



Dave Yost • Auditor of State

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Spencerville Local School District, Allen County, Ohio (the School District), as of and for the fiscal year ended June 30, 2012, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Spencerville Local School District, Allen County, Ohio, as of June 30, 2012, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2013, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

January 17, 2013

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED**

The discussion and analysis of the Spencerville Local School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2012 are as follows:

- In total, net assets decreased \$53,584, mostly due to increased capital outlay disbursements, costs related to the issuance of various purpose refunding bonds, and decreased intergovernmental receipts.
- Outstanding debt decreased from \$5,777,066 to \$5,581,511 through the issuance of various purpose refunding bonds and principal payments made during the current year.

Using this Annual Report

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole School District. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column. For fiscal year 2012, the General Fund was the District's most significant fund.

Basis of Accounting

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

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

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED
(Continued)**

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2012?" The statement of net assets and the statement of activities answer this question.

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

In the *Statement of Net Assets* and the *Statement of Activities*, governmental activities include the School District's programs and services, including instruction, support services, extracurricular activities and food service operations.

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

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

Reporting the School District's Fiduciary Responsibilities

Fiduciary funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. These funds are not reflected in the government-wide financial statements because the resources are not available to support the School District's own programs. The School District's fiduciary funds account for scholarships, endowments, and student activities.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED
(Continued)**

The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2012 compared to 2011.

(Table 1)
Net Assets – Cash Basis

	Governmental Activities	
	2012	2011
Assets:		
Cash & cash equivalents	\$4,377,646	\$4,431,230
Total Assets	4,377,646	4,431,230
Net Assets:		
Restricted:		
Capital Projects	247,921	990,797
Debt Service	309,736	280,989
Other Purposes	403,762	384,394
Set Asides		509,894
Unrestricted	3,416,227	2,265,156
Total Net Assets	\$4,377,646	\$4,431,230

Net assets of the governmental activities decreased \$53,584 which represents a 1.21 percent decrease from fiscal year 2011. The decrease is mainly the result of increased disbursements for capital outlay, costs related to the issuance of various purpose refunding bonds, and decreased intergovernmental receipts.

A portion of the School District's net assets, \$961,419 or 28 percent, represent resources subject to external restrictions on how they may be used. The remaining balance of the government-wide unrestricted net assets of \$3,416,227 may be used to meet the School District's ongoing obligations.

Table 2 shows the changes in net assets for fiscal year 2012 as compared to fiscal year 2011.

(Table 2)
Changes in Net Assets – Cash Basis

	Governmental Activities	
	2012	2011
Receipts:		
Program Receipts:		
Charges for Services and Sales	\$ 994,266	\$1,009,320
Operating grants, Contributions and Interest	697,948	1,080,319
Capital Grants, Contributions and Interest	11,593	33,722
Total Program Receipts	1,703,807	2,123,361
General Receipts:		
Property Taxes	2,365,512	2,199,399
Income Taxes	1,084,083	1,026,432
Grants and Entitlements not Restricted to Specific Programs	4,728,871	4,871,051
Proceeds from Sale of Capital Assets	6,081	2,051
Proceeds of General Obligation Bonds	4,523,907	
Premium on Debt Issuance	749,046	
Investment Earnings	2,329	4,933
Miscellaneous	72,826	22,260
Total General Receipts	13,532,655	8,126,126
Total Receipts	15,236,462	10,249,487

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED
(Continued)**

**(Table 2)
Changes in Net Assets – Cash Basis
(Continued)**

	Governmental Activities	
	2012	2011
Program Disbursements:		
Instruction:		
Regular	3,891,006	4,009,557
Special	1,036,437	1,041,557
Vocational	69,396	73,322
Other	355,851	340,688
Support Services:		
Pupils	487,137	505,973
Instructional Staff	211,287	211,399
Board of Education	40,441	37,051
Administration	651,979	627,174
Fiscal	350,124	354,575
Business	45	45
Operation and Maintenance of Plant	877,637	867,478
Pupil Transportation	689,857	629,582
Central	24,017	8,264
Operation of Non-Instructional Services:		
Food Service Operations	377,392	382,410
Other	36,931	31,769
Extracurricular Activities	312,418	370,154
Capital Outlay	119,403	64,026
Debt Service:		
Principal Retirement	230,925	225,925
Payment to Refunded Bond Escrow Agent	5,161,099	
Interest and Fiscal Charges	254,810	263,753
Issuance Costs	111,854	
Total Program Disbursements	<u>15,290,046</u>	<u>10,044,702</u>
Change in Net Assets	(53,584)	204,785
Net Assets Beginning of Year	<u>4,431,230</u>	<u>4,226,445</u>
Net Assets End of Year	<u>\$4,377,646</u>	<u>\$4,431,230</u>

Operating grants, contributions and interest decreased by 35 percent in fiscal year 2012 over the prior fiscal year; this was due mainly to the expiration of stimulus grants.

Governmental Activities

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

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED
(Continued)**

**(Table 3)
Governmental Activities – Cash Basis**

	Total Costs of Services		Net Costs of Services	
	2012	2011	2012	2011
Program Disbursements:				
Instruction:				
Regular	\$3,891,006	\$4,009,557	\$3,172,551	\$3,022,212
Special	1,036,437	1,041,557	724,418	676,773
Vocational	69,396	73,322	53,503	57,429
Other	355,851	340,688	355,851	340,688
Support Services:				
Pupils	487,137	505,973	424,880	410,469
Instructional Staff	211,287	211,399	198,273	195,736
Board of Education	40,441	37,051	40,441	37,051
Administration	651,979	627,174	648,935	609,097
Fiscal	350,124	354,575	347,798	353,882
Business	45	45	45	45
Operation and Maintenance of Plant	877,637	867,478	844,417	833,453
Pupil Transportation	689,857	629,582	689,857	629,582
Central	24,017	8,264	24,017	3,264
Operation of Non-Instructional Services:				
Food Service Operations	377,392	382,410	(32,306)	(28,656)
Other	36,931	31,769	7,745	11,039
Extracurricular Activities	312,418	370,154	219,504	249,753
Capital Outlay	119,403	64,026	107,810	30,304
Debt Service:				
Principal Retirement	230,925	225,925	230,925	225,925
Payment to Refunded Bond Escrow Agent	5,161,099		5,161,099	
Interest and Fiscal Charges	254,810	263,753	254,622	263,295
Issuance Costs	111,854		111,854	
Total	<u>\$15,290,046</u>	<u>\$10,044,702</u>	<u>\$13,586,239</u>	<u>\$7,921,341</u>

The dependence upon tax revenues and general revenue entitlements from the state for governmental activities is apparent. Program revenues only account for 11 percent of all governmental expenses; the community is the largest area of support for the School District students.

