



Dave Yost • Auditor of State

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

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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 fiscal year ended June 30, 2011, 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 1, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective 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, 2011, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during 2011, the School District adopted the provisions of Government Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2012, 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.

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



Dave Yost
Auditor of State

March 29, 2012

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED**

This discussion and analysis provides key information from management highlighting the financial performance of the Spencerville Local School District for the fiscal year ended June 30, 2011. 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 and notes.

Financial Highlights

Key financial highlights for 2011 are as follows:

- Net assets of governmental activities increased \$204,785, or five percent over the prior year.
- General Receipts accounted for \$8,126,126 in receipts or 79% of all receipts. The School District's general receipts are primarily property taxes, income taxes, and grants and entitlements not restricted to specific programs. These receipts represent 27%, 13% and 60%, respectively, of the total general receipts from governmental activities during the fiscal year.
- Total program expenses were \$10,044,702.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those 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 cash basis of accounting. The statements are organized so the reader can understand the Spencerville Local School District as a whole operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column. For fiscal year 2011, the General Fund and the New Campus Building Fund are the most significant funds.

Basis of Accounting

The School District has elected to present its financial statements on the cash basis of accounting. This cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions.

Essentially, the only assets reported on this strictly cash receipt and disbursement basis presentation in a statement of net assets will be cash and cash equivalents and investments. The statement of activities reports cash receipts and disbursements, or in other words, the sources and uses of cash and cash equivalents. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2011?" The Statement of Net Assets and the Statement of Activities answer this question.

These two statements report the School District's *net assets* and *changes in those assets*. This change in net assets is important because it tells the reader that, for the School District as a whole, the *financial position* of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio which restrict revenue growth, facility conditions, required educational programs, and other factors.

In the Statement of Net Assets and the Statement of Activities, Governmental Activities include the School District's programs and services, including instruction, support services, operation and maintenance of plant (buildings), pupil transportation, extracurricular activities, and food service operations. The School District has no business-type activity funds.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 7. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds include the General Fund and the New Campus Building Fund.

Governmental Funds – Governmental funds focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using a cash basis of accounting. Receipts are recognized when received in cash and disbursements are recognized when paid. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. 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.

Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for some of its scholarship and trust programs. This activity is presented as a private purpose trust. The School District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in agency funds. The School District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 15 and 16. These activities are excluded from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

The School District as a Whole

This year's financial statements were prepared on the cash basis utilizing the GASB 34 format. The School District has provided a comparative analysis between fiscal year 2011 and 2010.

**(Table 1)
Net Assets – Cash basis**

	Governmental Activities	
	2011	2010
Assets:		
Cash & cash equivalents	\$4,431,230	\$4,226,445
Net Assets:		
Restricted:		
Capital Projects	990,797	965,112
Debt Service	280,989	277,281
Other Purposes	384,394	411,498
Set Asides	509,894	440,775
Unrestricted	2,265,156	2,131,779
Total Net Assets	\$4,431,230	\$4,226,445

Table 2 shows the changes in net assets for fiscal year 2011 in comparison to fiscal year 2010. This will enable the reader to draw further conclusion about the School District's financial status and possibly project future problems.

**(Table 2)
Governmental Activities**

	2011	2010
	Governmental Activities	Governmental Activities
Revenues:		
Program Receipts:		
Charges for Services	\$1,009,320	\$ 854,198
Operating Grants, Contributions and Interest	1,080,319	934,108
Capital Grants, Contributions and Interest	33,722	27,915
General Receipts:		
Property Taxes	2,199,399	2,197,181
Income Taxes	1,026,432	982,502
Grants and Entitlements	4,871,051	4,810,561
Other	29,244	11,919
Total Receipts	10,249,487	9,818,384
Program Disbursements:		
Instruction	5,465,124	5,238,824
Support Services	3,241,541	3,026,235
Non-Instructional	31,769	22,074
Food Service	382,410	488,328
Extracurricular	370,154	358,788
Capital Outlay	64,026	160,851
Repayment of Debt	489,678	492,956
Total Disbursements	10,044,702	9,788,056
Increase (Decrease) in Net Assets	\$ 204,785	\$ 30,328

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

Governmental Activities

Program receipts of \$2,123,361 represent 21 percent of the total governmental activities receipts of \$10,249,487. These receipts increased 17 percent compared to last year. The increase in the percentage of program receipts occurred principally because the School District received more in tuition and fees, and operating grants during fiscal year 2011.

The government still relies on general receipts to fund the cost of services provided to the students. Of these general receipts, 40 percent (\$3,225,831) comes from taxes and 60 percent (\$4,871,051) is from state and federal funding. The School District's operations are reliant upon its tax levies and the state's foundation program.

Approximately 21 percent of the general government programs disbursements were recouped through program receipts. Instruction costs were \$5,465,124 or 54 percent of disbursements, but program receipts contributed to fund 25 percent of those costs. Thus, general revenues of \$4,097,102 were used to support the remainder of the instruction costs.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

**(Table 3)
Governmental Activities**

	2011		2010	
	Total Cost of Service	Net Cost of Services	Total Cost of Service	Net Cost of Services
Instruction	\$ 5,465,124	\$4,097,102	\$5,238,824	\$4,304,211
Support Services:				
Pupil and Instructional Staff	717,372	606,205	675,249	556,765
Board of Education, Business, Administration, and Fiscal	1,018,845	1,000,075	1,028,881	1,022,690
Operation and Maintenance of Plant	867,478	833,453	818,002	784,064
Pupil Transportation	629,582	629,582	496,645	473,700
Central	8,264	3,264	7,458	2,458
Operation of Non-Instructional	31,769	11,039	22,074	2,660
Operation of Food Service	382,410	(28,656)	488,328	(37,912)
Extracurricular Activities	370,154	249,753	358,788	237,787
Capital Outlay	64,026	30,304	160,851	132,936
Repayment of Debt	489,678	489,220	492,956	492,476
Total	\$10,044,702	\$7,921,341	\$9,788,056	\$7,971,835

Instruction and student support services comprise 62% of governmental program disbursements. Board of Education, fiscal, business and administration charges were 10%. Fiscal disbursements include payments to the County Auditor(s) for administrative fees and other administrative services provided for the School District. Pupil transportation and the operation/maintenance of facilities accounts for 15% of governmental program disbursements.

