



**Auditor of State
Betty Montgomery**

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Spencerville Local School District, Allen County, (the School District), as of and for the year ended June 30, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Spencerville Local School District, Allen County, as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2003 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

Betty Montgomery
Auditor of State

February 26, 2003

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**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2002**

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
ASSETS AND OTHER DEBITS			
Cash	\$2,790,318	\$299,761	\$2,266,381
Investments			
Receivables:			
Taxes	2,246,518		105,403
Accounts	1,263	95	
Intergovernmental	1,080	13,062	
Interfund Receivable	12,869		
Notes Receivable			
Prepaid Items	9,433		
Inventory	5,022		
Fixed Assets (Net, where applicable, of Accumulated Depreciation)			
Amount to be Provided for Retirement of General Long-Term Debt			
	<u>5,066,503</u>	<u>312,918</u>	<u>2,371,784</u>
LIABILITIES, FUND EQUITY AND OTHER CREDITS			
Liabilities:			
Accounts Payable	35,277	210	
Accrued Salaries and Benefits	614,111	30,147	2
Due to Students			
Intergovernmental Payable	82,795	3,608	95
Compensated Absences Payable	6,712	51,733	
Deferred Revenue	1,831,739	10,343	103,531
Interfund Payable			345
Notes Payable			
	<u>2,570,634</u>	<u>96,041</u>	<u>103,973</u>
Total Liabilities			
Fund Equity and Other Credits:			
Investment in General Fixed Assets			
Retained Earnings			
Fund Balance:			
Reserved for Encumbrances	259,542	16,689	66,024
Reserve for Inventory	5,022		
Reserved for Prepaid Items	9,433		
Reserved for Taxes	130,623		1,872
Reserve for Notes Receivable			
Reserved for Trusts			
Unreserved Fund Balance	2,091,249	200,188	2,199,915
	<u>2,495,869</u>	<u>216,877</u>	<u>2,267,811</u>
Total Fund Equity and Other Credits			
Total Liabilities, Fund Equity and Other Credits	<u>\$5,066,503</u>	<u>\$312,918</u>	<u>\$2,371,784</u>

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

Proprietary Fund Types	Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Trust and Agency			
\$17,729	\$82,386 50,484			\$5,456,575 50,484
				2,351,921
12,349				13,707
18,720				32,862
				12,869
	4,625			4,625
				9,433
6,072				11,094
39,618		3,818,258		3,857,876
			830,392	830,392
<u>94,488</u>	<u>137,495</u>	<u>3,818,258</u>	<u>830,392</u>	<u>12,631,838</u>
				\$35,487
19,310				663,570
	32,160			32,160
24,052			41,847	152,397
13,047			448,369	519,861
4,001				1,949,614
12,524				12,869
			340,176	340,176
<u>72,934</u>	<u>32,160</u>		<u>830,392</u>	<u>3,706,134</u>
		3,818,258		3,818,258
21,554				21,554
				342,255
				5,022
				9,433
				132,495
	4,625			4,625
	93,068			93,068
	7,642			4,498,994
<u>21,554</u>	<u>105,335</u>	<u>3,818,258</u>		<u>8,925,704</u>
<u>\$94,488</u>	<u>\$137,495</u>	<u>\$3,818,258</u>	<u>\$830,392</u>	<u>\$12,631,838</u>

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND SIMILAR FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<u>Governmental Fund Types</u>			<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	
Revenues:					
Taxes	\$2,375,571		\$101,219		\$2,476,790
Tuition and Fees	6,853				6,853
Intergovernmental	4,200,938	270,327	106,568		4,577,833
Interest	90,414	3,893	65,900		160,207
Extracurricular Activities		99,910			99,910
Gifts and Donations		40,007		1,698	41,705
Customer Services	1,308				1,308
Miscellaneous	12,880			2,850	15,730
Total Revenues	6,687,964	414,137	273,687	4,548	7,380,336
Expenditures:					
Current:					
Instruction:					
Regular	3,102,329	49,401	50,852		3,202,582
Special	179,181	236,206			415,387
Vocational	48,687				48,687
Adult/Continuing	1,982				1,982
Other	245,722				245,722
Support Services:					
Pupils	309,615	57,258	23,100		389,973
Instruction	177,909	21,358	2,951		202,218
Board of Education	20,753				20,753
Administration	564,137	16,223			580,360
Fiscal	227,021		1,997		229,018
Business	54				54
Operation and Maintenance	576,423	1,500			577,923
Transportation	468,613	8,766			477,379
Central Services		3,409			3,409
Non-Instructional Services	696	10,984		3,700	15,380
Extracurricular Activities	143,393	122,159			265,552
Capital Outlay	9,862		719		10,581
Debt Service:					
Principal	30,925				30,925
Interest	16,537				16,537
Total Expenditures	6,123,839	527,264	79,619	3,700	6,734,422
Excess (Deficiency) of Revenues Over (Under) Expenditures	564,125	(113,127)	194,068	848	645,914
Other Financing Sources (Uses):					
Operating Transfers In	62,972	184,435	4,374		251,781
Proceeds from Sale of Fixed Assets	5,603	80			5,683
Operating Transfers Out	(247,963)		(3,818)		(251,781)
Other	354				354
Total Other Financing Sources (Uses)	(179,034)	184,515	556		6,037
Excess of Revenues and Other Sources Over Expenditures and Other Uses	385,091	71,388	194,624	848	651,951
Fund Balances at Beginning of Year	2,110,778	145,489	2,073,187	11,419	4,340,873
Fund Balances at End of Year	<u>\$2,495,869</u>	<u>\$216,877</u>	<u>\$2,267,811</u>	<u>\$12,267</u>	<u>\$4,992,824</u>