The School District's Funds

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

The School District's governmental funds reported a combined fund balance of \$4,377,646, which is lower than the prior year balance of \$4,431,230.

The General Fund had total cash receipts and other financing sources of \$8,820,719. The cash disbursements of the General Fund totaled \$8,152,092. The General Fund's fund balance increased \$668,627 in 2012. The increase in fund balance can be attributed mainly to increased receipts from taxes and intergovernmental which were not fully offset by increases in disbursements for instruction and support services. In addition, the balance of the New Campus Building Fund, a reserve fund established by the School District, was transferred back to the General Fund.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED
(Continued)**

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During the course of fiscal year 2012, the School District amended its General Fund budget several times. For the General Fund, final budget basis receipts (excluding other financing sources) were \$7,947,301, representing a decrease of \$11,938 from the original estimate of \$7,959,239. Actual receipts of \$8,239,510 were \$292,209 higher than the final budget. Of this increase, most was attributable to an increase in tax and intergovernmental receipts.

For fiscal year 2012, the General Fund final budget basis disbursements were \$8,619,089, which is over the original budgeted disbursements (excluding other financing uses) of \$8,533,631 by \$85,458. Actual disbursements of \$8,272,723 were \$346,366 lower than the final budget. Actual instruction and support services were significantly under budgeted expectations. This was due to disbursements that were fully appropriated and budgeted higher than usual to ensure for any possible increases in costs.

Debt Administration

The School District had the following long-term obligations outstanding at June 30, 2012 and 2011.

**(Table 4)
Outstanding Debt, at June 30**

	Governmental Activities	
	2012	2011
Note Payable HB 264	\$ 30,925	\$ 61,860
2004 School Improvement Bonds	1,017,601	5,715,216
2012 Various Purpose Refunding Bonds	4,532,985	
Total	\$5,581,511	\$5,777,066

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

Current Issues

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

Thus, school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 16% of revenues for governmental activities for the Spencerville Local School District in fiscal year 2012.

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

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED
(Continued)**

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

The 5-year renewable 1% income tax will be on the November 2013 ballot. This tax has been a healthy and diverse income for the School District since 1993. This income has potential for growth and eases the burden on the agricultural community. Historically, the passage of this tax has been healthy.

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

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

Contacting the School District's Financial Management

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

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**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**STATEMENT OF NET ASSETS - CASH BASIS
JUNE 30, 2012**

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>\$4,377,646</u>
Net Assets:	
Restricted for:	
Capital Outlay	247,921
Debt Service	309,736
Other Purposes	403,762
Unrestricted	<u>3,416,227</u>
Total Net Assets	<u><u>\$4,377,646</u></u>

See accompanying notes to the basic financial statements.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets
	Cash Disbursements	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions
				Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$3,891,006	\$653,239	\$65,216	(\$3,172,551)
Special	1,036,437	40,735	271,284	(724,418)
Vocational	69,396		15,893	(53,503)
Other	355,851			(355,851)
Support Services:				
Pupils	487,137		62,257	(424,880)
Instructional Staff	211,287		13,014	(198,273)
Board of Education	40,441			(40,441)
Administration	651,979		3,044	(648,935)
Fiscal	350,124	2,326		(347,798)
Business	45			(45)
Operation and Maintenance of Plant	877,637		33,220	(844,417)
Pupil Transportation	689,857			(689,857)
Central	24,017			(24,017)
Operation of Non-Instructional Services:				
Food Service Operations	377,392	205,858	203,840	32,306
Other	36,931	1,877	27,309	(7,745)
Extracurricular Activities	312,418	90,231	2,683	(219,504)
Capital Outlay	119,403			(107,810)
			\$11,593	
'Debt Service:				
Principal Retirement	230,925			(230,925)
Payment to Refunded Bond Escrow Agent	5,161,099			(5,161,099)
Interest and Fiscal Charges	254,810		188	(254,622)
Issuance Costs	111,854			(111,854)
Totals	\$15,290,046	\$994,266	\$697,948	\$11,593

General Receipts

Property Taxes Levied for:

General Purposes	1,799,865
Debt Service	427,336
Capital Outlay	103,747
Building Maintenance	34,564
Income Taxes Levied for:	
General Purposes	1,084,083
Grants and Entitlements not Restricted to Specific Programs	4,728,871
Proceeds from Sale of Capital Assets	6,081
Proceeds of General Obligation Bonds	4,523,907
Premium on Debt Issuance	749,046
Investment Earnings	2,329
Miscellaneous	72,826
Total General Receipts	13,532,655
Change in Net Assets	(53,584)
Net Assets Beginning of Year	4,431,230
Net Assets End of Year	\$4,377,646

See accompanying notes to the basic financial statements.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2012**

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$3,443,677	\$933,969	\$4,377,646
Fund Balances:			
Restricted		961,419	961,419
Committed	45,625		45,625
Assigned	2,677,182		2,677,182
Unassigned	720,870	(27,450)	693,420
Total Fund Balances	\$3,443,677	\$933,969	\$4,377,646