The dependence upon tax receipts and unrestricted State entitlements for governmental activities is apparent.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

The School District's Funds

For fiscal year 2011, the School District had two major governmental funds: the General Fund and the New Campus Building Fund. The assets of these funds comprise \$3,334,533, or 75% of the \$4,431,230 in total governmental assets.

General Fund – The General Fund cash balance at June 30, 2011 was \$2,775,050, which represents 63% of total governmental fund cash balances. Receipts and other financing sources of the General Fund comprise \$7,918,820 or 77% of the total \$10,250,504 governmental funds' receipts. General fund receipts were more than disbursements by \$192,557, indicating that the general fund is in a surplus spending situation. The change in the General Fund cash balance was due mainly to an increase in receipts.

New Campus Building Fund – The New Campus Building Fund cash balance at June 30, 2011 was \$559,483, which represents 13% of total governmental fund cash balances. The New Campus Building Fund receipts and the change in net assets were \$663. The change in the New Campus Building Fund cash balance was due to funding exceeding disbursements.

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund. The statement comparing the School District's original and final budgets and actual results is presented as part of the basic financial statements.

During the course of fiscal year 2011, the School District amended its general fund budget to reflect changing circumstances. The actual receipts varied from the final budgeted receipts by \$112,998 mainly due to an increase in intergovernmental, tuition and fees and income tax receipts. Actual disbursements were less than final budgeted disbursements by \$2,233,340 mainly due to a contingency fund having been budgeted but was not utilized, and the reduction of instruction and support service costs. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

Capital Assets and Debt Administration

Capital Assets – The School District's financial statements are prepared on the 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, 2011, the School District's outstanding debt included an energy conservation improvement note in the amount of \$61,850 and a bond issue in the amount of \$5,715,216 for the construction of new school facilities. During fiscal year 2011, the School District paid principal on its HB-264 energy conservation improvement note in the amount of \$30,925 and \$195,000 on the school facility bond issue. Further information on these debt instruments can be found at Note 11 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 receipts can fluctuate in great amounts from year to year.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

As for expenses, the School District faces continued increases in the cost of health care for its employees. The School District also must consider a 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, services offered and not replacing retiring/resigning staff. January 2007 began an exciting new challenge as K-12 students and staff moved to one new building with one cafeteria and the ability to share space and services. The installation of a geothermal system was very important to this School District and utility savings are anticipated.

Current Issues

Real estate tax receipts increased slightly while personal property tax collections have shown decreases. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a levy will not increase solely as a result of inflation due to Ohio House Bill 920 (passed in 1976). As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later, the home was reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Thus, school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 21% of revenues for governmental activities for the Spencerville Local School District in fiscal year 2011.

The School District has also been affected by increased delinquency rates and changes in the personal property tax structure (utility deregulation) and commercial business/property uncertainties. Management has diligently planned expenses so that current levies have stretched for longer than was planned. This has been made increasingly difficult with mandates in gifted education, reporting requirements, rising utility costs, increased special education services required for our students, increases in health insurance and other insurances, and decreasing enrollment.

The Spencerville Local School District has not anticipated any meaningful growth in State revenue. The concern is that, to meet the requirements of the Court, the State may require redistribution of state funding based upon each district's property wealth. This could have a significant impact on the School District.

The 5-year renewable 1% income tax was approved on the November 2008 ballot. This tax has been a healthy and diverse income for the School District since 1993. This income has potential for growth and eases the burden on the agricultural community. Historically, the passage of this tax has been healthy.

All scenarios require management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

In addition, the School District's systems of budgeting and internal controls are well regarded. All of the School District's financial abilities will be needed to meet the challenges of the future.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any 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 - CASH BASIS
JUNE 30, 2011**

	<u>Activities</u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>\$4,431,230</u>
Net Assets:	
Restricted for:	
Debt Service	280,989
Capital Outlay	990,797
Other Purposes	384,394
Set Asides	509,894
Unrestricted	<u>2,265,156</u>
Total Net Assets	<u>\$4,431,230</u>

See accompanying notes to the basic financial statements.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	<u>Disbursements</u>	<u>Program Receipts</u>		<u>Net (Expense)</u>	
		<u>Charges for Services and Sales</u>	<u>Operating Grants, Contributions and Interest</u>	<u>Capital Grants, Contributions and Interest</u>	<u>Revenue and Changes in Net Assets</u>
				<u>Governmental Activities</u>	
Governmental Activities:					
Instruction:					
Regular	\$4,009,557	\$663,506	\$323,839	(\$3,022,212)	
Special	1,041,557	26,677	338,107	(676,773)	
Vocational	73,322		15,893	(57,429)	
Adult/Continuing	1,338			(1,338)	
Other	339,350			(339,350)	
Support services:					
Pupils	505,973		95,504	(410,469)	
Instructional staff	211,399		15,663	(195,736)	
Board of education	37,051			(37,051)	
Administration	627,174	517	17,560	(609,097)	
Fiscal	354,575	693		(353,882)	
Business	45			(45)	
Operation and maintenance of plant	867,478		34,025	(833,453)	
Pupil transportation	629,582			(629,582)	
Central	8,264		5,000	(3,264)	
Non-Instructional Services	31,769	2,093	18,637	(11,039)	
Food Service	382,410	215,556	195,510	28,656	
Extracurricular activities	370,154	100,278	20,123	(249,753)	
Capital outlay	64,026			(30,304)	
			\$33,722		
Debt service:					
Principal	225,925			(225,925)	
Interest and fiscal charges	263,753		458	(263,295)	
Total Governmental Activities	<u>\$10,044,702</u>	<u>\$1,009,320</u>	<u>\$1,080,319</u>	<u>\$33,722</u>	<u>(7,921,341)</u>

General Receipts:

Property Taxes Levied for:

General Purposes	1,662,223
Debt Service	404,197
Capital Projects	99,786
Building Maintenance	33,193
Income Taxes	1,026,432
Proceeds from Sale of Capital Assets	2,051
Grants and Entitlements not Restricted to Specific Programs	4,871,051
Interest	4,933
Miscellaneous	22,260
Total General Receipts	<u>8,126,126</u>
 Change in Net Assets	 204,785
 Net Assets Beginning of Year	 <u>4,226,445</u>
 Net Assets End of Year	 <u>\$4,431,230</u>

See accompanying notes to the basic financial statements.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2011**