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

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**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL
ALL GOVERNMENTAL FUND TYPES AND SIMILAR FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	Governmental Fund Types					
	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Taxes	\$2,441,643	\$2,396,038	(\$45,605)			
Tuition and Fees	8,000	6,850	(1,150)			
Intergovernmental	4,038,929	4,203,509	164,580	278,500	267,608	(10,892)
Interest	192,583	90,414	(102,169)	5,221	3,893	(1,328)
Extracurricular Activities				95,011	100,793	5,782
Gifts and Donations	500		(500)	37,973	39,912	1,939
Customer Services	500	407	(93)			
Miscellaneous	4,000	12,718	8,718			
Total Revenues	<u>6,686,155</u>	<u>6,709,936</u>	<u>23,781</u>	<u>416,705</u>	<u>412,206</u>	<u>(4,499)</u>
Expenditures:						
Current:						
Instruction:						
Regular	3,356,862	3,126,089	230,773	115,251	32,780	82,471
Special	187,943	177,525	10,418	271,358	238,058	33,300
Vocational	86,175	54,465	31,710			
Adult/Continuing	3,137	2,005	1,132			
Other	390,327	390,238	89			
Support Services:						
Pupils	349,038	320,811	28,227	91,757	51,452	40,305
Instruction	216,175	192,782	23,393	30,228	10,758	19,470
Board of Education	44,227	25,590	18,637			
Administration	619,651	584,367	35,284	17,676	11,489	6,187
Fiscal	275,767	236,908	38,859			
Business	186	54	132			
Operation and Maintenance	690,246	632,200	58,046	1,562	1,562	
Transportation	561,410	535,187	26,223	4,459		4,459
Central Services				10,624	3,452	7,172
Non-Instructional Services	696	696		18,027	8,069	9,958
Extracurricular Activities	153,047	143,580	9,467	145,097	134,435	10,662
Capital Outlay	9,863	9,863				
Debt Service						
Debt Service - Principal	30,925	30,925				
Debt Service - Interest	16,537	16,537				
Total Expenditures	<u>6,992,212</u>	<u>6,479,822</u>	<u>512,390</u>	<u>706,039</u>	<u>492,055</u>	<u>213,984</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(306,057)</u>	<u>230,114</u>	<u>536,171</u>	<u>(289,334)</u>	<u>(79,849)</u>	<u>209,485</u>
Other Financing Sources (Uses):						
Operating Transfers In	10,222	62,972	52,750	184,435	184,435	
Proceeds from Sale of Fixed Assets	1,000	5,603	4,603	1,000	80	(920)
Advances In	50,000		(50,000)			
Refund of Prior Year Expenditures	2,000	2,711	711	1,000	757	(243)
Other Financing Sources	400	484	84			
Operating Transfers Out	(247,963)	(247,963)				
Refund of Prior Year Receipts	(2,530)	(2,050)	480			
Advances Out	(36,754)	(12,869)	23,885			
Other Financing Uses	(1,007,224)		1,007,224			
Total Other Financing Sources (Uses)	<u>(1,230,849)</u>	<u>(191,112)</u>	<u>1,039,737</u>	<u>186,435</u>	<u>185,272</u>	<u>(1,163)</u>
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(1,536,906)</u>	<u>39,002</u>	<u>1,575,908</u>	<u>(102,899)</u>	<u>105,423</u>	<u>208,322</u>
Fund Balances (Deficit) at Beginning of Year	2,173,604	2,173,604		161,461	161,461	
Prior Year Encumbrances Appropriated	198,656	198,656		15,978	15,978	
Fund Balances (Deficit) at End of Year	<u>\$835,354</u>	<u>\$2,411,262</u>	<u>\$1,575,908</u>	<u>\$74,540</u>	<u>\$282,862</u>	<u>\$208,322</u>

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

Governmental Fund Types Capital Projects Funds			Fiduciary Fund Types Expendable Trust Funds		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$103,000	\$102,484	(\$516)			
125,380	146,246	20,866			
73,700	65,900	(7,800)			
			700	1,698	998
			2,991	1,425	(1,566)
<u>302,080</u>	<u>314,630</u>	<u>12,550</u>	<u>3,691</u>	<u>3,123</u>	<u>(568)</u>
119,630	94,453	25,177			
1,428	1,428				
23,100	23,100				
2,890	2,886	4			
3,000	1,997	1,003			
			11,000	3,700	7,300
392,182	22,248	369,934			
<u>542,230</u>	<u>146,112</u>	<u>396,118</u>	<u>11,000</u>	<u>3,700</u>	<u>7,300</u>
<u>(240,150)</u>	<u>168,518</u>	<u>408,668</u>	<u>(7,309)</u>	<u>(577)</u>	<u>6,732</u>
556	4,374	3,818			
200,345	200,345				
(3,818)	(3,818)				
(200,000)	(200,000)				
<u>(2,917)</u>	<u>901</u>	<u>3,818</u>			
(243,067)	169,419	412,486	(7,309)	(577)	6,732
1,984,955	1,984,955		6,719	6,719	
45,982	45,982		1,500	1,500	
<u>\$1,787,870</u>	<u>\$2,200,356</u>	<u>\$412,486</u>	<u>\$910</u>	<u>\$7,642</u>	<u>\$6,732</u>

