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The schedule comparing the School Districts original and final budgets and actual results are included in the basic financial statements. The original budget for a fiscal year is prepared no later than January 15. The Board must adopt this budget and file it with the Allen County Budget Commission no later than January 20. The final budget is adopted by the board prior to June 30. The significant differences between the final budget and the actual numbers after twelve months of activity, include:

Property tax revenue increased beyond projections due to the county auditor doing reappraisals during fiscal year 2004. The reappraisal increased the property values on homes within the School District creating an increase in property tax received by the county. The income tax revenue decrease can be attributed to economic pressures in this rural area. Taxpayers income decreased during the tax period and therefore income tax revenues were lower than in previous years. Also the Ohio Department of Taxation changed the policy of paying interest on the portion of income owed to the School District. In previous years, the Ohio Department of Taxation would give the School District interest on the portion of income that was held by the department until paid to the School District. For fiscal year 2004 the Ohio Department of Taxation did not pay interest on that money.

Tuition and fees decreased beyond projection due to a decrease in the number of open enrollment students that applied and were accepted to attend our School District. The open enrollment program allows students of other school districts to apply to attend our School District tuition free. Their home school district is billed for the cost of educating these children through a deduction from their foundation payments and we receive this money from the State as a tuition payment.

The intergovernmental revenue showed a decrease due largely in part to State budget cut backs. Cut backs by the state reduced the School District's foundation and parity aid payments for fiscal year 2004.

Current instruction and current support services decreased beyond projection due to various reasons. One reason for this decrease is that there was less spending done throughout the school district due to the building project that is currently taking place. Also, less was spent this year on teacher benefits and substitute teachers. Another contributing factor was that there were less than expected costs for maintenance of the buildings, as well as less than expected increases in the cost of insurance premiums.

Other financing uses decreased from what was budgeted, but not to the surprise of management. The budget includes the contingency money the School District holds in case of emergencies in this account. The School District had no plans to spend this money, but it must be included in the budget.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

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

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED  
(Continued)**

**Debt** - During the 2004 fiscal year, the School District issued two new forms of debt and paid principal on a note balance. First, the School District sold Bond Anticipation Notes in the amount of \$6,810,000, to be paid back in August 2004. Then in June 2004, the School District issued General Obligation Bonds in the amount of \$6,806,991. During the fiscal year, the School District paid principal on its HB-264 energy conservation improvement note in the amount of \$30,925 which has an outstanding balance of \$278,325 as of June 30, 2004. Further information on these debt instruments can be found in Notes 14 and 15 in the notes to the basic financial statements.

**ECONOMIC FACTORS**

The School District, like all other taxing entities in the State of Ohio, faces the uncertainty of the economy. The School District's operating revenue is composed primarily of property taxes and a local income tax. With a weak economy, many of the School District's citizens have either lost their jobs and are unemployed or have had to take lesser paying jobs, thus reducing the School District's income tax collections.

As for expenses, the School District faces continued significant increases in the cost of health care for its employees. The School District also faces an increasing number of children requiring special education and services and these charges also are increasing each year. The School District has faced these challenges the last few years by making cuts to its budget and services offered.

**REQUESTS FOR ADDITIONAL INFORMATION**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Treasurer's office at the Spencerville Local School District, 600 School Street, Spencerville, Ohio 45887.

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
ALLEN COUNTY**

**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS  
JUNE 30, 2004**

	<b>Governmental Activities</b>
<b>ASSETS:</b>	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$5,313,607
Investments	<u>13,642,325</u>
Total Assets	<u><u>18,955,932</u></u>
<b>NET ASSETS:</b>	
Restricted for Debt Service	216,331
Restricted for Capital Outlay	16,146,430
Restricted for Other Purposes	310,574
Restricted for Textbooks	24,168
Unrestricted	<u>2,258,429</u>
<b>Total Net Assets</b>	<u><u>\$18,955,932</u></u>