	<u>General Fund</u>	<u>New Campus Building Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$2,265,156	\$559,483	\$1,096,697	\$3,921,336
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	509,894			509,894
Total Assets	<u>2,775,050</u>	<u>559,483</u>	<u>1,096,697</u>	<u>4,431,230</u>
Fund Balances:				
Restricted	509,894	559,483	1,096,697	2,166,074
Committed	147,235			147,235
Assigned	280,549			280,549
Unassigned	1,837,372			1,837,372
Total Fund Balances	<u>\$2,775,050</u>	<u>\$559,483</u>	<u>\$1,096,697</u>	<u>\$4,431,230</u>

See accompanying notes to the basic financial statements.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	<u>General Fund</u>	<u>New Campus Building Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Receipts:				
Taxes:				
Property and Other Local Taxes	\$1,662,188		\$537,212	\$2,199,400
Income Taxes	1,026,432			1,026,432
Intergovernmental	4,490,596		1,431,407	5,922,003
Interest	5,064	\$663	1,188	6,915
Tuition and Fees	690,182			690,182
Rent	100			100
Extracurricular Activities	2,091		100,797	102,888
Gifts and Donations	17,635		44,805	62,440
Customer Sales and Services	593		215,557	216,150
Miscellaneous	3,179			3,179
Total Receipts	<u>7,898,060</u>	<u>663</u>	<u>2,330,966</u>	<u>10,229,689</u>
Disbursements:				
Current:				
Instruction:				
Regular	3,338,337		671,220	4,009,557
Special	743,336		298,221	1,041,557
Vocational	73,322			73,322
Adult/Continuing	1,338			1,338
Other	330,726		8,624	339,350
Support Services:				
Pupils	418,220		87,753	505,973
Instructional Staff	180,771		30,628	211,399
Board of Education	37,051			37,051
Administration	627,174			627,174
Fiscal	342,682		11,893	354,575
Business	45			45
Operation and Maintenance of Plant	785,783		81,695	867,478
Pupil Transportation	542,992		86,590	629,582
Central	3,264		5,000	8,264
Non-Instructional Services	4,429		27,340	31,769
Food Services			382,410	382,410
Extracurricular Activities	262,273		107,881	370,154
Capital Outlay			64,026	64,026
Debt Service:				
Principal	30,925		195,000	225,925
Interest	3,595		260,158	263,753
Total Disbursements	<u>7,726,263</u>	<u>663</u>	<u>2,318,439</u>	<u>10,044,702</u>
Excess of Receipts Over (Under) Disbursements	<u>171,797</u>	<u>663</u>	<u>12,527</u>	<u>184,987</u>
Other Financing Sources (Uses):				
Advances In	1,017			1,017
Proceeds from Sale of Capital Assets	2,051		55	2,106
Refund of Prior Year Disbursements	17,692			17,692
Advances Out			(1,017)	(1,017)
Total Other Financing Sources (Uses)	<u>20,760</u>	<u>663</u>	<u>(962)</u>	<u>19,798</u>
Net Change in Fund Balances	192,557	663	11,565	204,785
Fund Balance at Beginning of Year - Restated (Note 3)	<u>2,582,493</u>	<u>558,820</u>	<u>1,085,132</u>	<u>4,226,445</u>
Fund Balance at End of Year	<u>\$2,775,050</u>	<u>\$559,483</u>	<u>\$1,096,697</u>	<u>\$4,431,230</u>

See accompanying notes to the basic financial statements.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	Original Budget	Final Budget	Actual	Variance with Final Budget
Receipts:				
Property and Other Local Taxes	\$1,609,574	\$1,662,223	\$1,662,224	\$1
Income Taxes	982,502	982,502	1,026,432	43,930
Intergovernmental	4,381,755	4,461,529	4,490,596	29,067
Interest	7,870	7,870	4,933	(2,937)
Tuition and Fees	501,039	635,705	667,351	31,646
Rent	300	300	100	(200)
Gifts and Donations			31	31
Customer Sales and Services	184	184	593	409
Miscellaneous	1,785	1,785	3,179	1,394
Total Receipts	7,485,009	7,752,098	7,855,439	103,341
Disbursements:				
Current:				
Instruction:				
Regular	3,653,844	3,350,035	3,266,817	83,218
Special	825,617	892,309	854,612	37,697
Vocational	84,122	79,580	73,974	5,606
Adult/Continuing	111	1,346	1,338	8
Other	350,981	350,981	335,204	15,777
Support Services:				
Pupils	433,181	456,962	442,049	14,913
Instructional Staff	174,369	213,211	188,728	24,483
Board of Education	45,557	45,561	43,539	2,022
Administration	646,470	658,965	641,000	17,965
Fiscal	381,517	381,774	361,619	20,155
Business	163	163	45	118
Operation and Maintenance of Plant	898,514	897,661	836,733	60,928
Pupil Transportation	524,339	574,232	560,326	13,906
Central	2,909	4,497	3,264	1,233
Extracurricular Activities:				
Academic Oriented Activities	22,159	22,801	22,376	425
Occupation Oriented Activities	2,862	2,863	2,836	27
Sport Oriented Activities	204,863	212,193	210,324	1,869
School and Public Service Co-Curricular Activity	7,114	8,348	8,294	54
Debt Service:				
Principal	30,925	30,925	30,925	
Interest	3,595	3,595	3,595	
Total Disbursements	8,293,212	8,188,002	7,887,598	300,404
Excess of Receipts (Under) Over Disbursements	(808,203)	(435,904)	(32,159)	403,745
Other Financing Sources (Uses)				
Advances In	1,017	1,017	1,017	
Proceeds from Sale of Capital Assets	86	86	2,051	1,965
Refund of Prior Year Disbursements	10,000	10,000	17,692	7,692
Transfers Out	(28,000)	(48,000)	(39,149)	8,851
Advances Out	(2,000)	(1,000)		1,000
Refund of Prior Year Receipts	(2,000)	(2,000)		2,000
Other Financing Uses	(1,649,460)	(1,921,085)		1,921,085
Total Other Financing Sources (Uses)	(1,670,357)	(1,960,982)	(18,389)	1,942,593
Net Change in Fund Balances	(2,478,560)	(2,396,886)	(50,548)	2,346,338
Fund Balance at Beginning of Year	2,164,727	2,164,727	2,164,727	
Prior Year Encumbrances Appropriated	227,964	227,964	227,964	
Fund Balance at End of Year	(\$85,869)	(\$4,195)	\$2,342,143	\$2,346,338