See accompanying notes to the basic financial statements.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES
IN CASH BASIS FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Receipts:			
Property and Other Local Taxes	\$1,799,865	\$565,647	\$2,365,512
Income Taxes	1,084,083		1,084,083
Intergovernmental	4,667,240	726,268	5,393,508
Investment Income	2,384	682	3,066
Tuition and Fees	693,971		693,971
Extracurricular Activities	2,656	89,452	92,108
Gifts and Donations	2,989	41,181	44,170
Charges for Services	2,126	205,858	207,984
Rent	200		200
Miscellaneous	14,881		14,881
Total Receipts	<u>8,270,395</u>	<u>1,629,088</u>	<u>9,899,483</u>
Disbursements:			
Current:			
Instruction:			
Regular	3,733,613	157,393	3,891,006
Special	723,420	313,017	1,036,437
Vocational	69,396		69,396
Other	355,851		355,851
Support Services:			
Pupils	411,406	75,731	487,137
Instructional Staff	165,807	45,480	211,287
Board of Education	40,441		40,441
Administration	651,674	305	651,979
Fiscal	336,625	13,499	350,124
Business	45		45
Operation and Maintenance of Plant	821,964	55,673	877,637
Pupil Transportation	559,428	130,429	689,857
Central	24,017		24,017
Extracurricular Activities	215,812	96,606	312,418
Operation of Non-Instructional Services:			
Food Service Operations		377,392	377,392
Other	9,511	27,420	36,931
Capital Outlay		119,403	119,403
Debt Service:			
Principal Retirement	30,925	200,000	230,925
Interest and Fiscal Charges	2,157	252,653	254,810
Issuance Costs		111,854	111,854
Total Disbursements	<u>8,152,092</u>	<u>1,976,855</u>	<u>10,128,947</u>
Excess of Receipts Over (Under) Disbursements	<u>118,303</u>	<u>(347,767)</u>	<u>(229,464)</u>
Other Financing Sources (Uses):			
Proceeds from Sale of Capital Assets	2,671		2,671
Proceeds of General Obligation Bonds		4,523,907	4,523,907
Premium on Debt Issuance		749,046	749,046
Refund of Prior Year Disbursements	151	57,889	58,040
Insurance Recoveries	3,315		3,315
Payment to Refunded Bond Escrow Agent		(5,161,099)	(5,161,099)
Transfers In	544,187		544,187
Transfers Out		(544,187)	(544,187)
Total Other Financing Sources (Uses)	<u>550,324</u>	<u>(374,444)</u>	<u>175,880</u>
Net Change in Fund Balances	668,627	(722,211)	(53,584)
Fund Balances Beginning of Year	<u>2,775,050</u>	<u>1,656,180</u>	<u>4,431,230</u>
Fund Balances End of Year	<u>\$3,443,677</u>	<u>\$933,969</u>	<u>\$4,377,646</u>

See accompanying notes to the basic financial statements.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Receipts:				
Property and Other Local Taxes	\$1,738,720	\$1,621,433	\$1,799,865	\$178,432
Income Taxes	1,047,373	1,066,061	1,084,083	18,022
Intergovernmental	4,508,085	4,576,171	4,667,240	91,069
Investment Income	2,389	3,998	2,329	(1,669)
Tuition and Fees	645,946	678,373	668,786	(9,587)
Gifts and Donations		8		(8)
Charges for Services	2,389	148	2,126	1,978
Rent		25	200	175
Miscellaneous	14,337	1,084	14,881	13,797
Total Receipts	<u>7,959,239</u>	<u>7,947,301</u>	<u>8,239,510</u>	<u>292,209</u>
Disbursements:				
Current:				
Instruction:				
Regular	3,686,485	3,717,642	3,669,959	47,683
Special	922,057	918,736	754,125	164,611
Vocational	90,442	86,477	70,526	15,951
Other	370,146	378,346	370,442	7,904
Support Services:				
Pupils	470,495	442,840	415,416	27,424
Instructional Staff	188,303	194,469	170,188	24,281
Board of Education	47,037	47,314	43,723	3,591
Administration	672,350	648,494	641,254	7,240
Fiscal	366,617	378,902	366,447	12,455
Business	49	49	45	4
Operation and Maintenance of Plant	875,316	920,282	905,707	14,575
Pupil Transportation	548,037	611,370	596,396	14,974
Central	13,226	25,842	24,192	1,650
Extracurricular Activities	249,989	215,244	211,221	4,023
Debt Service:				
Principal Retirement	30,925	30,925	30,925	
Interest and Fiscal Charges	2,157	2,157	2,157	
Total Disbursements	<u>8,533,631</u>	<u>8,619,089</u>	<u>8,272,723</u>	<u>346,366</u>
Excess of Receipts (Under) Disbursements	<u>(574,392)</u>	<u>(671,788)</u>	<u>(33,213)</u>	<u>638,575</u>
Other Financing Sources (Uses):				
Proceeds from Sale of Capital Assets	2,389	513	2,671	2,158
Refund of Prior Year Disbursements		16,000	151	(15,849)
Other Financing Uses	(1,881,933)	(1,796,475)		1,796,475
Insurance Recoveries	3,186		3,315	3,315
Advances In		1,000		(1,000)
Advances Out	(1,000)	(1,000)		1,000
Transfers In			544,187	544,187
Transfers Out	(45,000)	(45,000)	(6,675)	38,325
Total Other Financing Sources (Uses)	<u>(1,922,358)</u>	<u>(1,824,962)</u>	<u>543,649</u>	<u>2,368,611</u>
Net Change in Fund Balance	(2,496,750)	(2,496,750)	510,436	3,007,186
Fund Balance Beginning of Year	2,342,143	2,342,143	2,342,143	
Prior Year Encumbrances Appropriated	<u>277,346</u>	<u>277,346</u>	<u>277,346</u>	
Fund Balance End of Year	<u>\$122,739</u>	<u>\$122,739</u>	<u>\$3,129,925</u>	<u>\$3,007,186</u>

See accompanying notes to the basic financial statements.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS - CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2012**

	Private Purpose Trust	Agency
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$100,412	\$35,542
Total Assets	100,412	35,542
 Net Assets:		
Held in Trust for Scholarships	6,602	
Held for Student Activities		35,542
Endowment	93,810	
Total Net Assets	\$100,412	\$35,542

See accompanying notes to the basic financial statements.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - CASH BASIS
FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Private Purpose Trust</u>
Additions:	
Gifts and Contributions	\$162
Interest	41
Miscellaneous	<u>5,500</u>
Total Additions	<u>5,703</u>
Deductions:	
Scholarships	6,000
Change in Net Assets	(297)
Net Assets Beginning of Year	<u>100,709</u>
Net Assets End of Year	<u><u>\$100,412</u></u>

See accompanying notes to the basic financial statements.