*See accompanying notes to the basic financial statements.*

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
ALLEN COUNTY**

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>Program Receipts</u>			<u>Net(Disbursements) Receipts and Changes in Net Assets</u>
	<u>Cash Disbursements</u>	<u>Charges For Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
				<u>Total Governmental Activities</u>
<b>Governmental Activities:</b>				
Instruction:				
Regular	\$3,483,525	\$23,555	\$70,671	(\$3,389,299)
Special	422,485		309,862	(112,623)
Vocational	58,712		12,633	(46,079)
Adult/Continuing	564			(564)
Other	445,784			(445,784)
Support Services:				
Pupils	379,588		81,419	(298,169)
Instructional Staff	195,176		36,061	(159,115)
Board of Education	25,967			(25,967)
Administration	635,498		17,331	(618,167)
Fiscal	410,952		1,963	(408,989)
Business	534			(534)
Operation and Maintenance of Plant	666,243		949	(665,294)
Pupil Transportation	482,327		26,459	(455,868)
Central	10,936		5,000	(5,936)
Non-Instructional Services:				
Operation of Non-Instructional Services	20,401		12,156	(8,245)
Extracurricular Activities	310,661	95,169	27,550	(187,942)
Capital Outlay	643,370			140,703
Food Service Operations	356,768	216,847	79,539	(60,382)
Debt Service:				
Principal	30,925			(30,925)
Interest and Fiscal Charges	13,661			(13,661)
<b>Total Governmental Activities</b>	<u>\$8,594,077</u>	<u>\$335,571</u>	<u>\$681,593</u>	<u>\$784,073</u>

**General Receipts:**

Taxes levied for general purposes	1,455,225
Taxes levied for debt services	196,821
Taxes levied for other purposes	112,953
Income Taxes	842,710
Tuition and Fees	126,745
Grants and Entitlements not Restricted to Specific Programs	3,975,374
Gifts and Donations	20,250
Investment Earnings	61,584
Miscellaneous	10,345
Proceeds from Sale of Fixed Assets	1,169
General Obligation Bond Proceeds	6,806,991
Premium on Bond Issue	126,245
Proceeds from the Sale of Notes	6,810,000
<b>Total General Receipts and Other Sources / (Uses)</b>	<u>20,546,412</u>
Change in Net Assets	13,753,572
Net Assets - Beginning of Year	5,202,360
<b>Net Assets - End of Year</b>	<u>\$18,955,932</u>

See accompanying notes to the basic financial statements.



**SPENCERVILLE LOCAL SCHOOL DISTRICT  
ALLEN COUNTY**

**STATEMENT OF ASSETS AND FUND BALANCES - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
JUNE 30, 2004**

	<u>General</u>	<u>Ohio School Facilities Bond</u>	<u>Ohio School Facilities Construction</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$2,258,429		\$349,915	\$2,681,095	\$5,289,439
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	24,168				24,168
Investments		2,419,146	11,223,179		13,642,325
<b>Total Assets</b>	<u>2,282,597</u>	<u>2,419,146</u>	<u>11,573,094</u>	<u>2,681,095</u>	<u>18,955,932</u>
<b>Fund Balances</b>					
Reserved for Encumbrances	162,336		102,701	290,000	555,037
Reserved for Textbooks and Instructional Materials	24,168				24,168
Unreserved, Undesignated, Reported in:					
General Fund	2,096,093				2,096,093
Special Revenue Funds				310,574	310,574
Debt Service Fund				216,331	216,331
Capital Projects Fund		2,419,146	11,470,393	1,864,190	15,753,729
<b>Total Fund Balances</b>	<u>\$2,282,597</u>	<u>\$2,419,146</u>	<u>\$11,573,094</u>	<u>\$2,681,095</u>	<u>\$18,955,932</u>

*See accompanying notes to the basic financial statements.*

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
ALLEN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN FUND BALANCES  
MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>General</u>	<u>Ohio School Facilities Bond</u>	<u>Ohio School Facilities Construction</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Cash Receipts</b>					
Property Taxes	\$1,455,225			\$309,774	\$1,764,999
Income Tax	842,710				842,710
Intergovernmental	4,082,429		\$757,759	521,920	5,362,108
Interest	36,002		26,313	25,583	87,898
Tuition and Fees	149,776			524	150,300
Extracurricular Activities				94,766	94,766
Gifts and Donations	250			72,618	72,868
Charges for Services	403			216,847	217,250
Miscellaneous	8,930			1,415	10,345
<b>Total Cash Receipts</b>	<b>6,575,725</b>		<b>784,072</b>	<b>1,243,447</b>	<b>8,603,244</b>
<b>Cash Disbursements</b>					
Current:					
Instruction:					
Regular	3,391,974			91,551	3,483,525
Special	209,263			213,222	422,485
Vocational	58,030			682	58,712
Adult Continuing	564				564
Other	445,784				445,784
Support Services:					
Pupil	309,815			69,773	379,588
Instructional Staff	158,897			36,279	195,176
Board of Education	25,967				25,967
Administration	621,059			14,439	635,498
Fiscal	279,006	\$23,944	102,301	5,701	410,952
Business	534				534
Operation and Maintenance of Plant	664,680			1,563	666,243
Pupil Transportation	481,204			1,123	482,327
Central	197			10,739	10,936
Operation of Non-Instructional Services				20,401	20,401
Operation of Food Services				356,768	356,768
Extracurricular Activities	198,829			111,832	310,661
Capital Outlay			408,823	234,547	643,370
Debt Service:					
Principal Retirement	30,925				30,925
Interest and Fiscal Charges	13,661				13,661
<b>Total Cash Disbursements</b>	<b>6,890,389</b>	<b>23,944</b>	<b>511,124</b>	<b>1,168,620</b>	<b>8,594,077</b>
Excess of Receipts Over (Under) Disbursements	(314,664)	(23,944)	272,948	74,827	9,167
<b>Other Financing Sources (Uses)</b>					
Sale of Fixed Assets	463			706	1,169
Proceeds From the Sale of Notes		1,211,000	5,599,000		6,810,000
General Obligation Bond Proceeds		1,208,146	5,598,845		6,806,991
Premium on Debt Issuance		23,944	102,301		126,245
Advances In	39,746			15,148	54,894
Transfers In				131,879	131,879
Advances Out	(15,148)			(39,746)	(54,894)
Transfers Out	(131,879)				(131,879)
<b>Total Other Financing Sources (Uses)</b>	<b>(106,818)</b>	<b>2,443,090</b>	<b>11,300,146</b>	<b>107,987</b>	<b>13,744,405</b>
Net Change in Fund Balances	(421,482)	2,419,146	11,573,094	182,814	13,753,572
Fund Balances Beginning of Year	2,704,079			2,498,281	5,202,360
<b>Fund Balances End of Year</b>	<b>\$2,282,597</b>	<b>\$2,419,146</b>	<b>\$11,573,094</b>	<b>\$2,681,095</b>	<b>\$18,955,932</b>

