



Mary Taylor, CPA
Auditor of State

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

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ALLEN COUNTY**

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Mary Taylor, CPA

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, (the School District), as of and for the years ended June 30, 2008 and 2007, 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 cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Spencerville Local School District, Allen County, as of June 30, 2008 and 2007, and the respective changes in cash financial position and the budgetary comparison for the General fund for the years then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2009, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the School District's basic financial statements. The schedule of federal awards receipts and expenditures, for the fiscal year ended June 30, 2008, is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

February 5, 2009

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)**

This discussion and analysis provides key information from management highlighting the financial performance of the Spencerville Local School District (the School District) for the year ended June 30, 2008. This is meant to be an easily readable summary of the most important financial information regarding the accompanying financial statements. Please read it in conjunction with the School District's financial statements and notes.

Financial Highlights

Key financial highlights for 2008 are as follows:

- Net assets of governmental activities decreased \$804,211, or 16 percent.
- General Receipts accounted for \$7,533,153 in receipts or 79 percent of all receipts. The School District's general receipts are primarily property taxes, income taxes and grants and entitlements not restricted to specific programs. These receipts represent 28 percent, 14 percent and 56 percent, respectively, of the total general receipts received from governmental activities during the fiscal year.
- Total program expenses were \$10,376,338.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. The report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement 34, as applicable to the School District's cash basis of accounting. The statements are organized so the reader can understand the School District as a whole operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column. For fiscal year 2008, the General Fund, Permanent Improvement Fund, and the New Campus Building Fund are the most significant funds.

Basis of Accounting

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

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

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(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 2008?" The Statement of Net Assets and the Statement of Activities answer this question.

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

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

Reporting the School District's Most Significant Funds

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

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

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

Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for some of its scholarship and trust programs. This activity is presented as a private purpose trust. The School District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in agency funds. The School District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 16 and 17. These activities are excluded from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)
(Continued)**

The School District as a Whole

This year's financial statements were prepared on the cash basis utilizing the GASB 34 format. The School District has provided a comparative analysis between fiscal year 2008 and 2007.

**(Table 1)
Net Assets Cash Basis**

	Governmental Activities	
	2008	2007
Assets		
Cash and cash equivalents	\$4,353,494	\$5,157,705
Total Assets	<u>4,353,494</u>	<u>5,157,705</u>
Net Assets		
Restricted:		
Capital Projects	1,282,668	2,327,553
Debt Service	251,791	232,892
Other Purposes	415,912	432,728
Set Asides	285,581	206,649
Unrestricted	<u>2,117,542</u>	<u>1,957,883</u>
Total Net Assets	<u>\$4,353,494</u>	<u>\$5,157,705</u>

Table 2 shows the changes in net assets for fiscal year 2008 in comparison to fiscal year 2007. This will enable the reader to draw further conclusion about the School District's financial status and possibly project future problems.

**(Table 2)
Governmental Activities**

	2008	2007
	Governmental Activities	Governmental Activities
Revenues		
Program Receipts		
Charges for Services	\$ 804,722	\$ 740,327
Operating Grants, Contributions and Interest	935,768	881,684
Capital Grants, Contributions and Interest	298,484	1,144,982
General Receipts		
Property Taxes	2,109,948	2,202,974
Income Taxes	1,067,420	972,687
Grants and Entitlements	4,210,475	4,109,220
Other	145,310	287,211
Total Receipts	<u>9,572,127</u>	<u>10,339,085</u>
Program Disbursements		
Instruction	4,775,430	4,725,272
Support Services	3,053,297	2,947,880
Non-Instructional	17,750	106,325
Food Service	400,659	349,968
Extracurricular	351,023	380,027
Capital Outlay	1,285,745	9,644,642
Repayment of Debt	492,434	498,203
Total Disbursements	<u>10,376,338</u>	<u>18,652,317</u>
Decrease in Net Assets	<u>(\$ 804,211)</u>	<u>(\$ 8,313,232)</u>

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)
(Continued)**

Governmental Activities

Program receipts of \$2,038,974 represent 21 percent of the total governmental activities receipts of \$9,572,127. These receipts are down 27 percent compared to last year. The decrease in the percentage of program receipts occurred because \$846,498 less in capital grants was received than the previous year.