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**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

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

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

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

The Foundation was organized under the nonprofit corporation law of Ohio to operate exclusively for the benefit of the School District. The Foundation receives and administers donations for educational and public charitable purposes for which the School District was formed. The Foundation is governed by a nine member board of trustees. Two trustees shall at all times be members of the Board of Education, appointed by the Board of Education. One trustee shall at all times be the Superintendent of the School District, one trustee shall at all times be the Treasurer of the School District, and one trustee shall at all times be the Guidance Counselor of the School District. One trustee shall at all times be a representative selected by the Spencerville Chamber of Commerce and another selected by the Spencerville Parent-Teacher Organization. The remaining two Trustees shall be elected at the annual meeting of the Members.

The School District is associated with five jointly governed organizations and two insurance purchasing pools. These organizations include the Northwest Ohio Area Computer Services Cooperative, Apollo Career Center, the West Central Regional Professional Development Center, Northwestern Ohio Educational Research Council, Inc., the Spencerville, Perry, and Bath Local Professional Development Committee, the Sheakley Uniservice, Inc. and the Allen County Schools Health Benefit Plan. These organizations are presented in Notes 15 and 16 to the basic financial statements.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Accounting

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

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

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

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

B. Basis of Presentation

1. Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities display information about the School District as a whole. These statements include the financial activities of the primary government except for fiduciary funds.

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

Program receipts include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Receipts which are not classified as program receipts are presented as general receipts of the School District, with certain limited exceptions.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

2. Fund Financial Statements

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

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

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

C. Fund Accounting

The School District uses funds to maintain its financial records during the year. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations. For financial statement presentation purposes, the various funds of the School District are grouped into the following generic fund types under the broad fund categories governmental and fiduciary.

1. Governmental Funds/Governmental Activities

Governmental funds are those through which most governmental functions of the School District are financed. The acquisition, use, and balances of the School District's expendable financial resources (except those accounted for in fiduciary funds) are accounted for through governmental funds. The School District's major fund is the General Fund.

General Fund – The General Fund is the primary operating fund of the School District and always classified as a major fund. The General Fund accounts for and reports all financial resources except those legally or administratively required to be accounted for and reported in another fund. The General Fund balance is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

2. Fiduciary Fund Types

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

D. Budgetary Process

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

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

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

1. Tax Budget

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

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

2. Estimated Resources

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

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

3. Appropriations

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

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

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

4. Encumbrances

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

5. Lapsing of Appropriations

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

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for the remaining funds are maintained in this pool or temporarily used to purchase short-term investments. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents."

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

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

During fiscal year 2012, investments were limited to STAROhio. STAROhio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2012.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2012 were \$2,384, which included \$805 assigned from other School District funds.

F. Employer Contributions to Cost-Sharing Pension Plans

The School District recognizes the disbursements for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

G. Inventory and Prepaid Items

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

H. Capital Assets

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

I. Accumulated Leave

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

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Long-Term Obligations

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

K. Equity Classifications

1. Government-Wide Statements

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

1. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) law through constitutional provisions or enabling legislation adopted by the School District. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to expenditure for specified purposes. At June 30, 2012, there were no net assets restricted by enabling legislation.

2. Unrestricted net assets – All other net assets that do not meet the definition of “restricted.”

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

2. Fund Financial Statements

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

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

b. Restricted - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or is imposed by law through constitutional provisions.

c. Committed - The committed classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Board of Education. The committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- d. Assigned** - Amounts in the assigned classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board of Education.
- e. Unassigned** - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

L. Intergovernmental Receipts

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

M. Interfund Activity

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

N. Receipts and Disbursements

1. Program Receipts

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

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

2. Disbursements

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

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

3. DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States treasury notes, bills, bonds, or other obligations or securities issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All such securities must be direct issuances of federal government agencies or instrumentalities;
3. Interim deposits in duly authorized depositories of the District, provided those deposits are properly insured or collateralized as required by law;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of securities described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that (i) investments in securities described in this division are made with a bank or savings and loan association eligible to be a depository for public funds of Ohio subdivisions, and (ii) such fund meets the requirements of Chapter 135 of the Revised Code (including the requirement that the fund not contain any investment in "derivatives");
6. The State Treasurer's Investment Pool (STAROhio);
7. Overnight or term (not exceeding 30 days) repurchase agreements meeting the requirements of Section 135.14(E) of the Revised Code, with (i) a bank or savings and loan association eligible to be a depository of public funds of Ohio subdivisions, or (ii) NASD member;
8. Commercial paper rated in the highest credit rating by at least two nationally recognized credit rating agencies and subject to the transactions of Section 135.14 of the Revised Code;

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

9. Bankers Acceptance subject to the restrictions of Section 135.14 of the Revised Code.

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

A. Deposits

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

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

As of June 30, 2012 the School District had \$150 in un-deposited cash on hand. This amount is included in pooled cash and cash equivalents.

At fiscal year-end, the carrying amount of the School District's deposits was \$838,922, and the bank balance was \$1,006,950. Of the entire bank balance, \$743,388 was covered by federal depository insurance. The remaining bank balance was uninsured but collateralized.

B. Investments

Investments are reported at carrying value. As of June 30, 2012, the School District had the following investments:

	Carrying Value	Investment Maturities 0-1 Years
STAR Ohio	\$3,674,528	\$3,674,528

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

C. Interest Rate Risk

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

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

D. Custodial Credit Risk

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

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

E. Credit Risk

The School District has no investment policy dealing with credit risk beyond the requirements in state statutes. STAROhio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAROhio as of June 30, 2012, is 53 days and carries a credit rating of AAAm by Standard and Poor's.