See accompanying notes to the basic financial statements.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS - CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2011**

	Private Purpose Trust	Agency
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$100,709	\$43,288
Total Assets	100,709	43,288
Net Assets:		
Endowment	93,456	
Held in Trust for:		
Scholarships	7,253	
Students		43,288
Total Net Assets	\$100,709	\$43,288

See accompanying notes to the basic financial statements.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - CASH BASIS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	<u>Private Purpose Trust</u>
Additions:	
Gifts and Contributions	\$38
Interest	101
Miscellaneous	5,350
Total Additions	<u>5,489</u>
Deductions:	
Payments in Accordance with Trust Agreements	<u>5,100</u>
Change in Net Assets	389
Net Assets - Beginning of Year	<u>100,320</u>
Net Assets - End of Year	<u><u>\$100,709</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, 2011**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District is located in Allen, Auglaize and Van Wert Counties. It is staffed by 41 non-certificated employees and 69 certificated full-time teaching personnel who provide services to 969 students and other community members. The School District currently operates one school building that encompasses the elementary, middle and high school as well as one administration building.

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:

The Spencerville Education Foundation, Inc. (The "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 Foundation was organized under the nonprofit 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. One trustee shall at all times be a representative selected by the Spencerville Chamber of Commerce and another selected by 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 two insurance purchasing pools. These organizations include the Northwest Ohio Area Computer Services Cooperative, Apollo Career Center, the West Central Regional Professional Development Center, Northwestern Ohio Educational Research Council, Inc., the Spencerville, Perry, and Bath Local Professional Development Committee, the Allen County Schools Health Benefit Plan, and Sheakley Uniservice, Inc. These organizations are presented in Notes 17 and 18 to the basic financial statements.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Accounting

The School District's financial statements are prepared using the 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 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 expenditures (such as accounts payable and expenditures for goods or services received but not yet paid, and accrued expenditures and liabilities) are not recorded in the financial statements.

Budgetary presentations report budgetary disbursements when a commitment is made (i.e. when an encumbrance is approved). Differences between disbursements reported in the fund and entity-wide statements versus budgetary disbursements are due to encumbrances outstanding at the beginning and end of the fiscal year.

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

B. 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 and investment 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.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on the cash basis of accounting or draws from the general receipts of the School District.

2. Fund Financial Statements

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

A fund is considered major if it is the primary operating fund of the School District or meets the following criteria:

1. Total assets, receipts or disbursements of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, receipts or disbursements of that individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

C. 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.

1. Governmental Funds/Governmental Activities

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 New Campus Building Fund.

General Fund – The General Fund is the primary operating fund of the School District and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds. 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.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Campus Building Fund – The New Campus Building Fund is used to account for financial resources used for the acquisition or construction of major capital 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 Fund Types

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The School District's fiduciary funds include private purpose trust funds and agency funds. The School District's private purpose trust funds 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 net assets) and do not involve measurement of results of operations. The School District's agency funds include various student-managed activities.

D. Budgetary Process

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

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

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

1. Tax Budget

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

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

2. Estimated Resources

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the commission's certificate of estimated resources which states the projected receipt of each fund.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prior to June 30, the School District must revise its budget so that total contemplated disbursements from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in receipts are identified by the School District Treasurer.

3. Appropriations

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education. The legal level of budgetary control selected by the Board is at the fund, function, object level.

Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of disbursements and encumbrances may not exceed the appropriation totals. Any revisions that alter the total of any fund's appropriations must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

4. Encumbrances

As part of formal budgetary control, purchase orders, contracts, and other commitments for the disbursement of monies are recorded as the equivalent of disbursements on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Disbursements plus encumbrances may not legally exceed appropriations. Encumbrances outstanding at fiscal year-end are reported as restricted or assigned fund balance for subsequent-year disbursements of governmental funds.

5. Lapsing of Appropriations

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

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2011, investments were limited to STAROhio. STAROhio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2011.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2011 were \$5,064, which included \$1,893 assigned from other School District funds.

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets represent amounts required by State statute to be set aside for the purchase of textbooks and instructional materials. See Note 15 for more information on the School District's set a-sides.

G. Employer Contributions to Cost-Sharing Pension Plans

The School District recognizes the disbursements for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 9 and 10, the employer contributions include portions for pension benefits and for postretirement health care benefits.

H. Inventory and Prepaid Items

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

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Capital Assets

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying cash basis financial statements. Depreciation is not recorded on these capital assets.

J. Accumulated Leave

All leave will either be utilized by time off from work or, within certain limitations, be paid to employees. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the School District.

K. Long-Term Obligations

Long-term debt arising from cash basis transactions of governmental funds are not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as disbursements.

L. Equity Classifications

1. Government-Wide Statements

Equity is classified as net assets and is displayed in separate components:

- 1. Restricted net assets** – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) law through constitutional provisions or enabling legislation adopted by the School District. 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. At June 30, 2011, there were no net assets restricted by enabling legislation.
- 2. Unrestricted net assets** – All other net assets that do not meet the definition of “restricted.”

The School District’s policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

2. Fund Financial Statements

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

- a. Non-spendable** - The non-spendable classification includes amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact. The “not in spendable form” includes items that are not expected to be converted to cash.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- b. Restricted** - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or is imposed by law through constitutional provisions.
- c. Committed** - The committed classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Board of Education. The committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.
- d. Assigned** - Amounts in the assigned classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board of Education.
- e. Unassigned** - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

M. Intergovernmental Receipts

Unrestricted intergovernmental receipts received on the basis of entitlement are recorded as receipts when the entitlement is received. Federal and state reimbursement type grants are recorded as receipts when the grant is received.

N. Interfund Activity

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

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Receipts and Disbursements

1. Program Receipts

In the Statement of Activities, receipts that are derived directly from each activity or from parties outside the School District's taxpayers are reported as program receipts. The School District has the following program receipts: charges for services and sales, interest, operating and capital grants and contributions.

All other governmental receipts are reported as general. All taxes are classified as general receipts even if restricted for a specific purpose.

2. Disbursements

Governmental activities include the School District's programs and services, including instruction, support services, operation and maintenance of plant (buildings), pupil transportation, extracurricular activities, and food service operations.

P. Implementation of New Accounting Policies

For the year ended June 30, 2011, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*" and GASB Statement No. 59, "*Financial Instruments Omnibus*."

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this statement classify fund balance as non-spendable, restricted, committed, assigned and/or unassigned.