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS/FUND BALANCES
ALL PROPRIETARY FUND TYPES AND SIMILAR FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Nonexpendable Trust</u>	
Operating Revenues:				
Sales	\$257,952	\$742		\$258,694
Charges for Services	69			69
Interest			2,519	2,519
Proceeds from sale of Fixed Assets	321			321
Tuition	709			709
	<hr/>	<hr/>	<hr/>	<hr/>
Total Operating Revenue	259,051	742	2,519	262,312
Operating Expenses:				
Salaries	115,725			115,725
Fringe Benefits	59,196			59,196
Purchased Services	10,273			10,273
Materials and Supplies	172,972	742		173,714
Depreciation	256			256
Miscellaneous	1,801		3,000	4,801
Capital Outlay	2,558			2,558
	<hr/>	<hr/>	<hr/>	<hr/>
Total Operating Expenses	362,781	742	3,000	366,523
Operating (Loss)	<hr/> (103,730)	<hr/>	<hr/> (481)	<hr/> (104,211)
Non-Operating Revenues:				
Interest	292			292
Operating Grants	79,769			79,769
Federal Donated Commodities	20,853			20,853
	<hr/>	<hr/>	<hr/>	<hr/>
Total Non-Operating Revenues	100,914			100,914
Net (Loss)	<hr/> (2,816)		<hr/> (481)	<hr/> (3,297)
Retained Earnings/Fund Balance at Beginning of Year	<hr/> 24,370		<hr/> 93,549	<hr/> 117,919
Retained Earnings/Fund Balance at End of Year	<hr/> <u>\$21,554</u>	<hr/> <u>\$0</u>	<hr/> <u>\$93,068</u>	<hr/> <u>\$114,622</u>

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

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**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND EQUITY - BUDGET (NON-GAAP BASIS) AND ACTUAL
ALL PROPRIETARY FUND TYPES AND SIMILAR FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<u>Proprietary Fund Types</u>		
	<u>Enterprise Funds</u>		
	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Sales	\$269,791	\$258,669	(\$11,122)
Charges for Services	100	69	(31)
Federal and State Subsidies	69,000	76,466	7,466
Interest	1,800	292	(1,508)
Proceeds from Sale of Fixed Assets		321	321
Total Revenues	<u>340,691</u>	<u>335,817</u>	<u>(4,874)</u>
Expenses:			
Salaries	118,066	117,958	108
Fringe Benefits	65,828	65,738	90
Purchased Services	11,800	11,745	55
Materials and Supplies	166,650	158,907	7,743
Other	1,801	1,801	
Capital Outlay	3,969	3,969	
Total Expenses	<u>368,114</u>	<u>360,118</u>	<u>7,996</u>
Excess (Deficiency) of Revenues Over (Under) Expenses	(27,423)	(24,301)	3,122
Advances In	<u>3,075</u>	<u>12,525</u>	<u>9,450</u>
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenses and Other Uses	(24,348)	(11,776)	12,572
Fund Balance at Beginning of Year	9,758	9,758	
Prior Year Encumbrances	<u>8,360</u>	<u>8,360</u>	
Fund Balance at End of Year	<u>(\$6,230)</u>	<u>\$6,342</u>	<u>\$12,572</u>

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

Proprietary Fund Types			Non-Expendable Trust		
Internal Service Funds			Non-Expendable Trust		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$1,000	\$742	(\$258)			
			\$5,000	\$2,520	(\$2,480)
<u>1,000</u>	<u>742</u>	<u>(258)</u>	<u>5,000</u>	<u>2,520</u>	<u>(2,480)</u>
1,000	742	258	5,000	3,000	2,000
<u>1,000</u>	<u>742</u>	<u>258</u>	<u>5,000</u>	<u>3,000</u>	<u>2,000</u>
				(480)	(480)
				(480)	(480)
			93,548	93,548	
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$93,548</u>	<u>\$93,068</u>	<u>(\$480)</u>