See accompanying notes to the basic financial statements.

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
ALLEN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGE IN FUND CASH BALANCE  
BUDGET AND ACTUAL - BUDGET BASIS - GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Receipts</b>				
Property and Other Local Taxes	\$1,470,006	\$1,429,707	\$1,455,225	\$25,518
Income Tax	852,673	853,655	842,710	(10,945)
Intergovernmental	4,536,853	4,149,428	4,082,429	(66,999)
Interest	60,000	41,400	36,002	(5,398)
Tuition and Fees	100,000	177,369	149,776	(27,593)
Gifts and Donations	500	500	250	(250)
Customer Sales and Services	26,663	3,000	403	(2,597)
Miscellaneous	14,500	11,500	8,930	(2,570)
Total Receipts	<u>7,061,195</u>	<u>6,666,559</u>	<u>6,575,725</u>	<u>(90,834)</u>
<b>Disbursements</b>				
Current:				
Instruction:				
Regular	3,738,985	3,755,850	3,434,202	321,648
Special	238,391	238,291	209,620	28,671
Vocational	69,397	72,716	58,254	14,462
Adult Continuing	573	3,799	564	3,235
Other	258,250	564,177	480,857	83,320
Support Services:				
Pupil	361,257	356,325	315,352	40,973
Instructional Staff	186,432	200,329	165,405	34,924
Board of Education	27,257	54,112	26,787	27,325
Administration	684,242	696,476	633,711	62,765
Fiscal	268,644	313,851	290,560	23,291
Business	66	714	534	180
Operation and Maintenance of Plant	717,849	791,497	690,934	100,563
Pupil Transportation	587,177	540,028	502,193	37,835
Central		217	197	20
Extracurricular Activities				
Academic Oriented	15,863	17,791	17,735	56
Occupation Oriented	1,957	2,535	2,497	38
Sport Oriented	165,647	172,764	171,478	1,286
School and Public Service Co-curricular	6,550	7,501	7,259	242
Debt Service				
Principal	30,925	30,925	30,925	
Interest	13,661	13,661	13,661	
Total Disbursements	<u>7,373,123</u>	<u>7,833,559</u>	<u>7,052,725</u>	<u>780,834</u>
Excess of Receipts Over (Under) Disbursements	(311,928)	(1,167,000)	(477,000)	690,000
<b>Other Financing Sources (Uses)</b>				
Proceeds from Sale of Fixed Assets			463	463
Refund of Prior Year Expenditures	2,534	2,534		(2,534)
Advances In	39,746	39,746	39,746	
Advances Out	(41,336)	(21,878)	(15,148)	6,730
Transfers Out	(81,512)	(132,070)	(131,879)	191
Other Financing Uses	(1,416,967)	(843,215)		843,215
Total Other Financing Sources (Uses)	<u>(1,497,535)</u>	<u>(954,883)</u>	<u>(106,818)</u>	<u>848,065</u>
Net Change in Fund Balance	(1,809,463)	(2,121,883)	(583,818)	1,538,065
Fund Balance Beginning of Year	2,595,799	2,595,799	2,595,799	
Prior Year Encumbrances Appropriated	108,280	108,280	108,280	
<b>Fund Balance End of Year</b>	<u>\$894,616</u>	<u>\$582,196</u>	<u>\$2,120,261</u>	<u>\$1,538,065</u>

See accompanying notes to the basic financial statements.