GASB Statement No. 59 updated and improved existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. Implementation of this GASB statement did not affect the presentation of the financial statements of the School District.

3. RESTATEMENT OF FUND BALANCE

For fiscal year 2011, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*". GASB Statement No. 54 provides fund balance classifications that can be more consistently applied and clarifies the existing governmental fund type definitions. The requirements of this statement classify fund balance as non-spendable, restricted, committed, assigned, and/or unassigned.

The implementation of Statement No. 54 had the following effect on fund balances reported at June 30, 2010:

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

3. RESTATEMENT OF FUND BALANCE (Continued)

	General Fund	All Other Governmental Funds
Fund Balance at June 30, 2010	\$2,402,536	\$1,265,089
Change in Fund Structure	179,957	(179,957)
Adjusted Fund Balance at June 30, 2010	\$2,582,493	\$1,085,132

4. DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current 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 securities issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All such securities must be direct issuances of federal government agencies or instrumentalities;
3. Interim deposits in duly authorized depositories of the District, provided those deposits are properly insured or collateralized as required by law;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of securities described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that (i) investments in securities described in this division are made with a bank or savings and loan association eligible to be a depository for public funds of Ohio subdivisions, and (ii) such fund meets the requirements of Chapter 135 of the Revised Code (including the requirement that the fund not contain any investment in "derivatives");

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

6. The State Treasurer's Investment Pool (STAROhio);
7. Overnight or term (not exceeding 30 days) repurchase agreements meeting the requirements of Section 135.14(E) of the Revised Code, with (i) a bank or savings and loan association eligible to be a depository of public funds of Ohio subdivisions, or (ii) NASD member;
8. Commercial paper rated in the highest credit rating by at least two nationally recognized credit rating agencies and subject to the transactions of Section 135.14 of the Revised Code;
9. Bankers Acceptance subject to the restrictions of Section 135.14 of the Revised Code.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, contracting to sell securities that have not yet been acquired on speculation that bond prices will decline, the use of current investment assets as collateral to purchase other assets, leverage and short selling are also prohibited. Investments in a fund established by another country, subdivision, treasurer or governing board for the purpose of investing the public funds of the subdivisions, other than STAROhio and funds established to acquire, construct, lease or operate a municipal utility are not allowed. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School district, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of School District cash and deposits is provided by the Federal Deposit Insurance Corporation, as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize uninsured public deposits. The School District has no deposit policy for custodial risk beyond the requirements of State statute.

Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

As of June 30, 2011 the School District had \$150 in un-deposited cash on hand. This amount is included in cash and cash equivalents.

At fiscal year-end, the carrying amount of the School District's deposits was \$925,357, and the bank balance was \$1,103,070. Of the entire bank balance, \$602,070 was covered by federal depository insurance. The remaining bank balance was uninsured but collateralized.

B. Investments

Investments are reported at carrying value. As of June 30, 2011, the School District had the following investments:

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

	Carrying Value	Investment Maturities 0-1 years
STAR Ohio	\$3,649,720	\$3,649,720

C. Interest Rate Risk

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 to 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.

D. Custodial Credit Risk

Custodial credit risk is the risk that in the event of failure of the counterparty, the School District will not be able to recover the value of its investments.

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."

E. Credit Risk

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. STAR Ohio carries a credit rating of AAAm by Standard and Poor's at June 30, 2011.

F. Concentration of Credit Risk

The School District places no limit on the amount the School District may invest in any one issuer, however State statute limits investments in commercial paper and bankers' acceptances to 25 percent of the interim monies available for investment at any one time. All of the School District's investments are in STAROhio.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

5. PROPERTY TAXES

Tangible personal property tax revenues received in calendar year 2011 (other than public utility property) represent the collection of calendar year 2011 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property taxes received from telephone companies in calendar year 2011 were levied after October 1, 2010, on the value as of December 31, 2010.

Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

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

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 Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2011 are available to finance fiscal year 2011 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 2011 taxes were collected are:

	2010 Second-Half Collections		2011 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$89,744,840	96.2%	\$90,725,760	96.1%
Public Utility	3,504,620	3.8%	3,646,430	3.9%
Total Assessed Value	<u>\$93,249,460</u>	<u>100.0%</u>	<u>\$94,372,190</u>	<u>100.0%</u>
Tax rate per \$1,000 of assessed valuation	\$35.30		\$39.53	

6. INCOME TAXES

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, 2008, 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, 2011
(Continued)**

7. DIESEL SCHOLARSHIP FUND

The Diesel Scholarship Fund was established on November 7, 1967 through a trust agreement. Qualified students 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 2011, there were nine students with a total outstanding principal balance of \$14,965. Of the balance, \$5,515 represents the portion that is collectable. The remaining \$9,450 is deferred until the students either complete or leave post-secondary schooling. The fund balance is reported with other Private Purpose Trust balances on the Statement of Fiduciary Net Assets.

8. 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 2011, the School District contracted with Ohio Casualty Company (through O'Conner-McLaughlin Insurance Company) for property and contents insurance. Property coverage amounted to \$42,857,000. The School District has a \$2,500 deductible on this coverage. Earthquake coverage is included (\$5 million).

General and professional liability is protected by Ohio Casualty Company, (through O'Connor-McLaughlin Insurance Company) with \$1,000,000 each occurrence and \$2,000,000 aggregate limit, which includes umbrella. There is a minimum \$2,500 deductible on errors and omissions coverage and no deductible general coverage.

Vehicles are covered by Ohio Casualty Company (through O'Connor-McLaughlin Ins. Co.) with a \$1,000 deductible on buses. 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. Replacement coverage option is included.

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 \$10,000 dishonesty bond covering all employees who handle money. The dishonesty bond is provided by O'Conner McLaughlin Insurance Company from Ohio Casualty Company.

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

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

B. Workers Compensation

For fiscal year 2011, the School District participated in the Sheakley Uniservice, Inc. Workers Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (Note 18). 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 rate.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

8. RISK MANAGEMENT (Continued)

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. 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.

9. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description

The School District contributes to the School Employees Retirement System of Ohio ("SERS"), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2011, the allocation to pension and death benefits is 11.81 percent. The remaining 2.19 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds.

