



Dave Yost • Auditor of State

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY
JUNE 30, 2017 AND 2016**

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ALLEN COUNTY
JUNE 30, 2017 AND 2016**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Spencerville Local School District, Allen County, Ohio (the School District), as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the School District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the School District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Spencerville Local School District, Allen County, Ohio, as of June 30, 2017 and 2016, and the respective changes in cash financial position and the budgetary comparison for the General Fund thereof for the years then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

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. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the cash basis of accounting, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Matters

Other Information

We applied no procedures to Management's Discussion & Analysis as listed in the table of contents. Accordingly, we express no opinion or any other assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2018, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

June 22, 2018

Spencerville Local School District
Allen County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
(Unaudited)

The discussion and analysis of the Spencerville Local School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2017 are as follows:

- In total, net position increased \$1,253,050, which represents a 16.2 percent increase from fiscal year 2016.
- Outstanding debt decreased from \$5,118,259 to \$5,033,099 due to payments of principal and accreted interest made during fiscal year 2017.

Using this Annual Report

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

The *Statement of Net Position* and *Statement of Activities* provide information about the activities of the whole School District. 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 2017, the General fund is the School District's most significant fund.

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 position will be cash and cash equivalents. 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, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
(Unaudited)
(Continued)

Reporting the School District as a Whole

Statement of Net Position 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 2017?" The statement of net position and the statement of activities answer this question.

These two statements report the School District's *net position* and *changes in the net position*. This change in net position 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 Position* and the *Statement of Activities*, governmental activities include the School District's programs and services, including instruction, support services, extracurricular activities and food service operations.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 8. 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 fund is the General fund.

Governmental Funds - All of the School District's activities are reported in governmental funds, which 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 the cash basis of accounting. 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 determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Reporting the School District's Fiduciary Responsibilities

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. The School District's fiduciary funds account for scholarships, endowments, and student activities.

Spencerville Local School District
Allen County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
(Unaudited)
(Continued)

The School District as a Whole

Table 1 provides a summary of the School District's net position for fiscal year 2017 compared to 2016.

(Table 1)
Net Position – Cash Basis

	Governmental Activities	
	2017	2016
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 8,981,735	\$ 7,728,685
<i>Total Assets</i>	<i>\$ 8,981,735</i>	<i>\$ 7,728,685</i>
Net Position		
Restricted for:		
Capital Outlay	\$ 791,236	\$ 530,883
Debt Service	449,419	456,083
Other Purposes	453,745	486,233
Unrestricted	7,287,335	6,255,486
<i>Total Net Position</i>	<i>\$ 8,981,735</i>	<i>\$ 7,728,685</i>

Net position of the governmental activities increased \$1,253,050 which represents a 16.2 percent increase from fiscal year 2016. This increase is the result of multiple factors. While the School District receipts outpaced disbursements, the School District also had increases in state funding due to open enrollment changes, interest income earned, Medicaid reimbursement, and an increase in income tax receipts.

A portion of the School District's net position of \$1,694,400 or 18.9 percent represent resources subject to external restrictions on how they may be used. The remaining balance of the government-wide unrestricted net position of \$7,287,335 may be used to meet the School District's ongoing obligations.

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Spencerville Local School District
Allen County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
(Unaudited)
(Continued)

Table 2 shows the changes in net position for fiscal year 2017 as compared to fiscal year 2016.

(Table 2)
Changes in Net Position – Cash Basis

	Governmental Activities	
	2017	2016
Receipts		
Program Receipts		
Charges for Services and Sales	\$ 1,100,834	\$ 1,053,663
Operating Grants, Contributions and Interest	1,102,430	988,107
Capital Grants, Contributions and Interest	5,979	5,142
<i>Total Program Receipts</i>	<u>2,209,243</u>	<u>2,046,912</u>
General Receipts		
Property Taxes	2,924,997	2,852,868
Income Taxes	1,111,439	1,093,347
Grants and Entitlements not Restricted to Specific Programs	6,088,550	5,868,990
Proceeds from Sale of Capital Assets	1,447	214
Insurance Recoveries	9,301	53,603
Investment Earnings	64,536	18,475
Miscellaneous	9,185	28,587
<i>Total General Receipts</i>	<u>10,209,455</u>	<u>9,916,084</u>
<i>Total Receipts</i>	<u>12,418,698</u>	<u>11,962,996</u>
Program Disbursements		
Instruction:		
Regular	4,158,787	3,859,098
Special	1,320,768	1,220,599
Vocational	93,503	91,553
Other	472,360	521,045
Support Services:		
Pupils	577,424	602,177
Instructional Staff	273,525	182,772
Board of Education	44,495	50,218
Administration	648,035	602,050
Fiscal	284,073	291,291
Business	161	849
Operation and Maintenance of Plant	1,060,194	1,130,268
Pupil Transportation	605,713	493,162
Central	37,872	39,487
Operation of Non-Instructional Services:		
Food Service Operations	396,874	371,036
Community Services	0	9,443
Extracurricular Activities	360,606	335,803
Capital Outlay	397,792	134,670
Debt Service:		
Principal Retirement	25,622	43,741
Interest and Fiscal Charges	407,844	384,725
<i>Total Program Disbursements</i>	<u>11,165,648</u>	<u>10,363,987</u>
<i>Change in Net Position</i>	1,253,050	1,599,009
<i>Net Position Beginning of Year</i>	<u>7,728,685</u>	<u>6,129,676</u>
<i>Net Position End of Year</i>	<u>\$ 8,981,735</u>	<u>\$ 7,728,685</u>

Spencerville Local School District
Allen County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
(Unaudited)
(Continued)

Governmental Activities

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 receipts and unrestricted State entitlements.

(Table 3)
Governmental Activities – Cash Basis

	Total Costs of Services		Net Costs of Services	
	2017	2016	2017	2016
<i>Program Disbursements</i>				
Instruction:				
Regular	\$ 4,158,787	\$ 3,859,098	\$ 3,359,556	\$ 3,081,186
Special	1,320,768	1,220,599	523,567	644,934
Vocational	93,503	91,553	69,016	81,590
Other	472,360	521,045	472,360	521,045
Support Services:				
Pupils	577,424	602,177	577,424	602,177
Instructional Staff	273,525	182,772	268,125	61,957
Board of Education	44,495	50,218	44,495	50,218
Administration	648,035	602,050	648,035	602,050
Fiscal	284,073	291,291	284,073	291,291
Business	161	849	161	849
Operation and Maintenance of Plant	1,060,194	1,130,268	1,017,360	1,124,942
Pupil Transportation	605,713	493,162	588,414	480,012
Central	37,872	39,487	37,872	39,487
Operation of Non-Instructional Services:				
Food Service Operations	396,874	371,036	(18,826)	(43,286)
Community Services	0	9,443	0	(278)
Extracurricular Activities	360,606	335,803	259,494	220,907
Capital Outlay	397,792	134,670	391,813	129,528
Debt Service:				
Principal Retirement	25,622	43,741	25,622	43,741
Interest and Fiscal Charges	407,844	384,725	407,844	384,725
<i>Total</i>	\$ 11,165,648	\$ 10,363,987	\$ 8,956,405	\$ 8,317,075

The dependence upon tax receipts and general receipt entitlements from the state for governmental activities is apparent. Program receipts only account for 19.8 percent of all governmental disbursements; the community is the largest area of support for the School District students.

Spencerville Local School District
Allen County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
(Unaudited)
(Continued)

The School District's Funds

The School District's governmental funds are accounted for using the cash basis of accounting. The School District's governmental funds reported a combined fund balance of \$8,981,735, which is higher than the prior year balance of \$7,728,685.

The general fund had total cash receipts of \$10,870,273, excluding other financing sources. The cash disbursements of the general fund totaled \$9,350,372, excluding other financial uses. The general fund's fund balance increased \$1,030,649 in 2017.

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.

During the course of fiscal year 2017, the School District amended its general fund budget. For the general fund, final budget basis receipts were \$10,315,941. Actual receipts of \$10,855,159 were \$539,218 higher than the final budget, as actual intergovernmental as well as tuition and fee receipts were higher than anticipated.

For fiscal year 2017, the general fund final budgeted disbursements were \$10,197,449, which is more than the original budgeted disbursements of \$9,723,875 by \$473,574. This increase was not attributable to one specific line item but a result of anticipated increases throughout. Actual disbursements of \$9,965,034 were \$232,415 lower than the final budget due to overall cost savings measures taken by the School District.

Debt Administration

The School District had the following long-term obligations outstanding at June 30, 2017 and 2016.

(Table 4)
Outstanding Debt, at June 30

	Governmental Activities	
	2017	2016
2004 School Improvement Bonds	\$ 626,193	\$ 561,976
2012 Various Purpose Refunding Bonds	4,406,906	4,556,283
<i>Total</i>	\$ 5,033,099	\$ 5,118,259

For further information regarding the School District's debt, refer to Note 10 of the basic financial statements.

Spencerville Local School District
Allen County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
(Unaudited)
(Continued)

Current Issues

Real estate tax receipts increased slightly. The unique nature of property taxes in Ohio can create 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 District's 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 24 percent of revenues for governmental activities for the Spencerville Local School District in fiscal year 2017.

The School District can also be affected by 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 a period of time. 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 historically decreasing enrollment.

The Spencerville Local School District does not anticipate 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 approved budget bill at this point is not verifiable for actual figures. State foundation funding represents approximately 59 percent of the School District's general fund revenue and is very significant to the School District.

The 5-year renewable 1 percent income tax was renewed on the November 2012 ballot for another five years (through December 31, 2017 collection). An Income Tax 5 Year Renewal issue is set to be on the November 2017 ballot, effective Jan. 1, 2018 thru Dec. 31, 2022. 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 positive. Fiscal year 2017 income tax revenue made up 10.22 percent of general fund revenues.

All scenarios require management to plan carefully and prudently to provide the resources to meet student needs over the next several years. The State economy is still emerging from a record-making recession; the effects of the recession on the national, State and our local economy created a State deficit which required the State of Ohio to make nearly \$8 billion in reductions in the fiscal years 2013 and 2014 State biennium budget which translated into funding reductions for nearly every school district in Ohio.

The School District established a special revenue fund per ORC 5705.13 for Termination Benefits in a Board action during the regular April 2002 Board of Education meeting (Action#4-02-47). This fund is used for the payment of current and future severance pay. Transfers from the general fund are made periodically to keep the fund balance in tune with probable retirements of employees who become eligible

Spencerville Local School District
Allen County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
(Unaudited)
(Continued)

for retirement either by age or service years for both certified and classified employees. Use of this fund therefore allows the School District to plan for the cost of retirements and designates those dollars as such. The current fund balance is reported as General/committed funds with the title of "Severance Payments".

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. Continuous monitoring of staff numbers and needs to fulfill our fluctuating student numbers is challenging and will be studied carefully with adjustments as needed.

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 Diane Eutsler, Treasurer of Spencerville Local School District, 600 School Street, Spencerville, OH 45887.