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
ALLEN COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS  
FIDUCIARY FUNDS  
JUNE 30, 2004**

	<b>Private Purpose Trust</b>	<b>Agency</b>
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$93,683	\$35,836
<b>Total Assets</b>	93,683	35,836
<b>Net Assets</b>		
Held in Trust for Scholarships:		
Expendable	660	
Non-expendable	93,023	
Held For Students		35,836
<b>Total Net Assets</b>	\$93,683	\$35,836

*See accompanying notes to the basic financial statements.*

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
ALLEN COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - MODIFIED CASH BASIS  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>Private Purpose Trust</u>
<b>Additions</b>	
Interest	\$736
Gifts and Donations	<u>532</u>
Total Cash Additions	1,268
<b>Deductions</b>	
Payments in Accordance with Trust Agreements	<u>600</u>
Change in Net Assets	668
Net Assets - Beginning of Year	<u>93,015</u>
<b>Net Assets - End of Year</b>	<u><u>\$93,683</u></u>

*See accompanying notes to the basic financial statements.*

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**SPENCERVILLE LOCAL SCHOOL DISTRICT  
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

Spencerville Local 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, Auglaize and Van Wert Counties. It is staffed by 38 non-certificated employees and 79 certificated full-time teaching personnel who provide services to 1,014 students and other community members. The School District currently operates 2 elementary schools, 1 middle school, and 1 high school.

**A. Reporting Entity**

The reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the 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. The School District has the following component unit:

**1. 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 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 School District is associated with five jointly governed organizations and three insurance purchasing pools. These organizations include the Northwest Ohio Area Computer Services Cooperative, Apollo Career Center, the West Central Regional Professional Development Center, the West Central Ohio Special Education Regional Resource Center, Northwestern Ohio Educational Research Council, Inc., 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 basic financial statements.

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Basis of Presentation**

- 1. Government-wide Financial Statements** - The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government except for fiduciary funds.

The statement of net assets presents the cash balance of the governmental activities of the School District at fiscal year end. The statement of activities presents a comparison between direct disbursements and program receipts for each function of the governmental activities. Direct disbursements are those that are specifically associated with a service, program or department and are therefore identifiable to a particular function.

Program receipts include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Receipts which are not classified as program receipts are presented as general receipts of the School District, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on the modified cash basis of accounting or draws from the general receipts of the School District.

- 2. Fund Financial Statements** - Fund financial statements report detailed information about the School District. The focus of governmental financial statements is on major funds rather than reporting funds by type. The School District has three major funds, the General Fund, the Ohio School Facilities Bond Fund and the Ohio School Facilities Construction Fund, which are presented in separate columns. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

**B. Fund Accounting**

The School District uses funds to maintain its financial records during the year. 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, 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.

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 and fiduciary.



**SPENCERVILLE LOCAL SCHOOL DISTRICT  
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

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

**1. Governmental Funds**

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 (except those accounted for in fiduciary funds) are accounted for through governmental funds. The School District's major funds are the General Fund, the Ohio School Facilities Bond Fund and the Ohio School Facilities Construction Fund.

**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.

**Ohio School Facilities Bond Fund** – This fund is used to account for the local monies received and expended for a locally funded initiative (LFI), as approved by the local electorate, designed to add additional features to the construction under the State of Ohio Classroom Facilities Assistance Program.

**Ohio School Facilities Construction Fund** – This fund is used to account for the state and local monies received and expended under the State of Ohio Classroom Facilities Assistance Program for the construction of new school facilities.

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

**2. Fiduciary Funds**

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 private purpose trust funds and agency funds. Private purpose trust funds are used to account for assets held by the School District that are not available to fund the School District's programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**C. Basis of Accounting**

The School District's financial statements are prepared using the modified cash basis of accounting. Receipts are recorded in the School District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in the financial statements.

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

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

**D. Budgetary Process**

All funds, except agency funds, are required to be budget and appropriated. 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 tax budget demonstrates the need for existing or increased tax rates.

The certificate of estimated resources sets a limit on the amount the Board may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on cash disbursements plus encumbrances at the level of control selected by the Board. The legal level of control has been established by the Board at the fund level for all funds. Budgetary allocations at the function and object level within all funds are made by the Treasurer.

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

The appropriations resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriations resolution for the General fund that covered the entire fiscal year. The amounts reported as the final budgeted amounts represent the final appropriations amounts passed by the Board during the fiscal year.

**E. Cash and Cash Equivalents**

To improve cash management, all cash received by the School District is pooled. Except for cash and investments related to the school facilities construction project. Monies for the remaining funds are maintained in this pool 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 "Equity in Pooled Cash and Cash Equivalents".