The government still relies on general receipts to fund the cost of services provided to the students. Of these general receipts, 42 percent (\$3,177,368) comes from tax levies and 56 percent (\$4,210,475) is from state and federal funding. The School District's operations are reliant upon its tax levies and the state's foundation program.

Approximately 20 percent of the disbursements of the general government programs were recouped through program receipts. Instruction costs were \$4,775,430 or 46 percent of disbursements, but program receipts contributed to fund 19 percent of those costs. Thus, general revenues of \$3,846,762 were used to support the remainder of the instruction costs.

The School District's governmental activities cash balances decreased by \$804,211.

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

**(Table 3)
Governmental Activities**

	2008		2007	
	Total Cost of Service	Net Cost of Services	Total Cost of Service	Net Cost of Services
Instruction	\$ 4,775,430	\$3,846,762	\$ 4,725,272	\$ 3,889,079
Support Services:				
Pupil and Instructional Staff	730,079	644,900	625,657	528,574
Board of Education, Business, Administration, and Fiscal	1,032,549	1,018,729	1,041,364	1,023,650
Operation and Maintenance of Plant	808,138	776,988	811,301	781,422
Pupil Transportation	473,181	454,361	464,431	443,979
Central	9,350	4,350	5,127	127
Operation of Non-Instructional	17,750	1,803	106,325	57,519
Operation of Food Service	400,659	(30,871)	349,968	(10,847)
Extracurricular Activities	351,023	201,493	380,027	224,103
Capital Outlay	1,285,745	992,748	9,644,642	8,509,266
Repayment of Debt	492,434	426,101	498,203	438,452
Total	\$10,376,338	\$8,337,364	\$18,652,317	\$15,885,324

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)
(Continued)**

The School District's Funds

For fiscal year 2008, the School District had three major governmental funds: the General Fund, Permanent Improvement Fund, and the New Campus Building Fund. The assets of these funds comprise \$3,468,191, or 80 percent of the \$4,353,494 in total governmental assets.

General Fund – The General Fund cash balance at June 30, 2008 was \$2,403,122, which represents 55 percent of total governmental fund cash balances. Receipts and other financing sources of the General Fund comprise \$7,654,983 (79 percent) of the total \$9,674,716 governmental funds' receipts. General fund receipts were more than disbursements by \$246,807, indicating that the general fund is not in a deficit spending situation. The change in the General Fund cash balance was due mainly to increases in receipts with only a slight increase in disbursements.

Permanent Improvement Fund – The Permanent Improvement Fund cash balance at June 30, 2008 was \$461,833, which represents 11 percent of total governmental fund cash balances. Receipts and other financing sources of the Permanent Improvement Fund comprise \$144,156 (1 percent) of the total governmental funds' receipts. The change in the Permanent Improvement Fund cash balance was due to disbursements exceeding funding.

New Campus Building Fund – The New Campus Building Fund cash balance at June 30, 2008 was \$603,236, which represents 14 percent of total governmental fund cash balances. The New Campus Building Fund receipts comprise \$31,096. Receipts and other financing sources of the New Campus Building Fund comprise \$69,508 (0.7 percent) of the total governmental funds' receipts. The change in the New Campus Building Fund cash balance was due to disbursements exceeding funding.