Spencerville Local School District
Allen County, Ohio
Statement of Net Position - Cash Basis
June 30, 2017

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 8,981,735
<i>Total Assets</i>	\$ 8,981,735
Net Position	
Restricted for:	
Capital Outlay	\$ 791,236
Debt Service	449,419
Other Purposes	453,745
Unrestricted	7,287,335
<i>Total Net Position</i>	\$ 8,981,735

See accompanying notes to the basic financial statements.

Spencerville Local School District
Allen County, Ohio
Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2017

	Program Cash Receipts				Net (Disbursements) Receipts and Changes in Net Position
	Cash Disbursements	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions and Interest	Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$ 4,158,787	\$ 759,925	\$ 39,306	\$ 0	\$ (3,359,556)
Special	1,320,768	59,875	737,326	0	(523,567)
Vocational	93,503	0	24,487	0	(69,016)
Other	472,360	0	0	0	(472,360)
Support Services:					
Pupils	577,424	0	0	0	(577,424)
Instructional Staff	273,525	0	5,400	0	(268,125)
Board of Education	44,495	0	0	0	(44,495)
Administration	648,035	0	0	0	(648,035)
Fiscal	284,073	0	0	0	(284,073)
Business	161	0	0	0	(161)
Operation and Maintenance of Plant	1,060,194	0	42,834	0	(1,017,360)
Pupil Transportation	605,713	0	17,299	0	(588,414)
Central	37,872	0	0	0	(37,872)
Operation of Non-Instructional Services:					
Food Service Operations	396,874	191,946	223,754	0	18,826
Extracurricular Activities	360,606	89,088	12,024	0	(259,494)
Capital Outlay	397,792	0	0	5,979	(391,813)
Debt Service:					
Principal Retirement	25,622	0	0	0	(25,622)
Interest and Fiscal Charges	407,844	0	0	0	(407,844)
Totals	\$ 11,165,648	\$ 1,100,834	\$ 1,102,430	\$ 5,979	(8,956,405)

General Receipts

Property Taxes Levied for:	
General Purposes	2,408,842
Debt Service	375,961
Capital Outlay	104,987
Building Maintenance	35,207
Income Taxes Levied for:	
General Purposes	1,111,439
Grants and Entitlements not Restricted to Specific Programs	6,088,550
Proceeds from Sale of Capital Assets	1,447
Insurance Recoveries	9,301
Investment Earnings	64,536
Miscellaneous	9,185
Total General Receipts	10,209,455
Change in Net Position	1,253,050
Net Position Beginning of Year	7,728,685
Net Position End of Year	\$ 8,981,735

See accompanying notes to the basic financial statements.

Spencerville Local School District
Allen County, Ohio
Statement of Assets and Fund Balances - Cash Basis - Governmental Funds
June 30, 2017

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 7,287,335	\$ 1,694,400	\$ 8,981,735
<i>Total Assets</i>	<u>\$ 7,287,335</u>	<u>\$ 1,694,400</u>	<u>\$ 8,981,735</u>
Fund Balances			
Restricted	\$ 0	\$ 1,694,400	\$ 1,694,400
Committed	93,168	0	93,168
Assigned	2,157,537	0	2,157,537
Unassigned	<u>5,036,630</u>	<u>0</u>	<u>5,036,630</u>
<i>Total Fund Balances</i>	<u>\$ 7,287,335</u>	<u>\$ 1,694,400</u>	<u>\$ 8,981,735</u>

See accompanying notes to the basic financial statements.

Spencerville Local School District
Allen County, Ohio
Statement of Receipts, Disbursements and Changes
in Fund Balances - Cash Basis - Governmental Funds
For the Fiscal Year Ended June 30, 2017

	General Fund	Other Governmental Funds	Total Governmental Funds
Receipts			
Property and Other Local Taxes	\$ 2,408,842	\$ 516,155	\$ 2,924,997
Income Taxes	1,111,439	0	1,111,439
Intergovernmental	6,445,089	704,768	7,149,857
Investment Income	60,791	11,465	72,256
Tuition and Fees	818,442	0	818,442
Extracurricular Activities	325	88,764	89,089
Gifts and Donations	15,164	24,218	39,382
Charges for Services	1,358	191,947	193,305
Miscellaneous	8,823	360	9,183
<i>Total Receipts</i>	<u>10,870,273</u>	<u>1,537,677</u>	<u>12,407,950</u>
Disbursements			
Current:			
Instruction:			
Regular	4,120,682	38,105	4,158,787
Special	986,899	333,869	1,320,768
Vocational	93,503	0	93,503
Other	472,360	0	472,360
Support Services:			
Pupils	577,424	0	577,424
Instructional Staff	266,282	7,243	273,525
Board of Education	44,495	0	44,495
Administration	648,035	0	648,035
Fiscal	275,334	8,739	284,073
Business	161	0	161
Operation and Maintenance of Plant	971,417	88,777	1,060,194
Pupil Transportation	605,713	0	605,713
Central	37,872	0	37,872
Extracurricular Activities	250,136	110,470	360,606
Operation of Non-Instructional Services:			
Food Service Operations	59	396,815	396,874
Capital Outlay	0	397,792	397,792
Debt Service:			
Principal Retirement	0	25,622	25,622
Interest and Fiscal Charges	0	407,844	407,844
<i>Total Disbursements</i>	<u>9,350,372</u>	<u>1,815,276</u>	<u>11,165,648</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>1,519,901</u>	<u>(277,599)</u>	<u>1,242,302</u>
Other Financing Sources (Uses)			
Proceeds from Sale of Assets	1,447	0	1,447
Insurance Recoveries	9,301	0	9,301
Transfers In	0	500,000	500,000
Transfers Out	(500,000)	0	(500,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(489,252)</u>	<u>500,000</u>	<u>10,748</u>
<i>Net Change in Fund Balances</i>	1,030,649	222,401	1,253,050
<i>Fund Balances Beginning of Year</i>	<u>6,256,686</u>	<u>1,471,999</u>	<u>7,728,685</u>
<i>Fund Balances End of Year</i>	<u>\$ 7,287,335</u>	<u>\$ 1,694,400</u>	<u>\$ 8,981,735</u>

See accompanying notes to the basic financial statements.

Spencerville Local School District
Allen County, Ohio
Statement of Receipts, Disbursements and Changes
in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Receipts				
Property and Other Local Taxes	\$ 2,316,214	\$ 2,316,214	\$ 2,408,842	\$ 92,628
Income Taxes	1,093,347	1,093,347	1,111,439	18,092
Intergovernmental	6,105,873	6,194,663	6,445,089	250,426
Investment Income	8,335	8,335	60,056	51,721
Tuition and Fees	692,634	692,634	818,157	125,523
Gifts and Donations	0	9,125	9,125	0
Rent	800	800	0	(800)
Customer Sales and Services	312	312	1,358	1,046
Miscellaneous	511	511	1,093	582
<i>Total Receipts</i>	<u>10,218,026</u>	<u>10,315,941</u>	<u>10,855,159</u>	<u>539,218</u>
Disbursements				
Current:				
Instruction:				
Regular	4,142,435	4,250,468	4,205,624	44,844
Special	891,508	1,132,106	1,118,002	14,104
Vocational	97,978	105,119	105,112	7
Other	601,007	538,183	531,625	6,558
Support Services:				
Pupils	623,222	619,144	584,537	34,607
Instructional Staff	282,231	321,147	304,496	16,651
Board of Education	64,809	61,374	47,936	13,438
Administration	625,996	677,995	667,350	10,645
Fiscal	334,648	338,679	320,923	17,756
Business	1,049	1,049	185	864
Operation and Maintenance of Plant	1,081,761	1,185,348	1,137,751	47,597
Pupil Transportation	697,316	672,050	652,429	19,621
Central	44,347	42,889	38,872	4,017
Extracurricular Activities	235,568	251,898	250,192	1,706
<i>Total Disbursements</i>	<u>9,723,875</u>	<u>10,197,449</u>	<u>9,965,034</u>	<u>232,415</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>494,151</u>	<u>118,492</u>	<u>890,125</u>	<u>771,633</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Assets	0	0	1,447	1,447
Refund of Prior Year Disbursements	26,243	26,243	7,730	(18,513)
Other Financing Uses	(3,432,641)	(3,056,083)	0	3,056,083
Insurance Recoveries	0	0	9,301	9,301
Advances In	1,000	1,000	0	(1,000)
Advances Out	(1,000)	(1,000)	0	1,000
Transfers Out	(550,000)	(550,000)	(548,607)	1,393
<i>Total Other Financing Sources (Uses)</i>	<u>(3,956,398)</u>	<u>(3,579,840)</u>	<u>(530,129)</u>	<u>3,049,711</u>
<i>Net Change in Fund Balance</i>	<u>(3,462,247)</u>	<u>(3,461,348)</u>	<u>359,996</u>	<u>3,821,344</u>
<i>Fund Balance Beginning of Year</i>	<u>5,685,464</u>	<u>5,685,464</u>	<u>5,685,464</u>	<u>0</u>
Prior Year Encumbrances Appropriated	517,062	517,062	517,062	0
<i>Fund Balance End of Year</i>	<u>\$ 2,740,279</u>	<u>\$ 2,741,178</u>	<u>\$ 6,562,522</u>	<u>\$ 3,821,344</u>

See accompanying notes to the basic financial statements.

Spencerville Local School District
Allen County, Ohio
Statement of Fiduciary Net Position - Cash Basis
Fiduciary Funds
June 30, 2017

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 113,365	\$ 36,479
<i>Total Assets</i>	<u>\$ 113,365</u>	<u>\$ 36,479</u>
 Net Position		
Endowment	\$ 94,509	\$ 0
Held in Trust for Scholarships	18,856	0
Held on Behalf of Student Activities	0	36,479
<i>Total Net Position</i>	<u>\$ 113,365</u>	<u>\$ 36,479</u>

See accompanying notes to the basic financial statements.

Spencerville Local School District
Allen County, Ohio
Statement of Change in Fiduciary Net Position - Cash Basis
Private Purpose Trust
For the Fiscal Year Ended June 30, 2017

	Private Purpose Trust
	Scholarship
Additions	
Gifts and Contributions	\$ 235
Interest	930
Miscellaneous	2,725
<i>Total Additions</i>	3,890
Deductions	
Payments in Accordance with Trust Agreements	1,240
<i>Change in Net Position</i>	2,650
<i>Net Position Beginning of Year</i>	110,715
<i>Net Position End of Year</i>	\$ 113,365

See accompanying notes to the basic financial statements.

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Spencerville Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 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 in Allen, Auglaize and Van Wert Counties as authorized by state statute and/or federal guidelines.

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 Spencerville Education Foundation fund is reported as a special revenue fund.

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 six jointly governed organizations and three insurance purchasing pools. These organizations include the Northwest Ohio Area Computer Services Cooperative, the Apollo Career Center, the West Central Regional Professional Development Center, the Northwestern Ohio Educational Research Council, Inc., the Spencerville, Perry, and Bath Local Professional Development Committee, the Southwestern Ohio Educational Purchasing Council, Southwestern Ohio Educational Purchasing Council LFP, the Allen County Schools Health Benefit Plan, and Sheakley Uniservice, Inc. Workers Compensation Group Rating Plan. These organizations are presented in Notes 15 and 16 to the basic financial statements.

Spencerville Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2017
(Continued)

NOTE 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. 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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Position 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 Position presents the cash and cash equivalent 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, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2017
(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.