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND SIMILAR FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund</u>	<u>Totals</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Non-Expendable Trust</u>	<u>(Memorandum Only)</u>
Increase (Decrease) in Cash and Cash Equivalents:				
Cash Flows from Operating Activities:				
Cash Received from Customers	\$259,059	\$742		\$259,801
Cash Payments to Suppliers for Goods and Services	(156,785)	(742)	(\$3,000)	(160,527)
Cash Payments to Employees for Services	(128,231)			(128,231)
Cash Payments for Employee Benefits	(61,157)			(61,157)
Net Cash Provided by (Used for) Operating Activities	<u>(87,114)</u>		<u>(3,000)</u>	<u>(90,114)</u>
Cash Flows from Noncapital Financing Activities:				
Operating Transfers - In	12,525			12,525
Operating Grants Received	76,466			76,466
Net Cash Provided by Noncapital Financing Activities	<u>88,991</u>			<u>88,991</u>
Cash Flows from Capital and Related Financing Activities:				
Acquisition of Capital Assets	(2,558)			(2,558)
Cash Flows from Investing Activities:				
Interest	292		2,520	2,812
Net Increase (Decrease) in Cash and Cash Equivalents	(389)		(480)	(869)
Cash and Cash Equivalents at Beginning of Year	18,118		93,548	111,666
Cash and Cash Equivalents at End of Year	<u>17,729</u>		<u>93,068</u>	<u>110,797</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:				
Operating Income (Loss)	(103,730)		(481)	(104,211)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:				
Depreciation	256			256
Donated Commodities Used During Year	20,853			20,853
Nonexpendable Trust Fund Interest			(2,519)	(2,519)
Changes in Assets and Liabilities:				
(Increase)/Decrease in Accounts Receivable	8			8
(Increase)/Decrease in Commodities Inventory	(161)			(161)
Increase/(Decrease) in Deferred Revenue	(128)			(128)
Increase/(Decrease) in Accrued Salaries and Benefits	502			502
Increase/(Decrease) in Intergovernmental Payables	(145)			(145)
Increase/(Decrease) in Compensated Absences Payable	(4,551)			(4,551)
Increase/(Decrease) in Accounts Payable	(18)			(18)
Total Adjustments	<u>16,616</u>		<u>(2,519)</u>	<u>14,097</u>
Net Cash Provided by Operating Activities	<u>(\$87,114)</u>	<u>\$0</u>	<u>(\$3,000)</u>	<u>(\$90,114)</u>

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

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District is located in Allen County. The School District is the 476th largest in the State of Ohio (among 613 school districts) in terms of enrollment. It is staffed by 37 non-certificated employees and 76 certificated full-time teaching personnel who provide services to 1,088 students and other community members. The School District currently operates two elementary schools, one middle school, and one high school.

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

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

A. Blended Component Unit

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

The Spencerville Education Foundation, Inc. - (the foundation) was organized under the non-profit corporation law of Ohio to operate exclusively for the benefit of the School District. The foundation receives and administers donations for educational and public charitable purposes for which the School District was formed. The foundation is governed by a nine member board of trustees. Two trustees shall at all times be members of the Board of Education, appointed by the Board of Education. One trustee shall at all times be the Superintendent of the School District, one trustee shall at all times be the Treasurer of the School District, and one trustee shall at all times be the Guidance Counselor of the School District. Two trustees shall at all times be a representative selected by the Spencerville Chamber of Commerce and the Spencerville Parent-Teacher Organization. The remaining two Trustees shall be elected at the annual meeting of the Members. The financial statements of the Foundation for the year ended June 30, 2002, are included as a special revenue fund in the School District's financial statements.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis Of Presentation - Fund Accounting

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

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net available expendable resources.

For financial statement presentation purposes, the various funds of the School District are grouped into the following generic fund types under the broad fund categories governmental, proprietary, and fiduciary.

1. Governmental Fund Types

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

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

General Fund

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

Special Revenue Funds

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

Capital Projects Funds

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

2. Proprietary Fund Types

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

Enterprise Funds

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

Internal Service Fund

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

3. Fiduciary Fund Types

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

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. Account Groups

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

General Fixed Assets Account Group

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

General Long-Term Obligations Account Group

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

B. Measurement Focus and Basis of Accounting

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

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

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

The modified accrual basis of accounting is followed for the governmental, expendable trust, and agency funds. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the School District is sixty days after fiscal year end.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year end.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Non-exchange transactions in which the School District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from income taxes is recognized in the period in which the income is earned. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

The School District reports deferred revenues on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Property taxes measurable as of June 30, 2002, and delinquent property taxes, whose availability is indeterminable and which are intended to finance fiscal year 2003 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On the modified accrual basis, revenues that are not collected within the available period are recorded as deferred revenue.

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

The accrual basis of accounting is utilized for reporting purposes by the proprietary fund types and the nonexpendable trust funds. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized at the time they are incurred.

C. Budgetary Process

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

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

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

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Tax Budget

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

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

2. Estimated Resources

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2002.

3. Appropriations

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

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant.

The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. Encumbrances

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

5. Lapsing of Appropriations

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

D. Cash and Cash Equivalents

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

During fiscal year 2002, investments were limited to non-negotiable certificates of deposit and STAR Ohio. Non negotiable certificates of deposit are stated at cost or amortized cost. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2002.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings.

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

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Inventory

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

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2002, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

G. Interfund Assets/Liabilities

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

H. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Fixed assets utilized in the proprietary funds are capitalized in the fund. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of two thousand five hundred dollars. The School District does not have any infrastructure. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Improvements are capitalized. Improvements to fund fixed assets are depreciated over the remaining useful lives of the related fixed assets.