General Fund Budgeting Highlights

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

During the course of fiscal year 2008, the School District amended its general fund budget to reflect changing circumstances. The actual receipts varied from the final budgeted receipts by \$243,982 mainly due to an increase in intergovernmental receipts and income taxes. Actual disbursements were less than final budgeted disbursements by \$263,650 mainly due to the School District cutting instructional costs. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

Capital Assets and Debt Administration

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

Debt - At June 30, 2008, the School District's outstanding debt included an energy conservation improvement note in the amount of \$154,625 and a bond issue in the amount of \$6,111,991 for the construction of new school facilities. During fiscal year 2008, the School District paid principal on its HB-264 energy conservation improvement note in the amount of \$30,925 and \$175,000 on the school facility bond issue. Further information on these debt instruments can be found at Note 12 in the notes to the basic financial statements.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)
(Continued)**

Economic Factors

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

As for expenses, the School District faces continued increases in the cost of health care for its employees. The School District also must consider a number of children requiring special education and services. Charges to provide these services increase every year. The School District has faced these challenges the last few years by making cuts to its budget, services offered and not replacing retiring/resigning staff. January 2007 began an exciting new challenge as K-12 students and staff moved to one new building with one cafeteria and the ability to share space and services. The installation of a geothermal system was very important to this School District and utility savings are anticipated.

Current Issues

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

Thus, school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 22 percent of revenues for governmental activities for the School District in fiscal year 2008.

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 the last levy has stretched for longer than it 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, and increases in health insurance and other insurances.

The 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 percent income tax was approved on the November 2007 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.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)
(Continued)**

Contacting the School District's Financial Management

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

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**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**STATEMENT OF NET ASSETS - CASH BASIS
JUNE 30, 2008**

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$4,353,494</u>
Total Assets	<u>4,353,494</u>
Net Assets	
Restricted for:	
Debt Service	251,791
Capital Projects	1,282,668
Other Purposes	415,912
Set Asides	285,581
Unrestricted (Deficit)	<u>2,117,542</u>
Total Net Assets	<u><u>\$4,353,494</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, 2008**

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Charges for</u> <u>Services</u> <u>and Sales</u>	<u>Operating Grants,</u> <u>Contributions,</u> <u>and Interest</u>	<u>Capital Grants</u> <u>Contributions,</u> <u>and Interest</u>	<u>Revenue and</u> <u>Change in</u> <u>Net Assets</u>
					<u>Governmental</u> <u>Activities</u>
Governmental Activities					
Instruction:					
Regular	\$3,755,433	\$426,800	\$43,533		(\$3,285,100)
Special	632,179	3,788	435,134		(193,257)
Vocational	67,497		9,070		(58,427)
Adult / Continuing	2,388				(2,388)
Other	317,933		10,343		(307,590)
Support Services:					
Pupils	424,420		71,690		(352,730)
Instructional Staff	305,659		13,489		(292,170)
Board of Education	32,939		13,071		(19,868)
Administration	682,784				(682,784)
Fiscal	316,323	749			(315,574)
Business	503				(503)
Operation and Maintenance of Plant	808,138		31,150		(776,988)
Pupil Transportation	473,181		13,333	\$5,487	(454,361)
Central	9,350		5,000		(4,350)
Non-instructional Services	17,750	1,309	14,638		(1,803)
Food Service	400,659	257,047	174,483		30,871
Extracurricular Activities	351,023	115,029	34,501		(201,493)
Capital Outlay	1,285,745			292,997	(992,748)
Debt Service:					
Principal	205,925		66,333		(139,592)
Interest and fiscal charges	286,509				(286,509)
Total Governmental Activities	\$10,376,338	\$804,722	\$935,768	\$298,484	(8,337,364)

General Revenues

Property Taxes Levied for:

General Purposes	1,562,312
Debt Service	413,316
Capital Projects	100,734
Building Maintenance	33,586
Income Taxes	1,067,420
Gain on Sale of Capital Assets	3,654
Grants and Entitlements not Restricted to Specific Programs	4,210,475
Interest	121,138
Miscellaneous	20,518

Total General Revenues 7,533,153

Change in Net Assets (804,211)