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

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively

During fiscal year 2004, investments were limited to non-negotiable certificates of deposit, money market accounts, premium interest-bearing accounts, mutual funds, Federal Home Loan Bank Bonds and STAR Ohio. Non negotiable certificates of deposit and premium interest-bearing accounts are stated at 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, 2004.

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

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

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2004 was \$36,002, which included \$2,520, assigned from other funds.

**F. Inventory and Prepaid Items**

On the modified cash-basis of accounting, inventories of supplies and prepaid items are reported as disbursements when purchased.

**G. Capital Assets**

Property, plant, and equipment acquired or constructed by the School District are recorded as disbursements. Depreciation is not recorded for these fixed assets.

**H. Accumulated Leave**

Accumulated unpaid vacation, sick leave, and personal leave are not accrued under the modified cash basis of accounting as described in Note 2. All leave will either be utilized by time off from work or, within certain limitations, be paid to employees.

**I. Long-Term Obligations**

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

**J. Net Assets/Restricted Assets**

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

**K. Fund Balance Reserves**

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

**L. Interfund Activity**

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

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**3. CHANGES IN BASIS OF ACCOUNTING AND RESTATEMENT OF FUND BALANCES**

For fiscal year 2004, the School District revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. The School District also changed its method of accounting for financial reporting from accounting principles generally accepted in the United States of America to a modified cash basis of accounting as described in Note 2. This comprehensive basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. The two enterprise funds were also re-classified. The lunchroom fund was reclassified as a special revenue fund, and the uniform school supplies fund was reported as part of the General Fund. These changes had the following effect on fund balances as previously reported:

	<b>General</b>	<b>Other Governmental</b>	<b>Proprietary</b>
FundBalance/Retained Earnings - June 30, 2003	\$2,425,096	\$2,412,466	\$14,629
Accrual Adjustments	273,088	81,626	(4,545)
Proprietary Fund Reclassification	5,895	4,189	(10,084)
Restated Fund Balance - July 1, 2003	<u>\$2,704,079</u>	<u>\$2,498,281</u>	<u>\$0</u>

**4. ACCOUNTABILITY AND COMPLIANCE**

Ohio Administrative Code Section 117-02-03(B), requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the School District prepared its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The School District can be fined and various other administrative remedies may be taken against the School District.

**5. BUDGETARY BASIS OF ACCOUNTING**

While the School District is reporting financial position, results of operations, and changes in fund balances on the basis of cash, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Cash Receipts, Cash Disbursements, and Change in Fund Balance - Budget and Actual – Budget Basis, for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major difference between the budget basis and the modified cash basis is that encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (cash basis). The adjustments necessary to reconcile the cash and budgetary basis statements for the General Fund are as follows:

<b>Change in Fund Balance</b>	
Cash Basis	(\$421,482)
Increase (Decrease) Due To:	
Encumbrances Outstanding at Fiscal Year End	<u>(162,336)</u>
Budget Basis	<u><u>(\$583,818)</u></u>

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**6. 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 two 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).

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

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

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

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".

At June 30, 2004, the School District had \$101 in cash on hand.

**A. Deposits** - At fiscal year end, the carrying amount of the School District's deposits was \$2,821,279 and the bank balance was \$3,082,148. Of the bank balance, \$300,000 was covered by federal depository insurance and \$2,782,148 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.

**B. Investments** - Investments are required to be categorized into the following:

Category 1 includes investments that are insured or registered or for which the securities are held by the School District.

Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the School District's name.

Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer or by its trust department but not in the School District's name.

STAR Ohio is an investment pool operated by the Ohio Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form.

<b>Investments:</b>	<b>Category 2</b>	<b>Carrying Value</b>	<b>Market Value</b>
Federal Home Loan Bank Bonds	\$13,281,084	\$13,281,084	\$13,205,487
Mutual Funds	361,241	361,241	
StarOhio		2,621,746	
Total Investments	\$13,642,325	\$16,264,071	\$13,205,487

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

	<b>Cash and Cash Equivalents/Deposits</b>	<b>Investments</b>
GASB Statement 9	\$5,443,126	\$13,642,325
Cash on Hand	(101)	
Investments:		
StarOhio	(2,621,746)	2,621,746
GASB Statement 3	\$2,821,279	\$16,264,071

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**7. PROPERTY TAXES**

Property taxes are levied and assessed on a calendar year basis, while the School District's fiscal year runs from July through June. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the School District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years.

Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are 25 percent of true 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. Tangible personal property taxes paid 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.