The School District's contributions to SERS for the fiscal years ended June 30, 2011, 2010, and 2009 were \$155,062, \$135,881, and \$99,712, respectively, 54 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

9. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

Plan Description

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

Plan Options

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 (% ok per w/p 1.2.8) percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For the fiscal year ended June 30, 2008, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2007, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010, and 2009 were \$507,579, \$494,922, and \$504,166, respectively; 85 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were \$365 made by the School District and \$261 made by the plan members.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

9. DEFINED BENEFIT PENSION PLANS (Continued)

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. The Board's liability is 6.2 percent of wages paid. As of June 30, 2011, four of the Board of Education members have elected Social Security.

10. POST EMPLOYMENT BENEFITS

A. School Employees Retirement System

In addition to a cost-sharing multiple-employer defined benefit pension plan, "SERS" administers two postemployment benefit plans.

Medicare Part B Plan

The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2011 was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2011, the actuarially required allocation is 0.76 percent. The School District's contributions for the fiscal years ended June 30, 2011, 2010 and 2009 were \$9,979, \$8,081, and \$8,277, respectively, which equaled the required contributions each year.

Health Care Plan

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMO's, PPO's, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. For the fiscal year ended June 30, 2011, the health care allocation is 1.43 percent.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

10. POST EMPLOYMENT BENEFITS (Continued)

An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. State law provides that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School District's contributions assigned to health care for the fiscal years ended June 30, 2011, 2010 and 2009 were \$18,775, \$20,980, and \$45,633, respectively.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The financial reports of SERS' Health Care and Medicare B plans are included in its "Comprehensive Annual Financial Report". The report can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

B. State Teachers Retirement System

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$39,045, \$38,147, and \$38,789 respectively; 85 percent has been contributed for fiscal year 2011 and 100 percent has been contributed for fiscal years 2010 and 2009.

11. LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2011 were as follows:

	Outstanding 6/30/2010	Additions	Reductions	Outstanding 6/30/2011	Due Within One Year
Note Payable HB 264, 4.65%	\$ 92,775		\$ 30,925	\$ 61,850	\$ 30,925
2004 School Improvement Bonds Term, 3.3-5.125%	5,585,000		195,000	5,390,000	200,000
Capital Appreciation	151,991			151,991	
Capital Accretion	139,674	\$33,551		173,225	
Total Long-Term Obligations	\$ 5,969,440	\$33,551	\$225,925	\$5,777,066	\$230,925

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

11. LONG-TERM OBLIGATIONS (Continued)

Note Payable HB 264 - On February 2, 1998, the School District issued \$463,876 in energy conservation improvement notes in accordance with House Bill 264. The notes were issued to finance modification, installation and remodeling of school buildings for the purpose of reducing energy consumption and thereby reducing current expenses of the School District. The notes were issued for a period of fifteen years with final maturity on December 1, 2012. The notes will be retired from the General Fund. Principal and interest requirements to retire this debt outstanding at June 30, 2011, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$30,925	\$2,157	\$33,082
2013	30,925	719	31,644
Total	<u>\$61,850</u>	<u>\$2,876</u>	<u>\$64,726</u>

2004 School Improvement Bonds - The School 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.

The Current Interest Bonds start maturing on December 2007. The Bonds are subject to mandatory sinking fund redemption starting on December 1, 2008, and on each December 1 thereafter, at 100 percent of the principal amount thereof plus accrued interest to the date of redemption. Unless otherwise called for redemption, the remaining principal amount of the Bonds is to be paid at stated maturity.

The Capital Appreciation Bonds will mature in fiscal years 2019 through 2021. The maturity amount of the bonds is \$270,000 each year. During fiscal year 2011, the accretion for the Capital Appreciation bonds was \$33,551 for an accreted value of \$325,216 at June 30, 2011. Capital Appreciation Bonds are not subject to redemption prior to maturity. Payment requirements to retire the bonds at June 30, 2011 are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Term Bonds</u>	<u>Capital Bonds</u>	<u>Total Bonds</u>	<u>Interest/ Accretion</u>	<u>Total</u>
2012	\$ 200,000		\$ 200,000	\$ 256,453	\$ 456,453
2013	210,000		210,000	248,853	458,853
2014	220,000		220,000	240,452	460,452
2015	225,000		225,000	231,652	456,652
2016	235,000		235,000	325,216	560,216
2017-2021	500,000	\$151,991	651,991	1,645,786	2,297,777
2022-2026	1,475,000		1,475,000	818,325	2,293,325
2027-2031	1,885,000		1,885,000	412,050	2,297,050
2032	440,000		440,000	22,550	462,550
Total	<u>\$5,390,000</u>	<u>\$151,991</u>	<u>\$5,541,991</u>	<u>\$4,201,337</u>	<u>\$9,743,328</u>

12. OPERATING LEASES

The School District is obligated under an operating lease agreement with Perry Corporation for copiers for a period of 5 years beginning June 17, 2009. The minimum requirement of the lease is 2,390,800 copies in each 12 month period at \$0.0112 per black and white copy and \$0.08 per color copy, for a total of 11,880,000 copies per lease. During fiscal year 2011, \$27,732 was paid on this lease.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

12. OPERATING LEASES(Continued)

The School District was obligated under a 36 month operating lease agreement with Hasler Mailing Systems for a postage meter that began November 28, 2007 and expired October, 2010. The School District then contracted a 63 month operating lease agreement with Hasler Mailing Systems for a postage meter that began October 5, 2010. Total lease payments to Hasler Mailing Systems (Mail Finance) during fiscal year 2011 were \$2,060, which included the prepayment of the final lease payment for the current lease agreement.

The estimated future lease payments are as follows:

Year Ending June 30,	Copier Lease	Postage Meter
2012	\$ 33,941	\$2,295
2013	33,941	2,295
2014	33,941	2,295
2015		2,295
2016		576
	\$101,823	\$9,756

13. INTERFUND ACTIVITIES

During fiscal year 2011, the following advances in and out occurred:

Fund	Advances In	Advances Out
General Fund	\$1,017	
All Other Governmental:		
Title II - D		\$1,017
Total All Other Governmental		1,017
Total All	\$1,017	\$1,017

A short term advance of \$1,017 from the prior year was repaid to the General Fund from the Title II-D Fund.

14. CONTINGENCIES

Grants - The School District received financial assistance from federal and state agencies in the form of grants. The disbursement 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, 2011.