F. Concentration of Credit Risk

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

4. PROPERTY TAXES

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

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

4. PROPERTY TAXES (Continued)

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2012 represents collections of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed value listed as of January 1, 2011, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2012 represents collections of calendar year 2011 taxes. Public utility real and tangible personal property taxes received in calendar year 2012 became a lien December 31, 2010, were levied after April 1, 2011 and are collected in 2012 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2012 (other than public utility property) represent the collection of calendar year 2011 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property taxes received from telephone companies in calendar year 2012 were levied after October 1, 2011, on the value as of December 31, 2011. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phased out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property was eliminated in calendar year 2009, and the tax on telephone and telecommunications property was eliminated in calendar year 2010. The tax was phased out by reducing the assessment rate on the property each year. The bill replaced the revenue lost by the School District due to the phasing out of the tax. In calendar years 2006-2010, the School District was fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements are being phased out. On June 30, 2011, House Bill No. 153 was signed into law, which further reduced the amounts of these reimbursements.

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, 2012, are available to finance fiscal year 2012 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2012 taxes were collected are:

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

4. PROPERTY TAXES (Continued)

	2011 Second-Half Collections		2012 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$90,725,760	96.1%	\$98,211,600	96.2%
Public Utility	3,646,430	3.9%	3,845,750	3.8%
Total Assessed Value	<u>\$94,372,190</u>	<u>100.0%</u>	<u>\$102,057,350</u>	<u>100.0%</u>
Tax Rate per \$1,000 of Assessed Valuation	\$39.53		\$33.85	

5. INCOME TAXES

The School District renewed a tax levy of one percent for general operations on the income of residents and of estates. The renewed tax was effective on January 1, 2008, and will continue for five years. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

6. DIESEL SCHOLARSHIP FUND

The Diesel Scholarship Fund was established on November 7, 1967 through a trust agreement. Qualified students borrow amounts, determined yearly, dependent on the ability of the fund to pay for the costs of higher education. Repayments begin after termination of college attendance. At the close of fiscal year 2012, there were eleven students with a total outstanding principal balance of \$15,165. Of the balance, \$3,115 represents the portion that is collectable. The remaining \$12,050 is deferred until the students either complete or leave post-secondary schooling. The fund balance is reported with other Private Purpose Trust balances on the Statement of Fiduciary Net Assets.

7. RISK MANAGEMENT

A. Public Liability

The School District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2012, the School District contracted with Ohio Casualty Company (through O'Conner-McLaughlin Insurance Company) for property and contents insurance. Property coverage amounted to \$42,857,000. The School District has a \$2,500 deductible on this coverage. Earthquake coverage is included (\$5 million).

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

Vehicles are covered by Ohio Casualty Company (through O'Connor-McLaughlin Ins. Co.) with a \$1,000 deductible on buses. Automobile liability has a \$1,000,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past three years. Replacement coverage option is included.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

7. RISK MANAGEMENT (Continued)

Public officials bond insurance for the Board President, Superintendent and Treasurer is provided by the Mueller-Paulus-Homan Insurance Company for a total of \$60,000 (\$20,000 each). The School District has a \$10,000 dishonesty bond covering all employees who handle money. The dishonesty bond is provided by O'Conner McLaughlin Insurance Company from Ohio Casualty Company.

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

B. Workers Compensation

For fiscal year 2012, the School District participated in the Sheakley Uniservice, Inc. Workers Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (Note 16). The intent of the Plan is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participants is calculated as one experience and a common premium is applied to all participants in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate.

The School District pays the State's Workers Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the Plan. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This equity pooling arrangement insures that each participant share equally in the overall performance of the Plan.

C. Employee Medical Benefits

The School District participates in the Allen County Schools Health Benefit Plan (the "Plan"), a public entity shared risk pool consisting of the school districts within Allen County (Note 16). 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.

8. PENSION PLANS

A. School Employees Retirement System

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

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

8. PENSION PLANS (Continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2012, the allocation to pension and death benefits is 12.70%. The remaining 1.30% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amount of 10 percent for plan members and 14 percent for employers. The School District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$134,650, \$155,062 and \$135,881, respectively; 43 percent has been contributed for fiscal year 2012 and 100 percent for the fiscal years 2011 and 2010.

B. State Teachers Retirement System

Plan Description - The School District participates in the State Teachers Retirement System of Ohio ("STRS Ohio"), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a publicly-available, stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

8. PENSION PLANS (Continued)

Funding Policy - For fiscal year 2012, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employer contributions. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011 and 2010 were \$473,183, \$507,579 and \$494,922, respectively; 83 percent has been contributed for fiscal year 2012 and 100 percent for the fiscal years 2011 and 2010. Contributions to the DC and Combined Plans for fiscal year 2012 were \$349 made by the School District and \$249 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2012, five members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

9. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Postemployment Benefits

In addition to a cost-sharing multiple-employer defined benefit pension plan the School Employees Retirement System of Ohio (SERS) administers two postemployment benefit plans.

Medicare Part B Plan

The Medicare Part B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2012 was \$99.90 for most participants, but could be as high as \$319.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2012, the actuarially required allocation is .75%.