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, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which fiscal year 2004 taxes were collected are:

	<b>2003 Second-Half Collections</b>		<b>2004 First-Half Collections</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Agricultural/Residential and Other Real Estate	\$65,297,550	88.43%	\$72,596,070	88.43%
Public Utility	5,078,960	4.94	4,057,620	4.94
Tangible Personal Property	<u>7,572,490</u>	<u>6.63</u>	<u>5,440,233</u>	<u>6.63</u>
Total Assessed Value	<u>\$77,949,000</u>	<u>100.00%</u>	<u>\$82,093,923</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$31.37		\$37.24	

The increase in millage was due to the passage of a levy for the local share of the State of Ohio Classroom Facilities Assistance Program construction project undertaken by the District, plus an additional locally funded initiative designed to add features to the construction under the Program.

**8. INCOME TAX**

The School District renewed a tax levy of one percent for general operations on the income of residents and of 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.

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**9. DIESEL SCHOLARSHIP FUND**

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 2004, there were 12 students with a total principal balance of \$20,225. Of the balance, \$11,510 represents the portion that is collectable. The remaining \$8,715 is deferred until the student completes or leaves post secondary schooling.

**10. 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 2004, the School District contracted with Indiana Insurance (through O'Conner-McLaughlin Ins. Co.) for property and contents insurance. Property coverages amounted to \$16,765,600.

General and professional liability is protected by The Ohio School Plan (through Harcum-Schuett Insurance Co.) with \$1,000,000 each occurrence and \$3,000,000 aggregate limit. There is a minimum \$2,500 deductible on this coverage. The School violence policy is through Harcum-Schuett with \$1,000,000 each per planned aggregate and violent act.

Vehicles are covered by Marsh USA, Inc. and hold a \$500 deductible for comprehensive and \$500 for collisions. Automobile liability has a \$1,000,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past three years.

Public officials bond insurance for the Board President, Superintendent and Treasurer is provided by the Mueller-Paulus-Homan Insurance 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 2004, 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 school districts 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.



**SPENCERVILLE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**10. RISK MANAGEMENT (Continued)**

**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.

**11. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate, currently 14 percent of annual covered payroll. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employees are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002, were approximately \$84,196, \$50,510 and \$36,544.

**B. State Teachers Retirement System**

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

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

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

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

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

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The School District's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2004, 2003, and 2002 was \$455,748, \$436,324 and \$297,144, respectively; 84 percent has been contributed for fiscal year 2004 and 100 percent has been contributed for fiscal years 2004 and 2003. Contributions for the DCP and CP for the fiscal year ended June 30, 2005, were \$55 made by the School District and \$68 made by 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, 2004, three members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

**12. POST EMPLOYMENT BENEFITS**

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

STRS retirees who participated in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**12. POSTEMPLOYMENT BENEFITS (Continued)**

By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount was \$35,058.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000, and STRS had 111,853 eligible benefit recipients.

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

For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the School District, the amount to fund health care benefits, including the surcharge, was \$59,798 for fiscal year 2004.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2004, were \$223,443,805, and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

**13. OPERATING LEASES**

The 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 District is also obligated under a 60 month operating lease agreement for a postage meter. The future rental payments are as follows:

<b>Year Ending June 30</b>	<b>Copier Lease</b>	<b>Postage Meter</b>
2005	\$26,160	\$1,848
2006	14,126	1,848
2007		1,848
2008		700
Total	<u>\$40,286</u>	<u>\$6,244</u>

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**14. NOTES PAYABLE**

A summary of the School District's note transactions for the fiscal year ended June 30, 2004 is as follows:

	<b>Principal Outstanding 6/30/2003</b>	<b>Additions</b>	<b>Deductions</b>	<b>Principal Outstanding 6/30/2004</b>
Bond Anticipation Note				
1.83% Matures 8/26/2004	\$0	\$6,810,000	\$0	\$6,810,000

**Bond Anticipation Note** - By Ohio law, notes can be issued in anticipation of bond proceeds, special assessment bond proceeds and levies, or for up to 50 percent of anticipated revenue collections. The School District has issued bond anticipation notes which will be repaid at maturity with bond proceeds. The bond anticipation note matures in August 2004.