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 one major fund, the General Fund. Nonmajor 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.

Governmental Funds/Governmental Activities

Governmental funds are those through which all 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 only major fund is the General Fund.

General Fund – The General Fund accounts for and reports all financial resources not accounted for and reported in another fund. The General Fund balance is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Spencerville Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2017
(Continued)

The other governmental funds of the School District account for grants and other resources to which the School District is bound to observe constraints imposed upon the use of the resources.

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. The School District's private purpose trust funds include various scholarships and endowments. Agency funds are custodial in nature (assets equal net position) and do not involve measurement of results of operations. The School District's agency funds include various student-managed activities and Ohio High School Athletics Association tournaments.

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 level. Any budgetary modifications at this level may only be made by resolution of the Board of Education. During fiscal year 2017, the appropriations were approved at the fund level.

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.

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.

The Allen County Budget Commission has waived the requirement that school districts adopt and submit a tax budget. In lieu of the tax budget, school districts are required to submit the five-year forecast, the current bond estimated fund balance, and bond amortization schedules.

Spencerville Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2017
(Continued)

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.

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.

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 level. During fiscal year 2017, the appropriations were approved at the fund 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.

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.

Spencerville Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2017
(Continued)

Lapsing of Appropriations

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

E. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. 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 2017, the School District invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, Certain External Investment Pools and Pool Participants. The School District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For the fiscal year 2017, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

The School District also invests in STAR Plus, a federally insured cash account powered by the Federally Insured Cash Account (FICA) program. STAR Plus enables political subdivisions to generate a competitive yield on cash deposits in a network of carefully-selected FDIC-insured banks via a single, convenient account. STAR Plus offers attractive yields with no market or credit risk, weekly liquidity and penalty free withdrawals. All deposits with STAR Plus have full FDIC insurance with no term commitment on deposits.

Spencerville Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2017
(Continued)

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 2017 were \$60,791, which included \$2,931 assigned from other School District funds.

F. 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 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

G. Inventory and Prepaid Items

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

H. 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.

I. 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.

J. 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.

K. Equity Classifications

GOVERNMENT-WIDE STATEMENTS

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

1. Restricted net position – Consists of net position 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 position 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, 2017, there was no net position restricted by enabling legislation.
2. Unrestricted net position – All other net position that does not meet the definition of “restricted.”

Spencerville Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2017
(Continued)

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 position is available.

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:

1. Nonspendable - The nonspendable 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.
2. 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.
3. 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.
4. 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. The Board of Education has by resolution authorized the Treasurer to assign fund balance. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget.
5. 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 a disbursement 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 disbursements are incurred for purposes

Spencerville Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2017
(Continued)

for which amounts in any of the unrestricted fund balance classifications can be used.

L. 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.

M. 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 one fund to another are treated as disbursements in the reimbursing fund and a reduction in disbursements in the reimbursed fund.

N. Receipts and Disbursements

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, operating and capital grants, contributions and interest.

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

Disbursements

Governmental activities include the School District's programs and services, including instruction, support services, extracurricular activities, and food service operations.

O. Pensions

For purposes of measuring the net pension liability, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

Spencerville Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2017
(Continued)

P. Implementation of New Accounting Principles

For the fiscal year ended June 30, 2017, the School District has, to the extent it applies to the cash basis of accounting, implemented Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*, GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14* and GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*.

GASB Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The implementation of this statement did not result in any change in the School District's financial statements as the School District does not have any material GASB Statement No. 77 tax abatements.

GASB Statement No. 78 amends the scope of GASB Statement No. 68 to exclude certain multiple-employer defined benefit pension plans provided to employees of state and local governments on the basis that obtaining the measurements and other information required by GASB Statement No. 68 was not feasible. The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the School District.

GASB Statement No. 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the School District.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the School District's fiscal year 2017 financial statements; however, there was no effect on beginning net position.

NOTE 3 - 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.

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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 School 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");
6. The State Treasurer's Investment Pool (STAR Ohio);
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 STAR Ohio 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

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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.

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, 2017 the School District had \$150 in un-deposited cash on hand. This amount is included in pooled cash and cash equivalents.

At fiscal year-end, the carrying amount of the School District’s deposits was \$4,995,237, and the bank balance was \$5,165,457. Of the bank balance \$5,156,675 was covered by the Federal Deposit Insurance Corporation (FDIC), which includes \$447,057 held in a STAR Plus account. The remaining \$8,782 bank balance was uninsured but collateralized.

Investments

Investments are reported at carrying value. As of June 30, 2017, the School District had the following investment:

<u>Rating</u>	<u>Investment</u>	<u>Measurement Amount</u>	<u>Investment Maturities < 6 months</u>
AAAm	STAR Ohio	\$ 4,136,192	\$ 4,136,192

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.

STAR Ohio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted

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average of maturity of the portfolio held by STAR Ohio as of June 30, 2017, is 46 days and carries a rating of AAAM by S&P Global Ratings.

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.

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."

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 40 percent of the interim monies available for investment at any one time. All of the School District's investments are in STAR Ohio.

NOTE 4 - PROPERTY TAXES

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2017 represents collections of calendar year 2016 taxes. Real property taxes received in calendar year 2017 were levied after April 1, 2016, on the assessed value listed as of January 1, 2016, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2017 represents collections of calendar year 2016 taxes. Public utility real and tangible personal property taxes received in calendar year 2017 became a lien December 31, 2015, were levied after April 1, 2016 and are collected in 2017 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

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The School District receives property taxes from Allen, Auglaize and Van Wert Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2017, are available to finance fiscal year 2017 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2017 taxes were collected are:

	2016 Second-Half Collections		2017 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$ 129,853,850	96.7%	\$ 130,440,260	95.6%
Public Utility	4,441,010	3.3%	5,976,470	4.4%
Total Assessed Value	<u>\$ 134,294,860</u>	<u>100.0%</u>	<u>\$ 136,416,730</u>	<u>100.0%</u>
Tax Rate per \$1,000 of Assessed Valuation	\$32.57		\$32.07	

NOTE 5 - 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, 2014, 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.

NOTE 6 - 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 2017, there were four students with a total outstanding principal balance of \$2,985. The balance is expected to be collectable in full. The fund balance is reported with other Private Purpose Trust balances on the Statement of Fiduciary Net Position.

NOTE 7 - 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. As of February 2013, the School District contracted with Great American Insurance Company (through the Southwestern Ohio Educational Purchasing Council) for property and contents insurance.

Property coverage amounted to \$49,561,424. The School District has a \$5,000 deductible on this coverage. Flood and Earthquake coverage is included (\$25 million for both) by Travelers Indemnity Company.

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General liability is protected by Great American Insurance Company, (through the Southwestern Ohio Educational Purchasing Council) with \$1,000,000 limit each occurrence and \$5,000,000 aggregate limit. There is no deductible on general coverage.

Vehicles are covered by Great American Insurance Company (through the Southwestern Ohio Educational Purchasing Council) with a \$1,000 deductible. Automobile liability has a \$1,000,000 limit per occurrence. Settled claims have not exceeded this commercial coverage in any of the past three years. Replacement coverage option is included.

Directors and Officers with School Board Legal Liability and Employment Practices Liability Insurance for the School District is provided by QBE Specialty Insurance Company with a \$1,000,000 limit of liability. The School District carries a \$500,000 Employee Dishonesty Crime Bond on all employees except the Treasurer. This covers the Board of Education as well. Cyber liability coverage is through Indian Harbor Insurance Company (XL) (EPC Group) at \$1,000,000/\$5,000,000 aggregate with a \$15,000 deductible. Pollution Legal liability is carried through Ironshore Specialty Insurance Company (EPC Group) at \$1,000,000/\$5,000,000 aggregate.

The School District carries a \$5,000,000 Umbrella policy with Great American Insurance Company that is in excess of the General Liability, Auto Liability, Sexual Abuse and Molestation, Employee Benefits and Directors and Officers liability policies.

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 2017, the School District participated in the Sheakley Uniservice, Inc. Workers Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (Note 16). 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.

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, dental, vision, and life benefits. The Plan is responsible for the management and operations of the program. Upon

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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.

Note 8 - Defined Benefit Pension Plans

Net Pension Liability

Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

The net pension liability represents the School District’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the School District’s obligation for this liability to annually required payments. The School District cannot control benefit terms or the manner in which pensions are financed; however, the School District does receive the benefit of employees’ services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

Plan Description - School Employees Retirement System (SERS)

Plan Description – School District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. 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 Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

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	Eligible to Retire on or before August 1, 2017*	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

*Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first 30 years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

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 by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent. SERS did not allocate any employer contributions to the Health Care Fund for fiscal year 2017.

The School District’s contractually required contribution to SERS was \$167,904 for fiscal year 2017.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – School District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS’ fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation was 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Members are eligible to retire at age 60 with five years of qualifying service credit, or at age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until

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August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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 DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit to apply for disability 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 – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2017, plan members were required to contribute 14 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$537,440 for fiscal year 2017.

Net Pension Liability

The net pension liability was measured as of July 1, 2016, and the total pension liability used to calculate the net pension liability was determined by an independent actuarial valuation as of that date. The School District's employer allocation percentage of the net pension liability is based on the employer's share of employer contributions in the pension plan relative to the total employer contributions of all participating

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employers. Employer contributions were determined based on the 14 percent employer rate and total member contributions from employer payroll reports for the year ended June 30, 2016:

	STRS	SERS	Total
Proportionate Share of the Net Pension Liability	\$ 11,962,000	\$ 2,714,412	\$ 14,676,412
Proportion of the Net Pension Liability	0.03573625%	0.03708680%	

Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2016, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	3.00 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates, and 110 percent of female rates. Mortality among disable members were based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

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The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period ending July 1, 2010 to June 30, 2015. The discount rate, assumed rate of inflation, payroll growth assumption and assumed real wage growth were reduced in the June 30, 2016 actuarial valuation. The rates of withdrawal, retirement and disability and mortality rates were also updated to more closely reflect actual experience.

The long-term return expectation for the Pension Plan Investments has been determined by using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating an arithmetic weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
	100.00 %	

Discount Rate The total pension liability was calculated using the discount rate of 7.50 percent. A discount rate of 7.75 percent was used in the prior measurement period. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the School District's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School District's proportionate share of the net pension liability	\$ 3,593,712	\$ 2,714,412	\$ 1,978,401

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Actuarial Assumptions - STRS

The total pension liability in the July 1, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected Salary Increase	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.75 percent, net of investment expenses, including inflation
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year, for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males’ ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

STRS’ investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return*</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
	<u>100.00 %</u>	<u>7.61 %</u>

*10-year annualized geometric nominal returns, which include the real rate of return and inflation of 2.50 percent and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. A discount rate of 7.75 percent was used in the prior measurement period. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS’ fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2016.

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Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the School District's proportionate share of the net pension liability as of June 30, 2016, calculated using the current period discount rate assumption of 7.75 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$ 15,896,526	\$ 11,962,000	\$ 8,642,995

Changes Between Measurement Date and Report Date - In March 2017, the STRS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall decrease to the School District's NPL is expected to be significant.