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

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

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

J. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences, contractually required pension contributions, and special termination benefits that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Bonds, capital leases, and long-term loans are reported as a liability of the general long-term obligations account group until due.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

K. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

L. Fund Balance Reserves

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

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Estimates

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

N. Total Columns on General Purpose Financial Statements

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

3. BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosure in the proprietary fund type (GAAP basis).
4. For proprietary funds, the acquisition and construction of capital assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).

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

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

3. BUDGETARY BASIS OF ACCOUNTING (Continued)

<u>Governmental and Similar Trust Funds</u>	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>
GAAP basis	\$ 2,495,869	\$216,877	\$2,267,811	\$12,267
Revenue accruals	(1,842,538)	(2,814)	(105,403)	(4,625)
Expenditure accruals	2,146,421	85,698	103,973	-
Prepaid items	(9,433)	-	-	-
Encumbrances	<u>(379,057)</u>	<u>(16,899)</u>	<u>(66,025)</u>	<u>-</u>
Budget basis	<u>\$ 2,411,262</u>	<u>\$282,862</u>	<u>\$2,200,356</u>	<u>\$ 7,642</u>

<u>Proprietary and Similar Trust Funds</u>	<u>Enterprise</u>	<u>Non-Expendable Trust</u>
GAAP basis	\$ 21,554	\$93,068
Revenue accrual	(70,687)	-
Expense accrual	72,934	-
Inventory held for resale	(6,072)	-
Encumbrances	<u>(11,387)</u>	<u>-</u>
Budget basis	<u>\$ 6,342</u>	<u>\$93,068</u>

4. DEPOSITS AND INVESTMENTS

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

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

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

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

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

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

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

1. United/States Treasury notes, bills bonds, or other obligations or security issued by the United States or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association.
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio).

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

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

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

Deposits - At fiscal year end, the carrying amount of the School District's deposits was \$1,636,744 and the bank balance was \$1,840,792. Of the bank balance, \$301,274 was covered by federal depository insurance. \$1,539,518 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

Investments - The School District's investments are categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the School District or the School District's agent in the School District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The School District's investment in STAR Ohio is unclassified since it is not evidenced by securities that exist in physical or book entry form. At June 30, 2002, the fair value of funds on deposit with STAR Ohio was \$3,870,315.

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

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement 9	\$ 5,456,575	\$ 50,484
Investments:		
Goodwin Certificate of Deposit	50,484	(50,484)
STAR Ohio	<u>(3,870,315)</u>	<u>3,870,315</u>
GASB Statement 3	<u>\$ 1,636,744</u>	<u>\$3,870,315</u>

5. PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the School District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value.

Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are 25 percent of true value.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

5. PROPERTY TAXES (Continued)

The School District receives property taxes from Allen, Auglaize, and Van Wert Counties. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2002, are available to finance fiscal year 2002 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which became measurable as of June 30, 2002. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations.

The assessed values upon which fiscal year 2002 taxes were collected are:

	2001 Second-Half Collections		2002 First-Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$63,074,560	83.72%	\$64,079,610	84.36%
Public Utility	5,248,350	6.97	4,087,800	5.38
Tangible Personal Property	<u>7,012,520</u>	<u>9.31</u>	<u>7,791,798</u>	<u>10.26</u>
Total Assessed Value	<u>\$75,335,430</u>	<u>100.00%</u>	<u>\$75,959,208</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$34.77		\$31.37	

6. INCOME TAX

The School District renewed a tax levy of one percent for general operations on the income of residents and of estates. The renewed tax was effective on January 1, 1998, and will continue for five years. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

7. RECEIVABLES

Receivables at June 30, 2002, consisted of both property and income taxes, accounts (student fees), interfund, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

8. NOTES RECEIVABLE

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

At the close of fiscal year 2002, there were 7 students with a total principal balance of \$15,275. Of the balance, \$4,625 is being recorded on the financial statements because the remaining \$10,650 is deferred until the student completes or leaves post secondary schooling.

9. INTERFUND ASSETS/LIABILITIES

At June 30, 2002, receivables and payables that resulted from various interfund transactions were as follows:

<u>Fund Type / Funds</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$12,869	\$ -
Capital Project Fund		
Voc. Ed. Equipment	-	345
Enterprise Funds		
Food Service Fund	-	9,450
Uniform School Supplies	<u>-</u>	<u>3,074</u>
Totals	<u>\$12,869</u>	<u>\$12,869</u>

10. FIXED ASSETS

A summary of the enterprise funds' fixed assets at June 30, 2002, follows:

Furniture and Equipment	\$125,896
Less Accumulated Depreciation	<u>86,278</u>
Net Fixed Assets	<u>\$ 39,618</u>

A summary of the changes in general fixed assets during fiscal year 2002 follows:

<u>Asset Category</u>	<u>Balance at 6/30/01</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at 6/30/02</u>
Land and				
Land Improvements	\$ 478,146	\$ -	\$ -	\$ 478,146
Buildings and Improvements	2,068,456	4,598	-	2,073,054
Furniture, Fixtures, and				
Equipment	526,703	65,255	-	591,958
Vehicles	<u>633,040</u>	<u>110,736</u>	<u>(68,676)</u>	<u>675,100</u>
Total	<u>\$3,706,345</u>	<u>\$ 180,589</u>	<u>\$ (68,676)</u>	<u>\$3,818,258</u>

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

11. RISK MANAGEMENT

A. Public Liability

The School District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2002, the School District contracted with Indiana Insurance (through O'Conner-McLaughlin Ins. Co.) for property and general liability insurance, and boiler and machinery insurance. Boiler and machinery coverage has \$1,000 deductible per object.