**15. LONG TERM OBLIGATIONS**

The changes in the School District's long-term obligations during fiscal year 2004 were as follows:

	<b>Principal Outstanding 6/30/2003</b>	<b>Additions</b>	<b>Deductions</b>	<b>Principal Outstanding 6/30/2004</b>
Note payable HB 264				
4.65% - Matures 12/1/12	\$309,250		\$30,925	\$278,325
School Improvement Bonds				
Serial 2.0 - 2.7%		\$695,000		695,000
Term - 3.30 - 5.125%		5,960,000		5,960,000
Capital Appreciation		151,991		151,991
Total Long-Term Obligations	<u>\$309,250</u>	<u>\$6,806,991</u>	<u>\$30,925</u>	<u>\$7,085,316</u>

**Note Payable HB 264** - On February 2, 1998, the 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 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, 2004, are as follows:

<b>Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
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	30,925	6,471	37,396
2010-2013	123,700	11,504	135,204
	<u>\$278,325</u>	<u>\$58,239</u>	<u>\$336,564</u>

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

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

**School Bonds – 2004** - The District issued \$6,806,991 in voted general obligation bonds for constructing, improving, and making additions to school buildings and related site development. The bonds were issued in June 2004. The bond issue included serial, term, and capital appreciation bonds in the amounts of \$695,000, \$5,960,000, and \$151,991 respectively. The bonds will be retired with a voted property tax levy from the debt service fund.

**Current Interest Bonds 2004 (Serial)** - The Current Interest Bonds mature on December 01, 2007. The remaining principal amount to be redeemed as of June 30, 2004 is \$695,000.

**Current Interest Bonds 2004 (Term)** - The Current Interest Bonds due December 1, 2009 are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2008 at 100 percent of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

<b>Year</b>	<b>Principal Amount to be Redeemed</b>
2008	\$185,000

Unless otherwise called for redemption, the remaining \$190,000 principal amount of the Bonds due December 1, 2009 is to be paid at stated maturity.

The Current Interest Bonds due December 1, 2011 are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2010, at 100 percent of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

<b>Year</b>	<b>Principal Amount to be Redeemed</b>
2010	\$195,000

Unless otherwise called for redemption, the remaining \$200,000 principal amount of the Bonds due December 1, 2011 is to be paid at stated maturity.

The Current Interest Bonds due December 1, 2013 are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2012, at 100 percent of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

<b>Year</b>	<b>Principal Amount to be Redeemed</b>
2012	\$210,000

Unless otherwise called for redemption, the remaining \$220,000 principal amount of the Bonds due December 1, 2013 is to be paid at stated maturity.

The Current Interest Bonds due December 1, 2015 are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2014, at 100 percent of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

<b>Year</b>	<b>Principal Amount to be Redeemed</b>
2014	\$225,000

Unless otherwise called for redemption, the remaining \$235,000 principal amount of the Bonds due December 1, 2015 is to be paid at stated maturity.

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

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

The Current Interest Bonds due December 1, 2017 are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2016, at 100 percent of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

<b>Year</b>	<b>Principal Amount to be Redeemed</b>
2016	\$245,000

Unless otherwise called for redemption, the remaining \$255,000 principal amount of the Bonds due December 1, 2017 is to be paid at stated maturity.

The Current Interest Bonds due December 1, 2025 are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2021, and on each December 1 thereafter at 100 percent of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

<b>Year</b>	<b>Principal Amount to be Redeemed</b>
2021	\$270,000
2022	280,000
2023	290,000
2024	310,000

Unless otherwise called for redemption, the remaining \$325,000 principal amount of the Bonds due December 1, 2025 is to be paid at stated maturity.

The Current Interest Bonds due December 1, 2031 are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2026, and on each December 1 thereafter at 100 percent of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

<b>Year</b>	<b>Principal Amount to be Redeemed</b>
2026	\$340,000
2027	360,000
2028	375,000
2029	395,000
2030	415,000

Unless otherwise called for redemption, the remaining \$440,000 principal amount of the Bonds due December 1, 2031 is to be paid at stated maturity.

**Capital Appreciation Bonds 2004** - The Capital Appreciation Bonds will mature in fiscal years 2018 through 2020. The maturity amount of the bonds is \$270,000. The total accreted value of the Capital Appreciation bonds as of June 30, 2004 is \$151,991. Capital Appreciation Bonds are not subject to redemption prior to maturity.

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**16. INTERFUND TRANSFERS**

During 2004, the following transfers were made:

Transfers from the General Fund to Other Governmental Funds	<u><u>\$131,879</u></u>
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Transfers represent the allocation of unrestricted receipts collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**17. INTERFUND ADVANCES**

Interfund advances at June 30, 2004 consisted of the following individual fund receivables and payables:

Due to the General Fund from Other Governmental Funds	<u><u>\$15,148</u></u>
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**18. JOINTLY GOVERNED ORGANIZATIONS**

**Northwest Ohio Area Computer Services Cooperative (NOACSC)** - The School District is a participant in NOACSC which is a computer consortium. NOACSC is an association of public school districts within the boundaries of Allen, Hancock, Mercer, Paulding, Putnam, and Van Wert Counties and Cities of St. Marys and Wapakoneta. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts.