Note 9 - Postemployment Benefits

A. School Employees Retirement System

Health Care Plan Description - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2017, SERS did not allocate any employer contributions to the Health Care fund. In addition, employers pay a surcharge for employees earning less than an actuarially determined

Spencerville Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2017
(Continued)

minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2017, this amount was \$23,500. Statutes provide 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 2017, the School District’s surcharge obligation was \$15,820.

For fiscal years 2016 and 2017, SERS did not allocate employer contributions to the Health Care fund. The School District’s contributions for health care for the fiscal year ended June 30, 2015, was \$9,088. The full amount has been contributed for fiscal year 2015.

B. State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 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. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal years 2017, 2016 and 2015, STRS did not allocate any employer contributions to post-employment health care; therefore, the School District did not contribute to health care in the last three fiscal years.

NOTE 10 - LONG-TERM OBLIGATIONS

The changes in the School District’s long-term obligations during fiscal year 2017 were as follows:

	Outstanding 06/30/2016	Additions	Reductions	Outstanding 06/30/2017	Due Within One Year
2004 School Improvement Bonds					
Capital Appreciation	\$ 151,991	\$ 0	\$ 0	\$ 151,991	\$ 0
Accretion on Capital Appreciation Bonds	409,985	64,217	0	474,202	0
2012 Various Purpose Refunding Bonds					
Serial and Term, 1.0 - 3.125%	4,155,000	0	0	4,155,000	0
Capital Appreciation	40,166	0	25,622	14,544	14,544
Accretion on Capital Appreciation Bonds	361,117	170,623	294,378	237,362	237,362
Total Long-Term Obligations	<u>\$ 5,118,259</u>	<u>\$ 234,840</u>	<u>\$ 320,000</u>	<u>\$ 5,033,099</u>	<u>\$ 251,906</u>

Various Purpose Refunding Bonds - In April 2012, the School District issued \$4,523,907 in voted general obligation bonds for the purpose of refunding a portion of the 2004 School Improvement Bonds originally issued in the aggregate principal amount of \$6,806,991 for the purpose of constructing, improving, and making additions to school buildings and related site development. The refunding bond issue consists of \$4,440,000 in serial and term bonds, and \$83,907 in capital appreciation bonds. The serial and term bonds have interest rates ranging from 1.0 to 3.125 percent. The serial and term bonds mature annually beginning December 1, 2012 and ending December 1, 2031. Capital appreciation bonds

Spencerville Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2017
(Continued)

serial and term bonds have interest rates ranging from 1.0 to 3.125 percent. The serial and term bonds mature annually beginning December 1, 2012 and ending December 1, 2031. Capital appreciation bonds in the amount of \$83,907 will accrete interest at rates from 1.75 to 2.05 percent. The capital appreciation bonds mature December 1, 2015, 2016 and 2017 in the amounts of \$315,000, \$320,000 and \$320,000, respectively. The bonds will be retired from the debt service fund.

Capital appreciation bonds are not subject to redemption prior to maturity. At June 30, 2017, the accreted value of the capital appreciation bonds was \$251,906. The interest on the capital appreciation bonds represents the accretion of the deep-discounted bonds from the initial value at the time of issuance to their value at final maturity.

The refunding bond issue provides resources to purchase US Government securities that were placed in trust with an escrow agent, for the purpose of future debt service payments of \$4,735,000 of the 2004 bond issue. The advance refunding reduced cash flows required for debt service by \$567,239 over the next 20 years and resulted in an economic gain of \$437,063. As a result, the refunded bonds are considered to be defeased and the School District no longer has liabilities associated with those bonds.

2004 School Improvement Bonds – In June, 2004, 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 bond issue included serial, term, and capital appreciation bonds in the amounts of \$695,000, \$5,960,000, and \$151,991 respectively. In April, 2012 a portion of the bonds were defeased by the issuance of various purpose refunding bonds. The remaining bonds are being retired with a voted property tax levy from the debt service fund.

The Current Interest Bonds started 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. Capital Appreciation Bonds are not subject to redemption prior to maturity. During the fiscal year 2017, the accretion for the Capital Appreciation Bonds was \$64,217 for an accreted value of \$626,193 at June 30, 2017.

Payment requirements to retire the bonds at June 30, 2017 are as follows:

Fiscal Year	2004 Issue		2012 Issue		Interest /	Total
	Capital	Term and	Capital	Serial		
Ending June 30,	Appreciation		Appreciation		Accretion	
2018	\$ 0	\$ 0	\$ 14,544		\$ 413,923	\$ 428,467
2019	56,233	50,000	0		326,733	432,966
2020	50,466	50,000	0		331,501	431,967
2021	45,292	50,000	0		335,674	430,966
2022	0	325,000	0		107,054	432,054
2023-2027	0	1,710,000	0		415,016	2,125,016
2028-2032	0	1,970,000	0		155,449	2,125,449
Total	\$ 151,991	\$ 4,155,000	\$ 14,544		\$ 2,085,350	\$ 6,406,885

Spencerville Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2017
(Continued)

NOTE 11 - OPERATING LEASES

The School District is obligated under an operating lease agreement for copiers for a period of 5 years beginning May 2016. The minimum requirement of the new lease is 2,820,000 copies in each 12 month period at \$0.00365 per black and white copy and \$0.037 per color copy, for a total of 12,600,000 copies per lease. During fiscal year 2017, \$40,109 was paid on these leases.

The School District is obligated under a 63 month operating lease agreement that began July, 2015 with Hasler Mailing Systems for a postage meter. Total lease payments to Hasler Mailing Systems (Mail Finance) during fiscal year 2017 were \$2,268.

The estimated future lease payments are as follows:

Year Ending June 30,	Copier Lease	Postage Meter
2018	\$ 37,380	\$ 2,268
2019	37,380	2,268
2020	37,380	2,268
2021	37,380	0
Totals	<u>\$ 149,520</u>	<u>\$ 6,804</u>

NOTE 12 – CONTINGENCIES

A. Grants

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are 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, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2017, if applicable, cannot be determined at this time.

B. Litigation

The School District is not party to any claims or lawsuits that would, in the School District's opinion, have a material effect of the basic financial statements.

C. School District Funding

School district Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school districts, which can extend past the fiscal year end. As of the date of this report, ODE has finalized the impact of enrollment adjustments for the June 30, 2017 Foundation funding for the School District; the adjustments are deemed immaterial.

Spencerville Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2017
(Continued)

D. Other Commitments

The School District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed or assigned classifications of fund balance. At year end, the School District's commitments for encumbrances in the governmental funds were as follows:

Fund	Amount
General	\$ 631,714
Nonmajor Governmental	840,875
	\$1,472,589

Contractual Commitments

The School District has contractual commitments at June 30, 2017 in the amount of \$586,181 for roofing repairs and replacement. Based on timing of when contracts are encumbered, contractual commitments identified above may or may not be included in the outstanding encumbrance commitments disclosed in this note.

NOTE 13 - 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 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 capital acquisition. State statute requires disclosing this information. For fiscal year ended June 30, 2017, the restricted activity was as follows:

	Capital Acquisition
Set Aside Reserve Balance June 30, 2016	\$ 0
Current Year Set Aside Requirement	174,395
Current Year Qualifying Disbursements	0
Current Year Offsets	(184,598)
Prior Year Offsets from Bond Proceeds	0
Total	\$ (10,203)
Balance Carried Forward to Fiscal Year 2018	\$ 0
Set Aside Reserve Balance June 30, 2017	\$ 0

Spencerville Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2017
(Continued)

NOTE 14 – FUND BALANCE

Fund balance is classified as nonspendable, 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 fund and all other governmental funds are presented as follows:

	<u>General</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
Restricted for:			
Capital Improvements	\$ 0	\$ 791,236	\$ 791,236
Debt Service	0	449,419	449,419
Maintenance	0	149,224	149,224
Food Service Operations	0	240,864	240,864
Instructional	0	29,954	29,954
Student Activities	0	33,703	33,703
Total Restricted	<u>0</u>	<u>1,694,400</u>	<u>1,694,400</u>
Committed to:			
Severance Payments	84,213	0	84,213
Educational Supplies	8,955	0	8,955
Total Committed	<u>93,168</u>	<u>0</u>	<u>93,168</u>
Assigned for:			
Instruction	287,328	0	287,328
Support Services	338,698	0	338,698
Extracurricular	5,627	0	5,627
Subsequent Year Appropriations	1,525,884	0	1,525,884
Total Assigned	<u>2,157,537</u>	<u>0</u>	<u>2,157,537</u>
Unassigned	<u>5,036,630</u>	<u>0</u>	<u>5,036,630</u>
Total Fund Balance	<u>\$ 7,287,335</u>	<u>\$ 1,694,400</u>	<u>\$ 8,981,735</u>

NOTE 15 - 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 4277 East Road, Elida, Ohio 45807.

Spencerville Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2017
(Continued)

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, Maria Rellinger, 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, 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., Gene Linton.

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, 2017 there was no financial information available for this committee.

Southwestern Ohio Educational Purchasing Council (SOEPC) – The SOEPC is a purchasing cooperative made up of 181 school districts in 27 counties (26 in Ohio and 1 in Kentucky). The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. Six months prior notice is necessary for withdrawal from the group.

Spencerville Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2017
(Continued)

During this time, the withdrawing member is liable for all member obligations. Payments go SOEPC are made from the general fund. During fiscal year 2017, the School District paid \$46,065 to the SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, OH 45377.

NOTE 16 – GROUP INSURANCE PURCHASING POOLS

Allen County Schools Health Benefit Plan (the Plan) - The Allen County Schools Health Benefit Plan is a jointly governed organization among ten school districts and the Allen County Educational Service Center. The purpose of the jointly governed organization was to form a voluntary employee benefit association to provide medical, dental, vision, and life 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.

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

Southwestern Ohio Educational Purchasing Council LFP (EPC-LFP) - The District participates in the Southwestern Ohio Educational Purchasing Council LFP (Program), an insurance purchasing pool consisting of fifty-one school districts. The intent of the Program is to achieve the benefit of a reduced premium for the District for its property and liability insurance by virtue of its grouping and representation with other participants in the Program.

The Program's business and affairs are conducted by an Executive Council of eleven participation school administrators. Participation in the Program is by written application subject to acceptance by the Executive Council and the payment of an annual premium. The Administrator of the program is Arthur J. Gallagher Company which coordinates the management, administration, claims management, and actuarial studies of the Program. Insurance premiums are paid to the Purchasing Council. Financial information can be obtained from EPC-LFP, 303 Corporate Center Dr, Suite 208 Vandalia, OH 45377.

NOTE 17 – 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).

Spencerville Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2017
(Continued)

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:

	<u>General Fund</u>
Cash Basis	\$ 1,030,649
Funds Budgeted Elsewhere**	(39,000)
Adjustment for Encumbrances	(631,653)
Budget Basis	\$ 359,996

** 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 to be part of the General fund on a cash basis. This includes uniform school supplies, rotary, public school support and termination benefits.

NOTE 18 – INTERFUND TRANSACTIONS

During the fiscal year, the general fund transferred an additional \$500,000 to the permanent improvement fund to provide additional resources for current operations. Interfund transfers between governmental funds are eliminated in the statement of activities.

NOTE 19 – ACCOUNTABILITY AND COMPLIANCE

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 position/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.