The School District's contributions for the years ended June 30, 2012, 2011 and 2010 were \$7,983, \$9,979, and \$8,081, respectively; 43 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

9. POSTEMPLOYMENT BENEFITS (Continued)

Health Care Plan

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

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2012, the health care allocation is .55%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes 15.44 Rev. 8/12 Page 4 of 4 provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The School District's contributions assigned to health care for the years ended June 30, 2012, 2011, and 2010 were \$22,810, \$18,775, and \$20,980, respectively; 43 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status. The financial reports of SERS' Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

B. State Teachers Retirement System

Plan Description - The School District contributes to the cost sharing, multiple-employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the financial report of STRS. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling toll-free (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

9. POSTEMPLOYMENT BENEFITS (Continued)

The School District's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$36,399, \$39,045, and \$38,147, respectively; 83 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

10. LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2012 were as follows:

	Outstanding 6/30/2011	Additions	Reductions	Outstanding 6/30/2012	Due Within One Year
Note Payable HB 264, 4.65%	\$61,850		\$30,925	\$ 30,925	\$ 30,925
2004 School Improvement Bonds:					
Term, 3.3 – 5.125%	5,390,000		4,735,000	655,000	210,000
Capital Appreciation	151,991			151,991	
Capital Accretion	173,225	\$ 37,385		210,610	
2012 Various Purpose Refunding Bonds:					
Serial and Term, 1.0 – 3.125%		4,440,000		4,440,000	125,000
Capital Appreciation		83,907		83,906	
Accretion on Capital Appreciation Bonds		9,078		9,079	
Total Long-Term Obligations	<u>\$5,777,066</u>	<u>\$4,570,370</u>	<u>\$4,765,925</u>	<u>\$5,581,511</u>	<u>\$365,925</u>

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2013	\$30,925	\$719	\$31,644

2012 Various Purpose Refunding Bonds - In April 2012, the School District issued \$4,523,907 in voted general obligation bonds for the purpose of refunding a portion of the 2004 School Improvement Bonds originally issued in the aggregate principal amount of \$6,806,991 for the purpose of constructing, improving, and making additions to school buildings and related site development. The refunding bond issue consists of \$4,440,000 in serial and term bonds, and \$83,907 in capital appreciation bonds. The serial and term bonds have interest rates ranging from 0.90 to 3.125 percent. The serial and term bonds mature annually beginning December 1, 2012 and ending December 1, 2031. Capital appreciation bonds in the amount of \$83,907 will accrete interest at rates from 1.75 to 2.05 percent. The capital appreciation bonds mature December 1, 2015, 2016 and 2017 in the amounts of \$315,000, \$320,000 and \$315,000, respectively. Capital appreciation bonds are not subject to redemption prior to maturity. At June 30, 2012, the accreted value of the capital appreciation bonds was \$92,985. The interest on the capital appreciation bonds represents the accretion of the deep-discounted bonds from the initial value at the time of issuance to their value at final maturity. The bonds will be retired from the debt service fund.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

10. LONG-TERM OBLIGATIONS (Continued)

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

2004 School Improvement Bonds – In June, 2004, the School District issued \$6,806,991 in voted general obligation bonds for constructing, improving, and making additions to school buildings and related site development. The bond issue included serial, term, and capital appreciation bonds in the amounts of \$695,000, \$5,960,000, and \$151,991 respectively. In April, 2012 a portion of the bonds were defeased by the issuance of various purpose refunding bonds. The remaining bonds are being retired with a voted property tax levy from the debt service fund.

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

The Capital Appreciation Bonds will mature in fiscal years 2019 through 2021. Capital Appreciation Bonds are not subject to redemption prior to maturity. During the fiscal year 2012, the accretion for the Capital Appreciation Bonds was \$37,385 for an accreted value of \$362,601 at June 30, 2012. The maturity amounts of the remaining term bonds range from \$210,000 to \$225,000 for the years 2013 through 2015.

Payment requirements to retire the bonds at June 30, 2012 are as follows:

Fiscal Year Ending June 30,	2004 Issue		2012 Issue		Interest/ Accretion	Total
	Term	Capital Appreciation	Tern and Serial	Capital Appreciation		
2013	\$210,000		\$ 125,000		\$ 374,387	\$ 709,387
2014	220,000		80,000		354,998	654,998
2015	225,000		80,000		345,478	650,478
2016				\$43,741	384,725	428,466
2017				25,622	407,844	433,466
2018-2022		\$151,991	475,000	14,544	1,514,884	2,156,419
2023-2027			1,710,000		415,016	2,125,016
2028-2032			1,970,000		155,449	2,125,449
Total	<u>\$655,000</u>	<u>\$151,991</u>	<u>\$4,440,000</u>	<u>\$83,907</u>	<u>\$3,952,781</u>	<u>\$9,283,679</u>

11. OPERATING LEASES

The School District was obligated under an operating lease agreement with Perry Corporation for copiers for a period of 5 years beginning June 17, 2009. In February, 2012 the School District turned in the old copiers and contracted for 8 copiers, 1 fax, and 1 Riso machine under an operating lease for a period of 5 years. The minimum requirement of the new lease is 2,520,000 copies in each 12 month period at \$0.0119 per black and white copy and \$0.045 per color copy, for a total of 12,600,000 copies per lease. During fiscal year 2012, \$29,277 was paid on these leases.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

11. OPERATING LEASES

The School District is obligated under a 63 month operating lease agreement that began October, 2010 with Hasler Mailing Systems for a postage meter. Total lease payments to Hasler Mailing Systems (Mail Finance) during fiscal year 2012 were \$2,295.

The estimated future lease payments are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$41,522	\$2,295
2014	38,328	2,295
2015	38,328	2,295
2016	38,328	576
2017	25,552	
Totals	<u>\$182,058</u>	<u>\$7,461</u>

12. CONTINGENCIES

A. Review of Statewide Attendance Data

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

B. 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. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2012, if applicable, cannot be determined at this time.

C. Litigation

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

13. STATUTORY RESERVES

The School District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

13. STATUTORY RESERVES (Continued)

The following cash basis information describes the change in the fiscal year-end set-aside amounts for capital acquisition. State statute requires disclosing this information. For fiscal year ended June 30, 2012, the restricted activity was as follows:

	Capital Acquisition
Set Aside Reserve Balance June 30, 2011	\$ 0
Current Year Set Aside Requirement	162,047
Current Year Qualifying Disbursements	(83,756)
Current Year Offsets	(78,291)
Prior Year Offsets from Bond Proceeds	0
Total	\$ 0
Balance Carried Forward to Fiscal Year 2013	\$ 0
Set Aside Reserve Balance June 30, 2012	\$ 0