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

Vehicles are covered by Nationwide Agribusiness Ins. Co. and hold a \$50 deductible for comprehensive and \$250 for collisions. Automobile liability has a \$1,000,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past three years.

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

B. Worker's Compensation

For fiscal year 2002, the School District participated in NOACSC Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The Plan is intended 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 participating members is calculated as one experience and a common premium rate is applied to all members in the Plan. Each member pays its workers' compensation premiums to the State based on the rate for the Plan rather than its individual rate. Participation in the Plan is limited to members that can meet the Plan's selection criteria. The members apply for participation each year. The firm of Acordia Workers' Compensation Services provides administrative, cost control, and actuarial services to the Plan. Each year, the School District pays an enrollment fee to the Plan to cover the costs of administering the program.

C. Employee Medical Benefits

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

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

12. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employees are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board.

The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$36,544, \$34,605, and \$43,423, respectively; 32.30 percent has been contributed for fiscal year 2002 and 100 percent for the fiscal years 2001 and 2000. \$23,184 representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

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

Plan members are required to contribute 9.3 percent of their annual covered salary and the School District is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations for fiscal year 2002. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$298,591, \$281,556 and \$169,662, respectively; 85.58 percent has been contributed for fiscal year 2002 and 100 percent for the fiscal years 2001 and 2000. \$44,498 representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

12. DEFINED BENEFIT PENSION PLANS (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2001, three members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

13. POSTEMPLOYMENT BENEFITS

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

For STRS, all benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The board currently allocates employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. The balance in the Fund was \$3,256 million at June 30, 2001 (the latest information available). As of July 1, 2001, eligible benefit recipients totaled 102,132. For the fiscal year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000.

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

For this fiscal year, employer contributions to fund health care benefits were 8.54 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2001 (the latest information available), were \$161,439,934, and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. The number of participants currently receiving health care benefits is 50,000.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

14. EMPLOYEE BENEFITS

A. Compensated Absences

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

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

B. Life Insurance

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

15. OPERATING LEASES

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

<u>Year Ending June 30,</u>	<u>Copier Lease Amounts</u>	<u>Vehicle Lease Amounts</u>
2003	\$ 26,160	1,045
2004	26,160	-
2005	26,160	-
2006	<u>14,126</u>	<u>-</u>
Total	<u>\$ 92,606</u>	<u>\$ 1,045</u>

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

16. LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2002 were as follows:

	<u>Principal Outstanding 6/30/01</u>	<u>Additions</u>	<u>Deductions</u>	<u>Principal Outstanding 6/30/02</u>
Note Payable; HB 264 Project; 4.65% interest; Matures 12/01/12	\$ 371,101	\$ -	\$ 30,925	\$ 340,176
Compensated Absences	599,220	-	150,851	448,369
Intergovernmental Payables	<u>42,027</u>	<u>41,847</u>	<u>42,027</u>	<u>41,847</u>
Total General Long- Term Obligations	<u>\$1,012,348</u>	<u>\$ 41,847</u>	<u>\$223,803</u>	<u>\$ 830,392</u>

Compensated absences and intergovernmental payables will be paid from the fund which the employers salary is paid. The note payable will be paid from the Debt Service Fund.

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

Principal and interest requirements to retire debt outstanding at June 30, 2002, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 30,925	\$ 15,099	\$ 46,024
2004	30,925	13,661	44,586
2005	30,925	12,223	43,148
2006-2010	154,625	39,546	194,171
2011-2013	<u>92,776</u>	<u>6,471</u>	<u>99,247</u>
Total	<u>\$340,176</u>	<u>\$ 87,000</u>	<u>\$427,176</u>

17. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The School District maintains two enterprise funds to account for the operations of food service and uniform school supplies. The table below reflects the more significant financial data relating to the enterprise funds of the School District as of and for the fiscal year ended June 30, 2002.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

17. SEGMENT INFORMATION FOR ENTERPRISE FUNDS (Continued)

	<u>Food Service</u>	<u>Uniform School Supplies</u>	<u>Total Enterprise Funds</u>
Operating Revenues	\$230,712	\$28,339	\$259,051
Operating Expenses			
Less Depreciation	336,961	25,564	362,525
Depreciation Expense	256	-	256
Operating Income (Loss)	(106,505)	2,775	(103,730)
Donated Commodities	20,853	-	20,853
Operating Grants	79,769	-	79,769
Interest	292	-	292
Net Income (Loss)	(5,591)	2,775	(2,816)
Net Working Capital	(23,917)	18,900	(5,017)
Total Assets	72,513	21,975	94,488
Total Equity	2,654	18,900	21,554
Encumbrances Outstanding at June 30, 2002	8,022	3,365	11,387

18. JOINTLY GOVERNED ORGANIZATIONS

Northwest Ohio Area Computer Services Cooperative - The School District is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC) which is a computer consortium. NOACSC is an association of public school districts within the boundaries of Allen, 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 Michael Wildermuth, who serves as Director, at 645 South Main Street, Lima, Ohio 45804.