NOTE 20 – SUBSEQUENT EVENT

On July 20, 2017, the District approved a resolution for issuance of an energy conservation improvement bond of \$370,000.

Spencerville Local School District
Allen County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)

The discussion and analysis of the Spencerville Local School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2016 are as follows:

- In total, net position increased \$1,599,009, which represents a 26 percent increase from fiscal year 2015.
- Outstanding debt decreased from \$5,142,876 to \$5,118,259 due to principal payment made during fiscal year 2016.

Using this Annual Report

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

The *Statement of Net Position* and *Statement of Activities* provide information about the activities of the whole School District. 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 2016, the General fund is the School District's most significant fund.

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 position will be cash and cash equivalents. 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, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)
(Continued)

Reporting the School District as a Whole

Statement of Net Position 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 2016?" The statement of net position and the statement of activities answer this question.

These two statements report the School District's *net position* and *changes in the net position*. This change in net position 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 Position* and the *Statement of Activities*, governmental activities include the School District's programs and services, including instruction, support services, extracurricular activities and food service operations.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 54. 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 fund is the General fund.

Governmental Funds - All of the School District's activities are reported in governmental funds, which 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 the cash basis of accounting. 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 determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Reporting the School District's Fiduciary Responsibilities

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. The School District's fiduciary funds account for scholarships, endowments, and student activities.

Spencerville Local School District
Allen County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)
(Continued)

The School District as a Whole

Table 1 provides a summary of the School District's net position for fiscal year 2016 compared to 2015.

(Table 1)
Net Position – Cash Basis

	Governmental Activities	
	2016	2015
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 7,728,685	\$ 6,129,676
<i>Total Assets</i>	<i>\$ 7,728,685</i>	<i>\$ 6,129,676</i>
Net Position		
Restricted for:		
Capital Outlay	\$ 530,883	\$ 476,024
Debt Service	456,083	434,994
Other Purposes	486,233	585,846
Unrestricted	6,255,486	4,632,812
<i>Total Net Position</i>	<i>\$ 7,728,685</i>	<i>\$ 6,129,676</i>

Net position of the governmental activities increased \$1,599,009 which represents a 26 percent increase from fiscal year 2015. The increase is primarily due to increased state foundation funding in fiscal year 2016.

A portion of the School District's net position of \$1,473,199 or 19 percent represent resources subject to external restrictions on how they may be used. The remaining balance of the government-wide unrestricted net position of \$6,255,486 may be used to meet the School District's ongoing obligations.

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Spencerville Local School District
Allen County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)
(Continued)

Table 2 shows the changes in net position for fiscal year 2016 as compared to fiscal year 2015.

(Table 2)
Changes in Net Position – Cash Basis

	Governmental Activities	
	2016	2015
Receipts		
Program Receipts		
Charges for Services and Sales	\$ 1,053,663	\$ 942,240
Operating Grants, Contributions and Interest	988,107	1,010,812
Capital Grants, Contributions and Interest	5,142	545
<i>Total Program Receipts</i>	<u>2,046,912</u>	<u>1,953,597</u>
General Receipts		
Property Taxes	2,852,868	2,628,218
Income Taxes	1,093,347	1,083,146
Grants and Entitlements not Restricted to Specific Programs	5,868,990	5,091,173
Proceeds from Sale of Capital Assets	214	653
Insurance Recoveries	53,603	9,716
Investment Earnings	18,475	7,501
Miscellaneous	28,587	38,901
<i>Total General Receipts</i>	<u>9,916,084</u>	<u>8,859,308</u>
<i>Total Receipts</i>	<u>11,962,996</u>	<u>10,812,905</u>
Program Disbursements		
Instruction:		
Regular	3,859,098	3,694,091
Special	1,220,599	1,175,729
Vocational	91,553	80,946
Student Intervention Services	0	1,782
Other	521,045	511,710
Support Services:		
Pupils	602,177	580,529
Instructional Staff	182,772	194,770
Board of Education	50,218	54,251
Administration	602,050	563,073
Fiscal	291,291	298,533
Business	849	797
Operation and Maintenance of Plant	1,130,268	1,036,983
Pupil Transportation	493,162	635,050
Central	39,487	33,068
Operation of Non-Instructional Services:		
Food Service Operations	371,036	347,347
Community Services	9,443	0
Other	0	14,089
Extracurricular Activities	335,803	343,105
Capital Outlay	134,670	73,735
Debt Service:		
Principal Retirement	43,741	305,000
Interest and Fiscal Charges	384,725	118,495
<i>Total Program Disbursements</i>	<u>10,363,987</u>	<u>10,063,083</u>
Special Item	0	(226,546)
<i>Change in Net Position</i>	1,599,009	523,276
<i>Net Position Beginning of Year</i>	<u>6,129,676</u>	<u>5,606,400</u>
<i>Net Position End of Year</i>	<u>\$ 7,728,685</u>	<u>\$ 6,129,676</u>

Spencerville Local School District
Allen County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)
(Continued)

Grants and entitlements not restricted to specific programs increased \$777,817, primarily due to changes in state foundation funding. Capacity aid funding was introduced in fiscal year 2016. Capacity funding provides additional funding for school districts whose income generated for one mill of property tax is below the state median.

Governmental Activities

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 receipts and unrestricted State entitlements.

(Table 3)
Governmental Activities – Cash Basis

	Total Costs of Services		Net Costs of Services	
	2016	2015	2016	2015
<i>Program Disbursements</i>				
Instruction:				
Regular	\$ 3,859,098	\$ 3,694,091	\$ 3,081,186	\$ 2,987,756
Special	1,220,599	1,175,729	644,934	475,049
Vocational	91,553	80,946	81,590	60,028
Student Intervention Services	0	1,782	0	1,782
Other	521,045	511,710	521,045	486,792
Support Services:				
Pupils	602,177	580,529	602,177	580,529
Instructional Staff	182,772	194,770	61,957	189,370
Board of Education	50,218	54,251	50,218	54,251
Administration	602,050	563,073	602,050	563,073
Fiscal	291,291	298,533	291,291	297,078
Business	849	797	849	797
Operation and Maintenance of Plant	1,130,268	1,036,983	1,124,942	1,030,727
Pupil Transportation	493,162	635,050	480,012	622,355
Central	39,487	33,068	39,487	33,068
Operation of Non-Instructional Services:				
Food Service Operations	371,036	347,347	(43,286)	(22,222)
Community Services	9,443	0	(278)	0
Other	0	14,089	0	5,354
Extracurricular Activities	335,803	343,105	220,907	247,564
Capital Outlay	134,670	73,735	129,528	73,190
Debt Service:				
Principal Retirement	43,741	305,000	43,741	305,000
Interest and Fiscal Charges	384,725	118,495	384,725	117,945
<i>Total</i>	\$ 10,363,987	\$ 10,063,083	\$ 8,317,075	\$ 8,109,486

The dependence upon tax receipts and general receipt entitlements from the state for governmental activities is apparent. Program receipts only account for 20 percent of all governmental disbursements; the community is the largest area of support for the School District students.

Spencerville Local School District
Allen County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)
(Continued)

The School District's Funds

The School District's governmental funds are accounted for using the cash basis of accounting.

The School District's governmental funds reported a combined fund balance of \$7,728,685, which is higher than the prior year balance of \$6,129,676.

The general fund had total cash receipts of \$10,372,354, excluding other financing sources. The cash disbursements of the general fund totaled \$8,748,694, excluding other financial uses. The general fund's fund balance increased \$1,623,874 in 2016. In fiscal year 2016 the School District's total disbursements and transfers out decreased slightly from the prior year, while receipts increased over \$1,000,000 due to increased state foundation funding.

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.

During the course of fiscal year 2016, the School District amended its general fund budget. For the general fund, final budget basis receipts were \$9,822,749. Actual receipts of \$10,315,885 were \$493,136 higher than the final budget, as actual property taxes and intergovernmental receipts were higher than anticipated.

For fiscal year 2016, the general fund final budgeted disbursements were \$9,803,442, which is more than the original budgeted disbursements of \$9,530,129 by \$273,313. This increase was not attributable to one specific line item but a result of anticipated increases throughout. Actual disbursements of \$9,168,654 were \$634,788 lower than the final budget due to overall cost savings measures taken by the School District.

Debt Administration

The School District had the following long-term obligations outstanding at June 30, 2016 and 2015.

(Table 4)
Outstanding Debt, at June 30

	Governmental Activities	
	2016	2015
2004 School Improvement Bonds	\$ 561,976	\$ 504,345
2012 Various Purpose Refunding Bonds	4,556,283	4,638,531
<i>Total</i>	\$ 5,118,259	\$ 5,142,876

For further information regarding the School District's debt, refer to Note 10 of the basic financial statements.

Spencerville Local School District
Allen County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)
(Continued)

Current Issues

Real estate tax receipts increased slightly. The unique nature of property taxes in Ohio can create 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 District's 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 24 percent of revenues for governmental activities for the Spencerville Local School District in fiscal year 2016.

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 a period of time. 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 historically decreasing enrollment.

The Spencerville Local School District does not anticipate 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 approved budget bill at this point is not verifiable for actual figures. State foundation funding represents approximately 54 percent of the School District's general fund revenue and is very significant to the School District.

The 5-year renewable 1 percent income tax was renewed on the November 2012 ballot for another five years (through December 31, 2017 collection). 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 positive. Fiscal year 2016 income tax revenue made up 10.5 percent of general fund revenues.

All scenarios require management to plan carefully and prudently to provide the resources to meet student needs over the next several years. The State economy is still emerging from a record-making recession; the effects of the recession on the national, State and our local economy created a State deficit which required the State of Ohio to make nearly \$8 billion in reductions in the fiscal years 2013 and 2014 State biennium budget which translated into funding reductions for nearly every school district in Ohio.

Spencerville Local School District
Allen County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)
(Continued)

The School District established a special revenue fund per ORC 5705.13 for Termination Benefits in a Board action during the regular April 2002 Board of Education meeting (Action#4-02-47). This fund is used for the payment of current and future severance pay. Transfers from the general fund are made periodically to keep the fund balance in tune with probable retirements of employees who become eligible for retirement either by age or service years for both certified and classified employees. Use of this fund therefore allows the School District to plan for the cost of retirements and designates those dollars as such. The current fund balance is reported as General/committed funds with the title of "Severance Payments".

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. Continuous monitoring of staff numbers and needs to fulfill our fluctuating student numbers is challenging and will be studied carefully with adjustments as needed.

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 Diane Eutsler, Treasurer of Spencerville Local School District, 600 School Street, Spencerville, OH 45887.

Spencerville Local School District
Allen County, Ohio
Statement of Net Position - Cash Basis
June 30, 2016

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 7,728,685
<i>Total Assets</i>	<i>\$ 7,728,685</i>
Net Position	
Restricted for:	
Capital Outlay	\$ 530,883
Debt Service	456,083
Other Purposes	486,233
Unrestricted	6,255,486
<i>Total Net Position</i>	<i>\$ 7,728,685</i>

See accompanying notes to the basic financial statements.