14. FUND BALANCE

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

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

	General	Other Governmental	Total Governmental
Restricted for:			
Capital Improvements		\$ 247,921	\$ 247,921
Debt Service		309,737	309,737
Maintenance		181,713	181,713
Food Service Operations		172,139	172,139
Instructional		14,903	14,903
Student Activities		35,006	35,006
Total Restricted		961,419	961,419
Committed to:			
Severance Payments	41,472		41,472
Educational Supplies	4,153		4,153
Total Committed	45,625		45,625
Assigned for:			
Instruction	85,384		85,384
Support Services	178,738		178,738
Extracurricular Activities	90		90
Subsequent Year Appropriations	2,412,970		2,412,970
Total Assigned	2,677,182		2,677,182
Unassigned	720,870	(\$27,450)	693,420
Total Fund Balances	\$3,443,677	\$933,969	\$4,377,646

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

15. JOINTLY GOVERNED ORGANIZATIONS

Northwest Ohio Area Computer Services Cooperative (NOACSC) - The School District is a participant in NOACSC which is a computer consortium. NOACSC is an association of public school districts within the boundaries of Allen, Hancock, Mercer, Paulding, Putnam, and Van Wert Counties and Cities of St. Marys and Wapakoneta. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of NOACSC consists of two representatives from each county elected by majority vote of all charter member school districts within each county plus one representative from the fiscal agent. Financial information can be obtained from Ray Burden, who serves as Director, at 645 South Main Street, Lima, Ohio 45804.

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

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

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

Spencerville, Perry, and Bath Local Professional Development Committee (The Committee) - The Committee is a consortium operated under the direction of a Board consisting of one representative from the educators of each District, along with two administrators from the member Districts chosen by the superintendents. The Committee was formed to review coursework and other professional development activities completed by educators within the Districts and used for the renewal of certificates and licenses. As of June 30, 2012 there was no financial information available for this committee.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

16. GROUP INSURANCE PURCHASING POOL

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

Allen County Schools Health Benefit Plan (the Plan) - The Allen County Schools Health Benefit Plan is a jointly governed organization among eleven school districts and the Allen County Educational Service Center. The purpose of the jointly governed organization was to form a voluntary employee benefit association to provide sick, dental, and vision benefits to participants at a lower rate than if the individual districts acted independently. Each district pays a monthly premium to the fund trustee for insurance coverage which is currently provided by Allied Benefit Systems. The Plan is governed by an administrative committee consisting of the superintendent from each participating district. The degree of control exercised by any participating school district is limited to each representation on the committee. Financial information can be obtained from Karla Wireman, who serves as Treasurer, at 1920 Slabtown Road, Lima, Ohio 45801.

17. BUDGETARY BASIS OF ACCOUNTING

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

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

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

<u>Net Change in General Fund Balance</u>	
	<u>General Fund</u>
Budget Basis	\$510,436
Funds Budgeted Elsewhere**	(102,153)
Adjustment for Encumbrances	260,344
Cash Basis	<u>\$668,627</u>

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

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

18. COMPLIANCE AND ACCOUNTABILITY

A. Compliance

Ohio Adm. Code Section 117-2-03(B) requires the School District to prepare its annual financial reports in accordance with generally accepted accounting principles (GAAP). However, the School District prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances and disclosures that, while material, cannot be determined at this time. The School District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

The School District failed to return the balance of the New Campus Building, a School District established capital projects fund, within the 10 year period which violated Ohio Rev. Code Section 5705.13(C).

B. Accountability

At June 30, 2012, the Race to the Top, Title 6 Special Ed, Title 1, and Reducing Class Size special revenue funds had deficit balances of \$7,744, \$3,134, \$14,130, and \$2,442, respectively, resulting from disbursements in excess or receipts. The General Fund provides transfers or advances to cover deficit balances; however, this is done when cash is needed.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND DISBURSEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE					
(Passed through Ohio Department of Education)					
Child Nutrition Cluster:					
School Breakfast Program	10.553	\$31,958		\$31,958	
School Breakfast Program (Food Distribution)	10.553		\$7,987		\$7,987
National School Lunch Program	10.555	167,705		167,705	
National School Lunch Program (Food Distribution)	10.555		58,572		58,572
Total Nutrition Cluster		<u>199,663</u>	<u>66,559</u>	<u>199,663</u>	<u>66,559</u>
Total U.S. Department of Agriculture		<u>199,663</u>	<u>66,559</u>	<u>199,663</u>	<u>66,559</u>
U.S. DEPARTMENT OF EDUCATION					
(Passed through Ohio Department of Education)					
Title I, Part A Cluster					
Title 1 Grants to Local Educational Agencies	84.010	154,302		175,393	
ARRA Title 1 Grants to Local Educational Agencies, Recovery Act	84.389	10,976		10,976	
Total Title I, Part A Cluster		<u>165,278</u>		<u>186,369</u>	
Special Education Cluster					
Special Education Grants to States	84.027	168,263		179,148	
ARRA Special Education Grants to States, Recovery Act	84.391	57,889		57,889	
Total Special Education Cluster		<u>226,152</u>		<u>237,037</u>	
Education Technology State Grants	84.318	1,292		1,292	
Improving Teacher Quality State Grants	84.367	40,651		45,677	
ARRA State Fiscal Stabilization Fund (SFSF)					
Race to the Top Incentive Grants, Recovery Act	84.395	16,552		26,150	
Education Jobs	84.410	7,094		7,094	
Total U.S. Department of Education		<u>457,019</u>		<u>503,619</u>	
Total Federal Assistance		<u>\$656,682</u>	<u>\$66,559</u>	<u>\$703,282</u>	<u>\$66,559</u>

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

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND DISBURSEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2012**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

NOTE C – FOOD DONATION PROGRAM

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

NOTE D - MATCHING REQUIREMENTS

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

NOTE E - PASS THROUGH FUNDS

The School District was awarded federal program allocations to be administered on their behalf by the Allen County Educational Service Center. For 2012 the School District's allocation was as follows:

- Early Childhood Special Education, IDEA – CFDA# 84.173 \$2,935



Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Spencerville Local School District, Allen County, (the School District) as of and for the fiscal year ended June 30, 2012, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated January 17, 2013, wherein we noted that the School District uses a comprehensive accounting basis other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the School District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School District's internal control over financial reporting.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and timely corrected. We consider finding 2012-01 described in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2012-01 and 2012-02.