Litigation – The School District is party to legal proceedings seeking damages or injunctive relief generally incidental to its operations and pending projects. The School District’s management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material effect, if any, on the financial condition of the School District.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

15. STATUTORY RESERVES

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future 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, 2011, the restricted activity was as follows:

	Textbook Reserve	Capital Acquisition Reserve
Set-Aside Restricted Balance, June 30, 2010	\$440,775	
Current Year Set-Aside Requirement	150,826	\$150,826
Current Year Qualifying Disbursements	(81,707)	(64,026)
Current Year Offsets		(86,800)
Balance June 30, 2011	\$509,894	\$ 0
Balance Carried Forward to Fiscal Year 2012	\$509,894	\$ 0

16. FUND BALANCE

Fund balance is classified as non-spendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in governmental funds.

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

	General	New Campus Building Fund	Other Governmental	Total Governmental
Restricted for:				
Permanent Improvements		\$559,483	\$ 431,314	\$ 990,797
Debt Retirement			280,989	280,989
Food Service Operations			140,777	140,777
Textbooks and Instructional Materials	\$ 509,894			509,894
Extracurricular Activities			41,362	41,362
Learning Opportunities			28,317	28,317
Facility Maintenance			139,883	139,883
Special Education			14,905	14,905
Instructor Wages and Benefits			19,150	19,150
Total Restricted	509,894	559,483	1,096,697	2,166,074
Committed to:				
Future Severance Payments	140,290			140,290
Supplies	2,600			2,600
Educational Activities	4,345			4,345
Total Committed	147,235			147,235
Assigned for:				
Unpaid Obligations	280,549			280,549
Total Assigned	280,549			280,549
Unassigned	1,837,372			1,837,372
Total Fund Balances	\$2,775,050	\$559,483	\$1,096,697	\$4,431,230

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

17. 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 which provides vocational education to students 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 (The “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.

Northwestern Ohio Educational Research Council, Inc. (“NOERC”) - The 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.

Spencerville, Perry, and Bath Local Professional Development Committee (The Committee) - The Committee is a consortium operated under the direction of a Board consisting of one representative from the educators of each District, along with two administrators from the member Districts chosen by the superintendents. The Committee was formed to review coursework and other professional development activities completed by educators within the Districts and used for the renewal of certificates and licenses. As of June 30, 2011 there was no financial information available for this committee.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

18. GROUP INSURANCE PURCHASING POOL

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, participants pay an enrollment fee to the Plan to cover the costs of administering the program.

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 currently provided by Allied Benefit Systems. 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.

19. BUDGETARY BASIS OF ACCOUNTING

The statement of cash receipts, disbursements and changes in fund balance – budget and actual (budget basis), presented for the general fund, is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the cash basis are that:

- (a) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of a disbursement; and,
- (b) Some funds are included in the general fund (cash basis), but have separate legally adopted budgets (budget basis).

The adjustments necessary to convert the results of operations for the fiscal year on the budget basis to the cash basis for the general fund is as follows:

Net Change in General Fund Balance	
	General Fund
Budget basis	(\$ 50,548)
Funds budgeted elsewhere**	4,908
General Fund transfers to Severance Fund	(39,149)
Adjustment for encumbrances	277,346
Cash basis	\$192,557

** As part of Governmental Accounting Standards Board Statement No. 54, "*Fund Balance Reporting*", certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a cash basis. This includes uniform school supplies and Rotary.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

20. ACCOUNTABILITY AND COMPLIANCE

Ohio Adm. Code Section 117-2-03(B) requires the School District to prepare its annual financial reports in accordance with generally accepted accounting principles (GAAP). However, the School District prepared its financial statements on a 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 may be fined and subject to various other administrative remedies for its failure to file the required financial report.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND DISBURSEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE					
(Passed through Ohio Department of Education)					
Child Nutrition Cluster:					
School Breakfast Program	10.553	\$26,633		\$26,633	
School Breakfast Program (Food Distribution)	10.553		\$7,529		\$7,529
National School Lunch Program	10.555	164,470		164,470	
National School Lunch Program (Food Distribution)	10.555		55,216		55,216
Total Nutrition Cluster		<u>191,103</u>	<u>62,745</u>	<u>191,103</u>	<u>62,745</u>
Total U.S. Department of Agriculture		<u>191,103</u>	<u>62,745</u>	<u>191,103</u>	<u>62,745</u>
U.S. DEPARTMENT OF EDUCATION					
(Passed through Ohio Department of Education)					
Title 1, Part A Cluster					
Title 1 Grants to Local Educational Agencies	84.010	128,212		127,930	
ARRA Title 1 Grants to Local Educational Agencies, Recovery Act	84.389	13,270		16,152	
Total Title 1, Part A Cluster		<u>141,482</u>		<u>144,082</u>	
Special Education Cluster					
Special Education Grants to States	84.027	185,614		185,137	
ARRA Special Education Grants to States, Recovery Act	84.391	106,072		119,565	
Total Special Education Cluster		<u>291,686</u>		<u>304,702</u>	
Safe and Drug-Free Schools and Communities State Grants	84.186	1,038		1,170	
Education Technology State Grants	84.318	1,459		442	
Improving Teacher Quality State Grants	84.367	46,110		46,241	
ARRA State Fiscal Stabilization Fund (SFSF) Education State Grants, Recovery Act	84.394	347,720		367,551	
ARRA State Fiscal Stabilization Fund (SFSF) Race to the Top Incentive Grants, Recovery Act	84.395	7,821		5,967	
Education Jobs	84.410	<u>264,284</u>		<u>264,284</u>	
Total U.S. Department of Education		<u>1,101,600</u>		<u>1,134,439</u>	
Total Federal Assistance		<u>\$1,292,703</u>	<u>\$62,745</u>	<u>\$1,325,542</u>	<u>\$62,745</u>

See accompanying notes to the schedule of federal awards receipts and disbursements

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND DISBURSEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Disbursements (the Schedule) reports the Spencerville Local School District (the School District's) federal award programs' receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The School District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the School District assumes it expends federal monies first.

NOTE C – FOOD DONATION PROGRAM

The School District reports commodities consumed on the Schedule at the fair value. The School District allocated donated food commodities to the respective programs that benefitted from the use of those donated food commodities.

NOTE D - MATCHING REQUIREMENTS

Certain Federal programs require the School District to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The School District has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.