Spencerville Local School District
Allen County, Ohio
Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2016

	Program Cash Receipts				Net (Disbursements)
	Cash Disbursements	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions and Interest	Receipts and Changes in Net Position
Governmental Activities					
Instruction:					
Regular	\$ 3,859,098	\$ 743,090	\$ 34,822	\$ 0	\$ (3,081,186)
Special	1,220,599	24,074	551,591	0	(644,934)
Vocational	91,553	0	9,963	0	(81,590)
Student Intervention Services	0	0	0	0	0
Other	521,045	0	0	0	(521,045)
Support Services:					
Pupils	602,177	0	0	0	(602,177)
Instructional Staff	182,772	0	120,815	0	(61,957)
Board of Education	50,218	0	0	0	(50,218)
Administration	602,050	0	0	0	(602,050)
Fiscal	291,291	0	0	0	(291,291)
Business	849	0	0	0	(849)
Operation and Maintenance of Plant	1,130,268	0	5,326	0	(1,124,942)
Pupil Transportation	493,162	0	13,150	0	(480,012)
Central	39,487	0	0	0	(39,487)
Operation of Non-Instructional Services:					
Food Service Operations	371,036	182,736	231,586	0	43,286
Community Services	9,443	0	9,721	0	278
Extracurricular Activities	335,803	103,763	11,133	0	(220,907)
Capital Outlay	134,670	0	0	5,142	(129,528)
Debt Service:					
Principal Retirement	43,741	0	0	0	(43,741)
Interest and Fiscal Charges	384,725	0	0	0	(384,725)
Totals	<u>\$ 10,363,987</u>	<u>\$ 1,053,663</u>	<u>\$ 988,107</u>	<u>\$ 5,142</u>	<u>(8,317,075)</u>

General Receipts

Property Taxes Levied for:	
General Purposes	2,316,214
Debt Service	397,464
Capital Outlay	104,320
Building Maintenance	34,870
Income Taxes Levied for:	
General Purposes	1,093,347
Grants and Entitlements not Restricted to Specific Programs	5,868,990
Proceeds from Sale of Capital Assets	214
Insurance Recoveries	53,603
Investment Earnings	18,475
Miscellaneous	28,587
Total General Receipts	<u>9,916,084</u>
Change in Net Position	1,599,009
Net Position Beginning of Year	<u>6,129,676</u>
Net Position End of Year	<u>\$ 7,728,685</u>

See accompanying notes to the basic financial statements.

Spencerville Local School District
Allen County, Ohio
Statement of Assets and Fund Balances - Cash Basis - Governmental Funds
June 30, 2016

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 6,256,686	\$ 1,471,999	\$ 7,728,685
<i>Total Assets</i>	<u>\$ 6,256,686</u>	<u>\$ 1,471,999</u>	<u>\$ 7,728,685</u>
Fund Balances			
Restricted	\$ 0	\$ 1,473,199	\$ 1,473,199
Committed	54,166	0	54,166
Assigned	3,461,347	0	3,461,347
Unassigned	<u>2,741,173</u>	<u>(1,200)</u>	<u>2,739,973</u>
<i>Total Fund Balances</i>	<u>\$ 6,256,686</u>	<u>\$ 1,471,999</u>	<u>\$ 7,728,685</u>

See accompanying notes to the basic financial statements.

Spencerville Local School District
Allen County, Ohio
Statement of Receipts, Disbursements and Changes
in Fund Balances - Cash Basis - Governmental Funds
For the Fiscal Year Ended June 30, 2016

	General Fund	Other Governmental Funds	Total Governmental Funds
Receipts			
Property and Other Local Taxes	\$ 2,316,214	\$ 536,654	\$ 2,852,868
Income Taxes	1,093,347	0	1,093,347
Intergovernmental	6,143,662	686,168	6,829,830
Investment Income	17,376	3,028	20,404
Tuition and Fees	766,053	0	766,053
Extracurricular Activities	1,415	102,349	103,764
Gifts and Donations	5,848	24,630	30,478
Charges for Services	312	182,736	183,048
Rent	800	0	800
Miscellaneous	27,327	1,260	28,587
<i>Total Receipts</i>	<u>10,372,354</u>	<u>1,536,825</u>	<u>11,909,179</u>
Disbursements			
Current:			
Instruction:			
Regular	3,822,398	36,700	3,859,098
Special	897,898	322,701	1,220,599
Vocational	91,553	0	91,553
Other	521,045	0	521,045
Support Services:			
Pupils	602,177	0	602,177
Instructional Staff	177,372	5,400	182,772
Board of Education	50,218	0	50,218
Administration	602,050	0	602,050
Fiscal	283,611	7,680	291,291
Business	849	0	849
Operation and Maintenance of Plant	941,158	189,110	1,130,268
Pupil Transportation	493,162	0	493,162
Central	39,487	0	39,487
Extracurricular Activities	225,657	110,146	335,803
Operation of Non-Instructional Services:			
Food Service Operations	59	370,977	371,036
Community Services	0	9,443	9,443
Capital Outlay	0	134,670	134,670
Debt Service:			
Principal Retirement	0	43,741	43,741
Interest and Fiscal Charges	0	384,725	384,725
<i>Total Disbursements</i>	<u>8,748,694</u>	<u>1,615,293</u>	<u>10,363,987</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>1,623,660</u>	<u>(78,468)</u>	<u>1,545,192</u>
Other Financing Sources (Uses)			
Proceeds from Sale of Assets	214	0	214
Insurance Recoveries	0	53,603	53,603
<i>Total Other Financing Sources (Uses)</i>	<u>214</u>	<u>53,603</u>	<u>53,817</u>
<i>Net Change in Fund Balances</i>	1,623,874	(24,865)	1,599,009
<i>Fund Balances Beginning of Year</i>	<u>4,632,812</u>	<u>1,496,864</u>	<u>6,129,676</u>
<i>Fund Balances End of Year</i>	<u>\$ 6,256,686</u>	<u>\$ 1,471,999</u>	<u>\$ 7,728,685</u>

See accompanying notes to the basic financial statements.

Spencerville Local School District
Allen County, Ohio
Statement of Receipts, Disbursements and Changes
in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Receipts				
Property and Other Local Taxes	\$ 2,159,201	\$ 2,159,201	\$ 2,316,214	\$ 157,013
Income Taxes	1,093,977	1,093,977	1,093,347	(630)
Intergovernmental	5,887,701	5,887,701	6,143,662	255,961
Investment Income	7,446	7,446	17,121	9,675
Tuition and Fees	666,977	666,977	743,345	76,368
Gifts and Donations	5,184	5,184	0	(5,184)
Rent	1,010	1,010	800	(210)
Customer Sales and Services	461	461	312	(149)
Miscellaneous	792	792	1,084	292
<i>Total Receipts</i>	<u>9,822,749</u>	<u>9,822,749</u>	<u>10,315,885</u>	<u>493,136</u>
Disbursements				
Current:				
Instruction:				
Regular	3,952,098	4,074,404	3,804,937	269,467
Special	1,015,570	1,022,784	1,003,736	19,048
Vocational	109,673	118,133	96,935	21,198
Student Intervention Services	0	4,993	5	4,988
Other	591,021	588,863	586,254	2,609
Support Services:				
Pupils	642,679	655,041	617,583	37,458
Instructional Staff	222,810	225,639	182,789	42,850
Board of Education	64,609	64,610	53,850	10,760
Administration	616,245	658,955	615,478	43,477
Fiscal	366,381	378,644	310,291	68,353
Business	879	879	849	30
Operation and Maintenance of Plant	1,055,580	1,084,124	1,043,826	40,298
Pupil Transportation	606,452	629,554	586,472	43,082
Central	36,809	47,159	43,582	3,577
Extracurricular Activities	249,323	249,660	222,067	27,593
<i>Total Disbursements</i>	<u>9,530,129</u>	<u>9,803,442</u>	<u>9,168,654</u>	<u>634,788</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>292,620</u>	<u>19,307</u>	<u>1,147,231</u>	<u>1,127,924</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Assets	659	659	214	(445)
Refund of Prior Year Disbursements	3,000	3,000	26,243	23,243
Other Financing Uses	(3,880,000)	(3,256,687)	0	3,256,687
Insurance Recoveries	7,000	7,000	0	(7,000)
Advances In	1,000	1,000	0	(1,000)
Advances Out	(1,000)	(1,000)	0	1,000
Transfers In	0	0	759	759
Transfers Out	(45,000)	(395,000)	(38,306)	356,694
<i>Total Other Financing Sources (Uses)</i>	<u>(3,914,341)</u>	<u>(3,641,028)</u>	<u>(11,090)</u>	<u>3,629,938</u>
<i>Net Change in Fund Balance</i>	<u>(3,621,721)</u>	<u>(3,621,721)</u>	<u>1,136,141</u>	<u>4,757,862</u>
<i>Fund Balance Beginning of Year</i>	<u>4,163,493</u>	<u>4,163,493</u>	<u>4,163,493</u>	<u>0</u>
Prior Year Encumbrances Appropriated	<u>385,830</u>	<u>385,830</u>	<u>385,830</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$ 927,602</u>	<u>\$ 927,602</u>	<u>\$ 5,685,464</u>	<u>\$ 4,757,862</u>

See accompanying notes to the basic financial statements.

Spencerville Local School District
Allen County, Ohio
Statement of Fiduciary Net Position - Cash Basis
Fiduciary Funds
June 30, 2016

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 110,715	\$ 37,367
<i>Total Assets</i>	\$ 110,715	\$ 37,367
 Net Position		
Endowment	\$ 94,579	\$ 0
Held in Trust for Scholarships	16,136	0
Held on Behalf of Student Activities	0	37,367
<i>Total Net Position</i>	\$ 110,715	\$ 37,367

See accompanying notes to the basic financial statements.

Spencerville Local School District
Allen County, Ohio
Statement of Change in Fiduciary Net Position - Cash Basis
Fiduciary Fund
For the Fiscal Year Ended June 30, 2016

	Private Purpose Trust
	Scholarship
Additions	
Gifts and Contributions	\$ 284
Interest	905
Miscellaneous	750
<i>Total Additions</i>	1,939
Deductions	
Payments in Accordance with Trust Agreements	149
<i>Change in Net Position</i>	1,790
<i>Net Position Beginning of Year</i>	108,925
<i>Net Position End of Year</i>	\$ 110,715

See accompanying notes to the basic financial statements.

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Spencerville Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

NOTE 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 in Allen, Auglaize and Van Wert Counties as authorized by state statute and/or federal guidelines.

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 Spencerville Education Foundation fund is reported as a special revenue fund.

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 six jointly governed organizations and three insurance purchasing pools. These organizations include the Northwest Ohio Area Computer Services Cooperative, the Apollo Career Center, the West Central Regional Professional Development Center, the Northwestern Ohio Educational Research Council, Inc., the Spencerville, Perry, and Bath Local Professional Development Committee, the Southwestern Ohio Educational Purchasing Council, Southwestern Ohio Educational Purchasing Council LFP, the Allen County Schools Health Benefit Plan, and Sheakley Uniservice, Inc. Workers Compensation Group Rating Plan. These organizations are presented in Notes 15 and 16 to the basic financial statements.

Spencerville Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2016
Continued

NOTE 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. 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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Position 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 Position presents the cash and cash equivalent 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, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2016
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.