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

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



Dave Yost
Auditor of State

January 17, 2013



Dave Yost • Auditor of State

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

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

To the Board of Education:

Compliance

We have audited the compliance of Spencerville Local School District, Allen County (the School District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the School District's major federal programs for the fiscal year ended June 30, 2012. The *summary of auditor's results* section of the accompanying schedule of findings identifies the School District's major federal programs. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the School District's compliance based on our audit.

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

In our opinion, the Spencerville Local School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the fiscal year ended June 30, 2012.

Internal Control Over Compliance

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

**Internal Control Over Compliance
(Continued)**

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

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

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



Dave Yost
Auditor of State

January 17, 2013

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2012**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	No
(d)(1)(vii)	Major Programs (list):	<p>Child Nutrition Cluster: School Breakfast Program (& Food Distribution) – CFDA #10.553 National School Lunch Program (& Food Distribution) – CFDA #10.555</p> <p>Special Education Cluster: Special Education Grants to States – CFDA #84.027 ARRA Special Education Grants to States Recovery Act – CFDA #84.391</p>
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2012-01

Material Weakness / Noncompliance Citation

Ohio Rev. Code § 5705.13(C) provides that a taxing authority may create, by resolution, one or more capital projects funds to accumulate resources for the acquisition, construction, or improvement of fixed assets, including motor vehicles. Each fund must be created by ordinance or resolution. The resolution or ordinance must identify the asset(s) to be acquired, the amount needed to be accumulated, the period over which the amount will be accumulated (with a limit of ten years from the date of the resolution or ordinance), and the source of the resources. Despite ORC 5705.14 through .16, money may be transferred to the capital projects fund from any other fund that could acquire, construct or improve the fixed assets. If a contract for the fixed asset(s) has not been entered into before the ten-year period expires, the money is returned to the fund from which it was transferred or that was originally intended to receive it. The taxing authority may rescind a capital projects fund at any time with the accumulated resources being returned to the fund from which they came. Auditor of State approval is not required for this transfer.

The Board of Education adopted a resolution in February 2001 to create a building project fund (New Campus Building Fund) to accumulate available resources to meet the School District's future needs for the acquisition, construction, or improvement of fixed assets of the School District. As of June 30, 2012, the building project fund still existed with an available fund cash balance of \$544,187 exceeding the allowable 10 year period. The failure to transfer the balance of this fund back to the General Fund resulted in the material misstatement of the financial statements.

The accompanying financial statements have been adjusted to transfer the June 30, 2012 balance of the New Campus Building Fund back to the General Fund and to eliminate this Fund as a major fund. The opening balance of \$559,483, interest receipts of \$232, and capital outlay of \$15,528 was adjusted into Other Governmental Funds.

On November 21, 2012, the School District adjusted its accounting records by transferring the balance of the New Campus Building Fund back to the General Fund.

When establishing such reserve funds, the School District should closely monitor the activity and duration of the fund to help assure compliance with the Ohio Revised Code and to prevent the possible material misstatement of the financial statements.

OFFICIALS' RESPONSE: The Spencerville Local School District has already returned the unexpended funds within the Building Project Fund (070) to the General fund (001) from which it was transferred from. This transaction took place on Nov. 21, 2012 completing the authorization given in Action item#11-12-10 during the regular November Board of Education meeting of the District. It has always been the intention of the District to return the (070) Capital Project funds to the General Fund (001), where it came from. The current and prior 5 Year Forecasts (see ODE website) show that that has been the plan for years. But the OSFC project which built the new K-12 facility, which included money dedicated from this 070 Capital Project fund, has not closed out yet and there was a misunderstanding that a return of 070 funds was not allowable until the project is officially closed by OSFC, because OSFC deemed this money as part of that whole program. We had hoped to closeout during the last couple of fiscal years, but other material issues arose and made a closeout not feasible. It was in the District's current SM1 to transfer 070 into General fund during this current fiscal year, in June 2013, as it had been our anticipation to close during FY13 and get this all settled. But in correspondence with the state auditors office in October 2012 pertaining to the 10 year limitation, immediate action was taken at the next District board meeting and the transfer back was completed. No funds were mishandled. This issue is a timing issue only due to the OSFC project not being closed and the funds not being transferred back within 10 years.

FINDING NUMBER 2012-02

Noncompliance Citation

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

Ohio Adm. Code Section 117-2-03 (B) requires all school districts to prepare its annual financial reports in accordance with generally accepted accounting principles (GAAP). The School District prepared its financial statements in accordance with the cash accounting basis. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38 the District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

The School District should prepare its financial statements according to generally accepted accounting principles to provide any user with more meaningful and useful financial statements.

OFFICIALS' RESPONSE: The Spencerville Board of Education passed Action #4-12-31 when a 3 year agreement was signed with REA & Associates for accounting services of FY12, FY13, and FY14. The action stated: "It is the board's understanding that by reporting in the cash basis format and in issuing the School's financial statements in the format required by GASB34, the audit will result in a qualified opinion and probably will have a penalty for not reporting under GAAP." This district has been through issuance of bonds, credit rating reevaluations, refinance of bonds and every day normal school district business. Therefore it is noted that the lack of GAAP reporting has not affected all these business transactions and therefore the time and cost of GAAP reporting is deemed too expensive.

3. FINDINGS FOR FEDERAL AWARDS

None

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-01	Ohio Rev. Code Section 117.38 and Ohio Admin. Code 117-2-03(B) – Failure to prepare financial statements in accordance with Generally Accepted Accounting Principles.	No	Repeated as Finding 2012-01
2011-02	Special Education Cluster: Special Education Grants to States – CFDA #84.027 and ARRA Special Education Grants to States – CFDA #84.391 – noncompliance citation / questioned costs / material weakness for unallowable expenditure	Yes	Unallowed cost was repaid from the General Fund to the Special Ed Fund



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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
FEBRUARY 19, 2013**