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

West Central Regional Professional Development Center (Center) - The Center is a jointly governed organization among the school districts located in Allen, Auglaize, Hancock, Hardin, Mercer, Paulding, Putnam and Van Wert counties. The jointly governed organization was formed for the purpose of establishing an articulated, regional structure for professional development, in which school districts, the business community, higher education and other groups cooperatively plan and implement effective professional development activities that are tied directly to school improvement and, in particular, to improvements in instructional programs. The Center is governed by a fifty-two member board made up of representatives from the participating school districts, the business community, and two institutions of higher learning. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from Brad Browne, Hancock County Educational Service Center, 7746 County Road 140, Findlay, Ohio 45840.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

18. JOINTLY GOVERNED ORGANIZATIONS (Continued)

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

19. INSURANCE POOLS

Ohio School Plan - The School District participates in the Ohio School Plan (Plan), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The Plan's business and affairs are conducted by a fifteen member board consisting of superintendents, treasurers, the president of Harcum-Hyre Insurance Agency, Inc., and a member of the Hylant Group, Inc. The Hylant Group, Inc. is the Plan's administrator and is responsible for processing claims. Harcum-Hyre Insurance Agency serves as the sales and marketing representative which establishes agreements between the Plan and its members. Financial information can be obtained from Harcum-Hyre Insurance Agency, 246 East Sycamore Street, Columbus, Ohio 43206.

Allen County Schools Health Benefit Plan (the Plan) is a jointly governed organization among ten school districts and the Allen county Educational Service Center. The purpose of the jointly governed organization was to form a voluntary employee benefit association to provide sick, dental, and vision benefits to participants at a lower rate than if the individual districts acted independently. Each district pays a monthly premium to the fund trustee for insurance coverage which is provided by CoreSource. The Plan is governed by an administrative committee consisting of the superintendent from each participating district. The degree of control exercised by any participating school district is limited to each representation on the committee. Financial information can be obtained from Karla Wireman, who serves as Treasurer, at 204 North Main Street, Suite 303, Lima, Ohio 45801.

NOACSC Workers' Compensation Group Rating Plan - The School District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The NOACSC Workers' Compensation Group Rating Plan (Plan) was established through the Northwest Ohio Area Computer Services Cooperative (NOACSC) as an insurance purchasing pool. The Safety Coordinator, Robert Lotz of NOACSC, or his designee serves as coordinator of the Plan. Each year, the participating members pay an enrollment fee to the Plan to cover the costs of administering the program.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

20. CONTRACTUAL COMMITMENTS

As of June 30, 2002, the School District had contractual purchase commitments as follows:

<u>Company</u>	<u>Project</u>	<u>Contract Amount</u>
Miami Valley International Truck, Inc	Bus	\$53,750
Pac-Van Leasing and Sales	Modular Classroom	80,469

21. STATUTORY RESERVES

The School District is required by state law to set aside certain general fund revenue amounts, as defined, into various reserves. For fiscal year ended June 30, 2002, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisitions</u>	<u>Budget Stabilization</u>
Set-Aside Reserve Balance as of June 30, 2001	\$ -	\$ -	\$ 20,568
Carryover	(36,947)	-	-
Transfer to General Fund	-	-	(20,568)
Required Set-Aside	130,192	130,192	-
Qualifying Expenditures	<u>(152,675)</u>	<u>(200,961)</u>	<u>-</u>
Total	<u>\$ (59,430)</u>	<u>\$ (70,769)</u>	<u>\$ -</u>
Cash balance carried forward to following year 2002	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

22. ACCOUNTABILITY

At June 30, 2002, there were several special revenue funds with deficit fund balances. The deficits in the special revenue funds resulted from the application of generally accepted accounting principles. The general fund is liable for any deficit funds and provides operating transfers when cash is required, not when accruals occur.

<u>Fund</u>	<u>Fund Description</u>	<u>Deficit Balance</u>
Special Revenue		
455	Instructional Material + Txtbk/State	\$ 2,010
516	Title VI B	5,065
572	Title I Fund	2,275
590	Reducing Class Size	13
599	Classroom Reduction	2