The governing board of NOACSC consists of two representatives from each county elected by majority vote of all charter member school districts within each county plus one representative from the fiscal agent. Financial information can be obtained from Ray Burden, who serves as Director, at 645 South Main Street, Lima, Ohio 45804.

**Apollo Career Center** - The Apollo Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the participating school districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information, write to Apollo Career Center, Greg Bukowski, Treasurer, at 3325 Shawnee Road, Lima, Ohio 45806.

**West Central Regional Professional Development Center (Center)** - The Center is a jointly governed organization among the school districts located in Allen, Auglaize, Hancock, Hardin, Mercer, Paulding, Putnam and Van Wert counties. The jointly governed organization was formed for the purpose of establishing an articulated, regional structure for professional development, in which school districts, the business community, higher education and other groups cooperatively plan and implement effective professional development activities 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.

**SPENCERVILLE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

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

**West Central Ohio Special Education Regional Resource Center (SERRC)** - The 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, Treasurer, Hardin County Educational Service Center, 1121 West Lima Street, Suite A, Kenton, Ohio 43326-2385.

**Northwestern Ohio Educational Research Council, Inc.** - The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials, and provide opportunities for training. The NOERC serves a twenty-five county area in Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., Box 456, Ashland, Ohio 44805.

**19. INSURANCE POOLS**

**Allen County Schools Health Benefit Plan (the Plan)** - The Allen County Schools Health Benefit Plan is a jointly governed organization among ten school districts and the Allen County Educational Service Center. The purpose of the jointly governed organization was to form a voluntary employee benefit association to provide sick, dental, and vision benefits to participants at a lower rate than if the individual districts acted independently. Each district pays a monthly premium to the fund trustee for insurance coverage which is provided by CoreSource. The Plan is governed by an administrative committee consisting of the superintendent from each participating district. The degree of control exercised by any participating school district is limited to each representation on the committee. Financial information can be obtained from Karla Wireman, who serves as Treasurer, at 1920 Slabtown Road, 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 Safety Coordinator, Robert Lotz of NOACSC, or his designee serves as coordinator of the Plan. Each year, the participating members pay an enrollment fee to the Plan to cover the costs of administering the program.



**SPENCERVILLE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**20. STATUTORY RESERVES**

State statute annually requires the School District to set aside in the general fund an amount based on a statutory formula to purchase textbooks and other instructional materials and an equal amount to acquire and construct capital improvements. Amounts not spent by fiscal year-end or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year-end and carried forward to be used for the same purposes in future fiscal years.

The following cash basis information describes the change in the fiscal year-end set-aside amounts for textbooks and capital acquisition. State statute requires disclosing this information. For fiscal year ended June 30, 2004, the reserve activity was as follows:

	<b>Textbooks</b>	<b>Capital Maintenance</b>
Set-aside Reserve Balance at June 30, 2003	(\$26,572)	
Required Set-aside	147,037	\$147,037
Qualifying Offset		(6,806,991)
Qualifying Expenditures	(96,297)	(452,075)
Total	24,168	(7,112,029)
Offset Carried Forward to Fiscal Year 2005		(\$6,806,991)
Cash Reserve Carried Forward to Fiscal Year 2005	\$24,168	

The School District had qualifying disbursements during the year that reduced the set-aside amount for capital acquisitions below zero. For capital acquisitions, the extra amount of qualifying offsets may be used to reduce the set-aside requirements of future years. The textbook balance must be set-aside for the purchase of textbook and related materials in future years.

**21. 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, 2004.

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## Auditor of State Betty Montgomery

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Spencerville Local School District, Allen County, (the School District), as of and for the years ended June 30, 2005 and June 30, 2004, which collectively comprise the School District's basic financial statements and have issued our report thereon dated March 10, 2006, wherein, we noted the School District used a comprehensive basis of accounting other than generally accepted accounting principles for reporting. In addition, the School District implemented GASB Statement No. 34, "*Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments*". We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

#### **Internal Control Over Financial Reporting**

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

#### **Compliance and Other Matters**

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion.

Spencerville Local School District  
Allen County  
Independent Accountants' Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Required by *Government Auditing Standards*  
Page 2

The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2005-001. In a separate letter to the District's management dated March 10, 2006, we reported other matters related to noncompliance we deemed immaterial.

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

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

**Betty Montgomery**  
Auditor of State

March 10, 2006

SPENCERVILLE LOCAL SCHOOL DISTRICT  
ALLEN COUNTY

SCHEDULE OF FINDINGS  
JUNE 30, 2005 AND 2004

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

FINDING NUMBER 2005-001

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

**Ohio Admin Code Section 117-2-03 (B)** requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles.

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

The School District should prepare their financial statements in accordance with generally accepted accounting principles.





**Auditor of State  
Betty Montgomery**

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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  
APRIL 17, 2006**