Dave Yost • Auditor of State

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 Spencerville Local School District, Allen County, (the School District) as of and for the fiscal year ended June 30, 2011, which collectively comprise the School District's basic financial statements and have issued our report thereon dated March 29, 2012, wherein we noted the School District uses a comprehensive accounting basis other than generally accepted accounting principles and adopted the provisions of Government Accounting Standards Board Statement No 54, *Fund Balance and Governmental Fund Type Definitions*. 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 as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the School District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and timely corrected.

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

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings and questioned costs as item 2011-01.

We also noted certain matters not requiring inclusion in this report that we reported to the School District's management in a separate letter dated March 29, 2012.

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

We intend this report solely for the information and use of management, the audit committee, the Board of Education, and federal awarding agencies and pass-through entities and others within the School District. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

March 29, 2012



Dave Yost • Auditor of State

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

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

To the Board of Education:

Compliance

We have audited the compliance of Spencerville Local School District, Allen County (the School District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the School District's major federal programs for the fiscal year ended June 30, 2011. The summary of *auditor's results* section of the accompanying schedule of findings and questioned costs identifies the School District's major federal programs. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the School District's compliance based on our audit.

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

As described in finding 2011-02 in the accompanying schedule of findings and questioned costs, the School District did not comply with requirements regarding Activities Allowed/Unallowed and Allowable Costs/Cost Principles requirement applicable to its Special Education Grants to States program cluster. Compliance with these requirements are necessary, in our opinion, for the School District to comply with requirements applicable to this program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Spencerville Local School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the fiscal year ended June 30, 2011.

Internal Control over Compliance

The School District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with the requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2011-02 to be a material weakness.

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

We also noted matters involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the School District's management in a separate letter dated March 29, 2012.

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



Dave Yost
Auditor of State

March 29, 2012

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011**

1. SUMMARY OF AUDITOR'S RESULTS
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<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	Yes
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Qualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education Cluster: Special Education Grants to States – CFDA #84.027 ARRA Special Education Grants to States Recovery Act – CFDA #84.391 ARRA State Fiscal Stabilization Fund (SFSF) - Education State Grants Recovery Act– CFDA #84.394
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

FINDING NUMBER 2011-01

Noncompliance Citation

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

Ohio Adm. Code Section 117-2-03 (B) requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). However, the School District prepared 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 County should prepare its financial statements according to generally accepted accounting principles to provide any user with more meaningful and useful financial statements.

OFFICIALS' RESPONSE:

The Spencerville Board of Education passed Action #4-09-39 when a 3 year agreement was signed with REA & Associates for accounting services of FY09, FY10, and FY11. The action stated: "It is the board's understanding by returning to the cash basis format in reporting and is issuing the School's financial statements in the format required by GASB34, the audit will result in a qualified opinion and probably will have a penalty for not reporting under GAAP." This district has been through issuance of bond's, credit rating reevaluations and every day normal school district business. Therefore it is noted that the lack of GAAP reporting has not affected all these business transactions and therefore the time and cost of GAAP reporting is deemed too expensive.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	2011-02
CFDA Title and Number	Special Education Cluster: Special Education Grants to States – CFDA #84.027 and ARRA Special Education Grants to States – CFDA #84.391
Federal Award Number / Year	2011
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

**FINDING NUMBER 2011-02
(Continued)**

Noncompliance Citation / Questioned Cost / Material Weakness

2 CFR Part 225, Appendix A Subsection (C) requires, in part, that to be allowable under Federal awards, costs must 1) be necessary and reasonable for proper and efficient performance and administration of Federal awards, 2) be allocable to Federal awards under the provisions of 2 CFR part 225, and 3) conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.

The School District expended \$79,942 from the ARRA Special Education Grants to States grant for the purchase of a bus equipped with a handicap lift. This expenditure is not considered an allowable use of these grant funds since there were no students that required handicap accessible transportation.

The failure to charge to a federal grant only those expenditures that are allowable costs in accordance with established cost principles may result in a loss of federal funding to the School District.

Prior to charging expenditures to a grant, the School District should review the grant agreement, and the allowable costs/cost principles to help assure that the expenditures are allowable costs.

OFFICIALS' RESPONSE:

During creation of the FY10 CCIP which included the Fund 516, ARRA Special Education monies, the Spencerville Local School District team had dialog (verbal and electronic) with their Ohio Department of Education consultant, Ed Peltz. The purchase of a handicap school bus was discussed. It was listed on the allowable list of expenditures. Throughout the application process we did consult by written documentation along with contact with ODE directly. No indication was given that this was not allowable. Actual written dialog was within the CCIP application document and it was not questioned. Even in our comment history of the CCIP the ODE consultant did not question this purchase. Therefore we felt we were well within the legal guidelines for the expenditure of these dollars. It was during the AOS audit of FY11 that questions were brought up. Immediately we connected with ODE consultants and began seeking assistance through Special Ed/Early Childhood department. After consulting with all involved, it was deemed by ODE that 25% of the bus cost was allowable from the ARRA funds. Correcting revision of FY10 was filed with ODE and permission to open the closed project was approved. ODE then worked closely with us to make adjusting entries and to use the funds quickly on approved items to expend the money by the due date. A purchase of a Micro Van was approved for approximately \$32,240 which is used as transportation of preschoolers and special needs students to get them to various locations for services required in accordance with their IEP's. This \$32,340 was only 80% of the total cost with the other 20% (\$8,060) coming from general funds of the district. Other funds were spent on classroom instructional items for special needs students. All this was carefully monitored and approved verbally and electronically by ODE every step of the way. If AOS would like a listing of all pertinent contacts at ODE, including the CCIP consultants, it could be provided.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-001	Ohio Rev. Code Section 117.38 and Ohio Admin. Code 117-2-03(B) – Failure to prepare financial statements in accordance with Generally Accepted Accounting Principles.	No	Repeated as 2011-01

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315 (c)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2011-02	2 CFR Part 225, Appendix A (C) - The School District expended \$79,942 from the ARRA Special Education Grants to States grant for the purchase of a bus equipped with a handicap lift. This expenditure is not considered an allowable use of these grant funds since there were no students that required handicap accessible transportation.	September 29, 2011	Diane Eutsler, Treasurer

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Dave Yost • Auditor of State

Independent Accountants' Report on Applying Agreed-Upon Procedure

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

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Spencerville Local School District (the School District) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board amended its anti-harassment policy at its meeting on December 16, 2010 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and is not intended to be and should not be used by anyone other than these specified parties.

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

Dave Yost
Auditor of State

March 29, 2012

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Dave Yost • Auditor of State

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
MAY 15, 2012