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 one major fund, the General Fund. Nonmajor 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.

Governmental Funds/Governmental Activities

Governmental funds are those through which all 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 only major fund is the General Fund.

General Fund – The General Fund accounts for and reports all financial resources not accounted for and reported in another fund. The General Fund balance is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Spencerville Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2016
Continued

The other governmental funds of the School District account for grants and other resources to which the School District is bound to observe constraints imposed upon the use of the resources.

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. The School District's private purpose trust funds include various scholarships and endowments. Agency funds are custodial in nature (assets equal net position) and do not involve measurement of results of operations. The School District's agency funds include various student-managed activities and Ohio High School Athletics Association tournaments.

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 level. Any budgetary modifications at this level may only be made by resolution of the Board of Education. During fiscal year 2016, the appropriations were approved at the fund level.

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.

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.

The Allen County Budget Commission has waived the requirement that school districts adopt and submit a tax budget. In lieu of the tax budget, school districts are required to submit the five-year forecast, the current bond estimated fund balance, and bond amortization schedules.

Spencerville Local School District
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Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2016
Continued

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.

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.

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 level. During fiscal year 2016, the appropriations were approved at the fund 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.

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.

Spencerville Local School District
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Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2016
Continued

Lapsing of Appropriations

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

E. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. 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 2016, the School District invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, Certain External Investment Pools and Pool Participants. The School District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For the fiscal year 2016, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

The School District also invests in STAR Plus, a federally insured cash account powered by the Federally Insured Cash Account (FICA) program. STAR Plus enables political subdivisions to generate a competitive yield on cash deposits in a network of carefully-selected FDIC-insured banks via a single, convenient account. STAR Plus offers attractive yields with no market or credit risk, weekly liquidity and penalty free withdrawals. All deposits with STAR Plus have full FDIC insurance with no term commitment on deposits.

Spencerville Local School District
Allen County, Ohio
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For the Fiscal Year Ended June 30, 2016
Continued

F. 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 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

G. Inventory and Prepaid Items

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

H. 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.

I. 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.

J. 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.

K. Equity Classifications

GOVERNMENT-WIDE STATEMENTS

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

1. Restricted net position – Consists of net position 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 position 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, 2016, there was no net position restricted by enabling legislation.
2. Unrestricted net position – All other net position that does 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 position is available.

Spencerville Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2016
Continued

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. Nonspendable - The nonspendable 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.
- 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. The Board of Education has by resolution authorized the Treasurer to assign fund balance. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget.
- 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 a disbursement 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 disbursements are incurred for purposes for which amounts in any of the unrestricted fund balance classifications can be used.

Spencerville Local School District
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For the Fiscal Year Ended June 30, 2016
Continued

L. 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.

M. 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 one fund to another are treated as disbursements in the reimbursing fund and a reduction in disbursements in the reimbursed fund.

N. Receipts and Disbursements

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, operating and capital grants, contributions and interest.

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

Disbursements

Governmental activities include the School District's programs and services, including instruction, support services, extracurricular activities, and food service operations.

O. Pensions

For purposes of measuring the net pension liability, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

P. Implementation of New Accounting Principles

For the fiscal year ended June 30, 2016, the School District has (to the extent it applies to the cash basis of accounting) implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, GASB

Spencerville Local School District
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For the Fiscal Year Ended June 30, 2016
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Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*.

GASB Statement No. 72 clarifies the definition of fair value for financial reporting purposes, establishes general principles for measuring fair value, provides additional fair value application guidance, and enhances disclosures about fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the School District.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also clarifies the application of certain provisions of GASB Statements 67 and 68. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the School District.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the School District.

GASB Statement No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the School District.

NOTE 3 - 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:

Spencerville Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2016
Continued

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 School 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");
6. The State Treasurer's Investment Pool (STAR Ohio and STAR Plus);
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 STAR Ohio 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.

Spencerville Local School District
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For the Fiscal Year Ended June 30, 2016
Continued

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, 2016 the School District had \$150 in un-deposited cash on hand. This amount is included in pooled cash and cash equivalents.

At fiscal year-end, the carrying amount of the School District's deposits was \$4,544,888, and the bank balance was \$4,771,838. Of the bank balance \$4,679,853 was covered by the Federal Deposit Insurance Corporation (FDIC), which includes \$1,440,910 held in a STAR Plus account. The remaining \$91,985 bank balance was uninsured but collateralized.

Investments

Investments are reported at carrying value. As of June 30, 2016, the School District had the following investment:

	Carrying Value	Investment Maturities < 6 months
STAR Ohio	\$ 3,331,729	\$ 3,331,729

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.

Spencerville Local School District
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Continued

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."

Credit Risk

The School District has no investment policy dealing with credit risk beyond the requirements in state statutes. STAR Ohio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAR Ohio as of June 30, 2016, is 49 days and carries a credit rating of AAAM by Standard and Poor's.

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 40 percent of the interim monies available for investment at any one time. All of the School District's investments are in STAR Ohio.

NOTE 4 - PROPERTY TAXES

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2016 represents collections of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed value listed as of January 1, 2015, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2016 represents collections of calendar year 2015 taxes. Public utility real and tangible personal property taxes received in calendar year 2016 became a lien December 31, 2014, were levied after April 1, 2015 and are collected in 2016 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Spencerville Local School District
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For the Fiscal Year Ended June 30, 2016
Continued

The School District receives property taxes from Allen, Auglaize and Van Wert Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2016, are available to finance fiscal year 2016 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2016 taxes were collected are:

	2015 Second-Half Collections		2016 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$ 119,279,880	96.9%	\$ 129,853,850	96.7%
Public Utility	3,828,860	3.1%	4,441,010	3.3%
Total Assessed Value	<u>\$ 123,108,740</u>	<u>100.0%</u>	<u>\$ 134,294,860</u>	<u>100.0%</u>
Tax Rate per \$1,000 of Assessed Valuation	\$32.57		\$32.57	

NOTE 5 - 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, 2014, 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.

NOTE 6 - 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 2016, there were seven students with a total outstanding principal balance of \$5,710. Of the balance, \$1,710 represents the portion that is collectable. The remaining \$4,000 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 Position.

NOTE 7 - 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. As of February 2013, the School District contracted with Great American Insurance Company (through the Southwestern Ohio Educational Purchasing Council) for property and contents insurance.

Property coverage amounted to \$46,876,462. The School District has a \$5,000 deductible on this coverage. Flood and Earthquake coverage is included (\$20 and \$25 million respectively) by Travelers Indemnity Company.

Spencerville Local School District
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Notes To The Basic Financial Statements
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Continued

General liability is protected by Great American Insurance Company, (through the Southwestern Ohio Educational Purchasing Council) with \$1,000,000 limit each occurrence and \$3,000,000 aggregate limit. There is no deductible on general coverage.

Vehicles are covered by Great American Insurance Company (through the Southwestern Ohio Educational Purchasing Council) with a \$1,000 deductible. Automobile liability has a \$1,000,000 limit per occurrence. Settled claims have not exceeded this commercial coverage in any of the past three years. Replacement coverage option is included.

Directors and Officers with Employment Practices Liability Insurance for the School District is provided by RSUI Indemnity Company with a \$1,000,000 limit of liability. The School District carries a \$500,000 Employee Dishonesty Crime Bond on all employees except the Treasurer. This covers the Board of Education as well. Cyber liability coverage is through XL Insurance Company (EPC Group) at \$1,000,000/\$5,000,000 aggregate with a \$15,000 deductible. Pollution Legal liability is carried through Ironshore Specialty Insurance Company (EPC Group) at \$1,000,000/\$5,000,000 aggregate.

The School District carries a \$5,000,000 Umbrella policy with Lexington Insurance Company that is in excess of the General Liability, Auto Liability and Directors and Officers liability policies.

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 2016, the School District participated in the Sheakley Uniservice, Inc. Workers Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (Note 16). 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.

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, dental, vision, and life 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.

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NOTE 8 – DEFINED BENEFIT PENSION PLANS

Net Pension Liability

Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

The net pension liability represents the School District’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the School District’s obligation for this liability to annually required payments. The School District cannot control benefit terms or the manner in which pensions are financed; however, the School District does receive the benefit of employees’ services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

Plan Description - School Employees Retirement System (SERS)

Plan Description – School District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. 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 Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017*	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

*Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

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Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

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 by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. SERS did not allocate any employer contributions to the Health Care Fund for fiscal year 2016.

The School District's contractually required contribution to SERS was \$162,666 for fiscal year 2016.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – School District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation was 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five year of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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.

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The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability 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 – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$531,784 for fiscal year 2016.

Net Pension Liability

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	STRS	SERS	Total
Proportionate Share of the Net Pension Liability	\$ 9,952,484	\$ 2,183,170	\$ 12,135,654
Proportion of the Net Pension Liability	0.03601135%	0.03826030%	

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Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3.00 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

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Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
	100.00 %	

Discount Rate The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$ 3,027,272	\$ 2,183,170	\$ 1,472,366

In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in the discount rate from 7.75 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the School District's net pension liability is expected to be significant.

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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Inflation	2.75 percent
Projected salary increase	2.75 percent at 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2.00 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year, for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males’ ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS’ investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
	<u>100.00 %</u>	

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS’ fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

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Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the School District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$ 13,824,751	\$ 9,952,484	\$ 6,677,905

NOTE 9: POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Health Care Plan Description - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, SERS did not allocate any employer contributions to the Health Care fund. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide 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.

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The School District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2016, 2015, and 2014 were \$15,820, \$38,222 and \$15,274, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

B. State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 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. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2016, STRS did not allocate any employer contributions to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$36,815, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

NOTE 10 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2016 were as follows:

	<u>Outstanding</u> <u>06/30/2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding</u> <u>06/30/2016</u>	<u>Due Within</u> <u>One Year</u>
2004 School Improvement Bonds					
Capital Appreciation	\$ 151,991	\$ 0	\$ 0	\$ 151,991	\$ 0
Accretion on Capital Appreciation Bonds	352,354	57,631	0	409,985	0
2012 Various Purpose Refunding Bonds					
Serial and Term, 1.0 - 3.125%	4,155,000	0	0	4,155,000	0
Capital Appreciation	83,907	0	43,741	40,166	25,622
Accretion on Capital Appreciation Bonds	399,624	232,752	271,259	361,117	230,298
Total Long-Term Obligations	<u>\$ 5,142,876</u>	<u>\$ 290,383</u>	<u>\$ 315,000</u>	<u>\$ 5,118,259</u>	<u>\$ 255,920</u>

Various Purpose Refunding Bonds - In April 2012, the School District issued \$4,523,907 in voted general obligation bonds for the purpose of refunding a portion of the 2004 School Improvement Bonds originally issued in the aggregate principal amount of \$6,806,991 for the purpose of constructing, improving, and making additions to school buildings and related site development. The refunding bond issue consists of \$4,440,000 in serial and term bonds, and \$83,907 in capital appreciation bonds. The serial and term bonds have interest rates ranging from 1.0 to 3.125 percent. The serial and term bonds mature annually beginning December 1, 2012 and ending December 1, 2031. Capital appreciation bonds in the amount of \$83,907 will accrete interest at rates from 1.75 to 2.05 percent. The capital appreciation bonds mature December 1, 2015, 2016 and 2017 in the amounts of \$315,000, \$320,000 and \$315,000, respectively. The bonds will be retired from the debt service fund.