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

23. CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2002.

B. State School Funding Decision

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

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

SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
(Passed through Ohio Department of Education)						
Food Distribution Program		10.550		\$21,754		\$20,853
National School Lunch Program	04-PU 2001	10.555	73,365		73,365	
Total U.S. Department of Agriculture - Nutrition Cluster			73,365	21,754	73,365	20,853
U.S. DEPARTMENT OF EDUCATION						
(Passed through Ohio Department of Education)						
Title I, Part A, IASA	C1-S1 2001	84.010			23,251	
Title I, Part A, IASA	C1-S1 2002	84.010	119,525		119,525	
Total Title I			119,525		142,776	
Title VI-B, Special Education Grants to States	6B-SF 2001	84.027			6,270	
Title VI-B, Special Education Grants to States	6B-SF 2002	84.027	64,125		62,745	
Total Title VI-B			64,125		69,015	
Title VI, Innovative Education Program Strategies	C2-S1 2001	84.298			4,704	
Title VI, Innovative Education Program Strategies	C2-S1 2002	84.298	1,598			
Total Title VI			1,598		4,704	
Drug Free Grant	DR-S1 2001	84.186			923	
Drug Free Grant	DR-S1 2002	84.186	4,182		3,672	
Total Drug Free Grant			4,182		4,595	
Eisenhower Professional Development State Grant	MS-S1 2000	84.281			455	
Eisenhower Professional Development State Grant	MS-S1 2000	84.281			3,802	
Eisenhower Professional Development State Grant	MS-S1 2001	84.281	5,076			
Total Eisenhower Professional Development State Grant			5,076		4,257	
Title VI R Class Size Reduction Subsidy	CR-S1 2001	84.340			4,108	
Title VI R Class Size Reduction Subsidy	CR-S1 2002	84.340	28,476		22,536	
Total VI R Class Size reduction Grant			28,476		26,644	
Total U.S. Department of Education			222,982		251,991	
Total Federal Assistance			\$296,347	\$21,754	\$325,356	\$20,853

See Accompanying Notes to the Schedule of Federal Awards Expenditures

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – NUTRITION CLUSTER

Non monetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed that federal monies are expended first. At June 30, 2002, the School District had \$4,001 in donated food commodity inventory.

NOTE C -- MATCHING REQUIREMENTS

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



Auditor of State Betty Montgomery

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

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

To the Board of Education:

We have audited the financial statements of Spencerville Local School District (the School District) as of and for the year ended June 30, 2002, and have issued our report thereon dated February 26, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2002-10202-001. We also noted certain immaterial instances of noncompliance that we have reported to the management of the School District in a separate letter dated February 26, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2002-10202-002.

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**Internal Control Over Financial Reporting
(Continued)**

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting, that do not require inclusion in this report, that we have reported to management of the School District in a separate letter dated February 26, 2003.

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



Betty Montgomery
Auditor of State

February 26, 2003



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

We have audited the compliance of Spencerville Local School District (the School District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2002. The School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, the School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002.

Internal Control Over Compliance

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

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**Internal Control Over Compliance
(Continued)**

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. We noted another matter involving the internal control over federal compliance that does not require inclusion in this report, that we have reported to management of the School District in a separate letter dated February 26, 2003.

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



Betty Montgomery
Auditor of State

February 26, 2003

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

1. SUMMARY OF AUDITOR'S RESULTS FOR THE YEAR ENDED JUNE 30, 2002

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

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

FINDING NUMBER 2002-10202- 001

Ohio Rev. Code Section 5705.41(D) states that no subdivision shall make any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to of an appropriated fund free from any previous encumbrance. Further, contracts and order for expenditures lacking prior certification should be considered null and void. If no certificate is issued at the time the contract or order is entered into, the fiscal officer may later certify that there were funds properly appropriated and in the treasury or in the process of collection and such funds are free from previous encumbrance both at the time the contract or order was entered into and at the time of payment. After certifying this, the fiscal officer may proceed to pay for such order or contract. If the amount involved is over \$1,000, the taxing authority must approve of such payment within 30 days of the date of the fiscal officer's certification.

In eleven percent of the transactions tested, the date of the invoice preceded the date of the purchase order or blanket certificate date. These transactions represented \$2,171 or 5.15% of the expenditures tested. The School District should review Ohio Rev. Code Section 5705.41(D) and implement procedures for certification of funds. The School District should obtain the required certification prior to obligating funds when practicable. The exceptions, a "Then and Now" statement should be used when prior certification is not practicable

FINDING NUMBER 2002-10202- 002

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

Failure to implement procedures to properly record fixed assets and maintain a complete and accurate listing of School District owned assets could lead to a misstatement in the presentation of fixed assets in the general purpose financial statements, and allows for the assets to be more susceptible to misappropriation. To allow for proper asset recording and ensure the completeness of asset reports, the appraisal reports should be reviewed to determine that all additions and deletions, to date, have been included. Procedures should be developed to ensure that all additions and deletions are submitted by the School District, and a review process established on the appraisal report to verify that they have been properly recorded. Additions to fixed assets should be properly identified by appropriate category and should be able to be separated by capitalization limits and for insurance purposes. Also, entity personnel need to assess the current policy for reporting of fixed assets to determine (clarify) that the proprietary assets are to be reported on a different threshold than is currently stated by the policy. The policy should be periodically reviewed to assure that adequate amounts of fixed assets are being reported on the financial statements.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Plan Taken; or No Longer <u>Valid</u> ; Explain
2001-10202-001	Fixed Asset Accountability	No	Repeated in current audit. See Finding Number 2002-10202-002



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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
APRIL 1, 2003**