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Capital appreciation bonds are not subject to redemption prior to maturity. At June 30, 2016, the accreted value of the capital appreciation bonds was \$401,283. The interest on the capital appreciation bonds represents the accretion of the deep-discounted bonds from the initial value at the time of issuance to their value at final maturity.

The refunding bond issue provides resources to purchase US Government securities that were placed in trust with an escrow agent, for the purpose of future debt service payments of \$4,735,000 of the 2004 bond issue. The advance refunding reduced cash flows required for debt service by \$567,239 over the next 20 years and resulted in an economic gain of \$437,063. As a result, the refunded bonds are considered to be defeased and the School District no longer has liabilities associated with those bonds.

2004 School Improvement Bonds – In June, 2004, 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 bond issue included serial, term, and capital appreciation bonds in the amounts of \$695,000, \$5,960,000, and \$151,991 respectively. In April, 2012 a portion of the bonds were defeased by the issuance of various purpose refunding bonds. The remaining bonds are being retired with a voted property tax levy from the debt service fund.

The Current Interest Bonds started 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. Capital Appreciation Bonds are not subject to redemption prior to maturity. During the fiscal year 2016, the accretion for the Capital Appreciation Bonds was \$57,631 for an accreted value of \$561,976 at June 30, 2016.

Payment requirements to retire the bonds at June 30, 2016 are as follows:

Fiscal Year	2004 Issue		2012 Issue		Interest /	Total
	Capital	Term and	Capital	Interest /		
Ending June 30,	Appreciation	Serial	Appreciation	Accretion		
2017	\$ 0	\$ 0	\$ 25,622	\$ 407,844	\$ 433,466	
2018	0	0	14,544	413,923	428,467	
2019	56,233	50,000		326,733	432,966	
2020	50,466	50,000	0	331,500	431,966	
2021	45,292	50,000	0	335,674	430,966	
2022-2026	0	1,675,000	0	457,269	2,132,269	
2027-2031	0	1,910,000	0	213,688	2,123,688	
2032	0	420,000	0	6,563	426,563	
Total	\$ 151,991	\$ 4,155,000	\$ 40,166	\$ 2,493,194	\$ 6,840,351	

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NOTE 11 - OPERATING LEASES

The School District is obligated under an operating lease agreement for copiers for a period of 5 years beginning February 2012. The minimum requirement of the new lease is 2,520,000 copies in each 12 month period at \$0.0119 per black and white copy and \$0.045 per color copy, for a total of 12,600,000 copies per lease. During fiscal year 2016, \$28,806 was paid on these leases. The lease was terminated early and replaced with a new lease discussed below.

The School District is obligated under an operating lease agreement for copiers for a period of 5 years beginning May 2016. The minimum requirement of the new lease is 2,820,000 copies in each 12 month period at \$0.00365 per black and white copy and \$0.037 per color copy, for a total of 12,600,000 copies per lease. During fiscal year 2016, \$8,705 was paid on these leases.

The School District is obligated under a 63 month operating lease agreement that began July, 2015 with Hasler Mailing Systems for a postage meter. Total lease payments to Hasler Mailing Systems (Mail Finance) during fiscal year 2016 were \$2,268.

The estimated future lease payments are as follows:

Year Ending June 30,	Copier Lease	Postage Meter
2017	\$ 37,380	\$ 2,268
2018	37,380	2,268
2019	37,380	2,268
2020	37,380	2,268
2021	37,380	0
Totals	<u>\$ 186,900</u>	<u>\$ 9,072</u>

NOTE 12 – CONTINGENCIES

A. Grants

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are 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, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2016, if applicable, cannot be determined at this time.

B. Litigation

The School District is not party to any claims or lawsuits that would, in the School District's opinion, have a material effect of the basic financial statements.

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C. School District Funding

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school districts, which can extend past the fiscal year end. As of the date of this report, ODE has finalized the impact of enrollment adjustments to the June 30, 2015 or June 30, 2016 Foundation funding for the School District; these adjustments were deemed immaterial.

D. Other Commitments

The School District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed or assigned classifications of fund balance. At year end, the School District's commitments for encumbrances in the governmental funds were as follows:

<u>Fund</u>	<u>Amount</u>
General	\$ 517,342
Nonmajor Governmental	<u>246,128</u>
	<u><u>\$ 763,470</u></u>

NOTE 13 - 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 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 capital acquisition. State statute requires disclosing this information. For fiscal year ended June 30, 2016, the restricted activity was as follows:

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	Capital Acquisition
Set Aside Reserve Balance June 30, 2015	\$ 0
Current Year Set Aside Requirement	169,217
Current Year Qualifying Disbursements	0
Current Year Offsets	(169,217)
Prior Year Offsets from Bond Proceeds	0
Total	\$ (0)
Balance Carried Forward to Fiscal Year 2017	\$ 0
Set Aside Reserve Balance June 30, 2016	\$ 0

NOTE 14 – FUND BALANCE

Fund balance is classified as nonspendable, 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 fund and all other governmental funds are presented below:

	General	Other Governmental	Total Governmental
Restricted for:			
Capital Improvements	\$ 0	\$ 530,883	\$ 530,883
Debt Service	0	456,083	456,083
Maintenance	0	193,335	193,335
Food Service Operations	0	222,907	222,907
Instructional	0	26,956	26,956
Student Activities	0	43,035	43,035
Total Restricted	0	1,473,199	1,473,199
Committed to:			
Severance Payments	46,448	0	46,448
Educational Supplies	7,718	0	7,718
Total Committed	54,166	0	54,166
Assigned for:			
Instruction	235,588	0	235,588
Support Services	280,801	0	280,801
Extracurricular	674	0	674
Subsequent Year Appropriations	2,944,284	0	2,944,284
Total Assigned	3,461,347	0	3,461,347
Unassigned	2,741,173	(1,200)	2,739,973
Total Fund Balance	\$ 6,256,686	\$ 1,471,999	\$ 7,728,685

Spencerville Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2016
Continued

NOTE 15 - 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 4277 East Road, Elida, Ohio 45807.

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, Maria Rellinger, 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, 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., Gene Linton.

Spencerville Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2016
Continued

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, 2016 there was no financial information available for this committee.

Southwestern Ohio Educational Purchasing Council (SOEPC) – The SOEPC is a purchasing cooperative made up of 157 school districts in 24 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. Six months prior notice is necessary for withdrawal from the group.

During this time, the withdrawing member is liable for all member obligations. Payments go SOEPC are made from the general fund. During fiscal year 2016, the School District paid \$49,411 to the SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, OH 45377.

NOTE 16 – GROUP INSURANCE PURCHASING POOLS

Allen County Schools Health Benefit Plan (the Plan) - The Allen County Schools Health Benefit Plan is a jointly governed organization among ten school districts and the Allen County Educational Service Center. The purpose of the jointly governed organization was to form a voluntary employee benefit association to provide medical, dental, vision, and life 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.

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

Southwestern Ohio Educational Purchasing Council LFP (EPC-LFP) - The District participates in the Southwestern Ohio Educational Purchasing Council LFP (Program), an insurance purchasing pool consisting of fifty-one school districts. The intent of the Program is to achieve the benefit of a reduced premium for the District for its property and liability insurance by virtue of its grouping and representation with other participants in the Program.

Spencerville Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2016
Continued

The Program’s business and affairs are conducted by an Executive Council of nine participation school administrators. Participation in the Program is by written application subject to acceptance by the Executive Council and the payment of an annual premium. The Administrator of the program is Public Entity Marsh which coordinates the management, administration, claims management, and actuarial studies of the Program. Insurance premiums are paid to the Purchasing Council. Financial information can be obtained from EPC-LFP, 303 Corporate Center Dr, Suite 208 Vandalia, OH 45377

NOTE 17 – 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:

	<u>General Fund</u>
Cash Basis	\$ 1,623,874
Funds Budgeted Elsewhere**	29,329
Adjustment for Encumbrances	(517,062)
Budget Basis	\$ 1,136,141

** 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 to be part of the General fund on a cash basis. This includes uniform school supplies, rotary, public school support and termination benefits.

NOTE 18 – ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At June 30, 2016, the miscellaneous federal grants fund had a deficit balance in the amount of \$1,200. This deficit fund balance was created at June 30, 2016, as a result of the timing of grant disbursements. The School District submitted a project cash request with the Ohio Department of Education for this grant prior to fiscal year end, however, it was not received by June 30, 2016.

Spencerville Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2016
Continued

B. 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 position/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.

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S 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 in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Spencerville Local School District, Allen County, (the School District) as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated June 22, 2018, wherein we noted the School District uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the School District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the School District's internal control. Accordingly, we have not opined on it.

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 a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

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, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2017-001.

School District's Response to Findings

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

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the School District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School District's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

June 22, 2018

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2017 AND 2016**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2017-001

Noncompliance Citation

Ohio Rev. Code § 117.38 provides, in part, that each public office, other than a state agency, 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 § 117-2-03(B) further clarifies the requirements of Ohio Rev. Code § 117.38.

Ohio Admin. Code § 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 for fiscal year 2017 and 2016 in accordance with the cash accounting basis. The accompanying financial statements omit assets, liabilities, deferred inflows/outflows, fund equities and disclosures that, while presumably material, cannot be determined at this time. Pursuant to Ohio Rev. Code § 117.38, the School District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

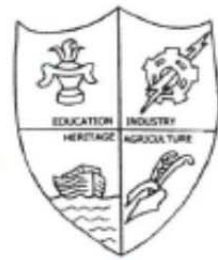
The School District did not file GAAP statements in fiscal year 2017 and 2016.

The School District should prepare its annual financial statements in accordance with GAAP to include assets, liabilities, deferred inflows/outflows, equity and the disclosures required to accurately and completely present the School District's financial condition.

Official's Response:

The Spencerville Board of Education passed Action #2-15-6 when a 3 year agreement was signed with REA & Associates for accounting services of FY15, FY16 and FY17. The action stated: "It is the Boards' understanding that by reporting in the cash basis format and an issuing the school's financial statements in the format required by GASB 34, the audit will result in an unmodified opinion and probably will have a penalty for not reporting under GAAP." This district has been through issuance of bonds, credit rating reevaluations, refinance of bonds and the normal every-day school district business. Therefore it is noted that GAAP reporting is not a necessity for a successful completion of these intricate business transactions and therefore the time and cost of GAAP reporting is deemed too expensive.

SPENCERVILLE SCHOOLS



K-12 Building
2500 Wisher Drive
Spencerville, OH 45887

Administrative Office
600 School Street
Spencerville, OH 45887

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS JUNE 30, 2017 AND 2016

Finding Number	Finding Summary	Status	Additional Information
2015-001	Ohio Rev. Code Section 117.38 and Ohio Admin. Code Section – failure to file GAAP financial statements	No	Not Corrected – Repeated as Finding 2017-001

Administration Building
(419) 647-4111

High School
(419) 647-4111

Middle School
(419) 647-4112

Elementary School
(419) 647-4113

Administration Fax
(419) 647-6498

K-12 Fax
(419) 647-5124



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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
JULY 5, 2018