Net Assets at Beginning of Year 5,157,705

Net Assets at End of Year \$4,353,494

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, 2008**

	<u>General</u>	<u>Permanent Improvement</u>	<u>New Campus Building Fund</u>	<u>Other Governmental</u>	<u>Total</u>
Assets					
Equity in Pooled Cash and Cash Equivalents	\$2,080,729	\$461,833	\$603,236	\$885,303	\$4,031,101
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	322,393				322,393
Total Assets	<u>2,403,122</u>	<u>461,833</u>	<u>603,236</u>	<u>885,303</u>	<u>4,353,494</u>
Fund Balances					
Reserved for Encumbrances	322,785	158,599	118,891	246,995	847,270
Reserved for Textbooks and Instructional Materials	285,581				285,581
Reserved for Bus Purchases	36,812				36,812
Unreserved, Designated for Severance				135,713	135,713
Unreserved, Reported in:					
General Fund	1,757,944				1,757,944
Special Revenue Funds				232,632	232,632
Debt Service Funds				251,791	251,791
Capital Projects Funds		303,234	484,345	18,172	805,751
Total Fund Balance	<u>2,403,122</u>	<u>461,833</u>	<u>603,236</u>	<u>885,303</u>	<u>4,353,494</u>
Total Liabilities and Fund Balances	<u>\$2,403,122</u>	<u>\$461,833</u>	<u>\$603,236</u>	<u>\$885,303</u>	<u>\$4,353,494</u>

See accompanying notes to the basic financial statements.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

	General	Permanent Improvement	New Campus Building Fund	Other Governmental	Total
Receipts					
Property and Other Local Taxes	\$1,562,312	\$100,734		\$446,902	\$2,109,948
Income Tax	1,067,420				1,067,420
Intergovernmental	4,428,918	19,321		853,556	5,301,795
Interest	121,138	21,497	\$31,096	36,424	210,155
Tuition and Fees	430,588				430,588
Extracurricular Activities				116,338	116,338
Gifts and Donations				51,775	51,775
Customer Sales and Services	749			257,047	257,796
Miscellaneous	9,098				9,098
Total Receipts	7,620,223	141,552	31,096	1,762,042	9,554,913
Disbursements					
Current:					
Instruction:					
Regular	3,679,311	23,970	7,897	44,255	3,755,433
Special	340,931			291,248	632,179
Vocational	67,497				67,497
Adult / Continuing	2,388				2,388
Other	317,933				317,933
Support Services:					
Pupils	337,839			86,581	424,420
Instructional Staff	159,838	120,689		25,132	305,659
Board of Education	32,107		832		32,939
Administration	644,854	18,603	6,262	13,065	682,784
Fiscal	306,852	1,739	2	7,730	316,323
Business	503				503
Operation and Maintenance of Plant	765,870		1,756	40,512	808,138
Pupil Transportation	464,365	8,816			473,181
Central	4,350			5,000	9,350
Operation of Noninstructional Services	176			17,574	17,750
Food Service Operations				400,659	400,659
Extracurricular Activities	209,768			141,255	351,023
Capital Outlay		155,213	637,654	492,878	1,285,745
Debt Service					
Principal	30,925			175,000	205,925
Interest	7,909			278,600	286,509
Total Disbursements	7,373,416	329,030	654,403	2,019,489	10,376,338
Excess of Receipts Over Disbursements	246,807	(187,478)	(623,307)	(257,447)	(821,425)
Other Financing Sources (Uses)					
Transfers In				42,977	42,977
Advance In	21,200				21,200
Proceeds from the Sale of Capital Assets		2,604		1,050	3,654
Insurance Recoveries	3,405				3,405
Refund of Prior Year Expenditures	10,155		38,412		48,567
Transfers Out	(42,977)				(42,977)
Advance Out				(21,200)	(21,200)
Refund of Prior Year Receipts				(38,412)	(38,412)
Total Other Financing Sources (Uses)	(8,217)	2,604	38,412	(15,585)	17,214
Changes in Fund Balances	238,590	(184,874)	(584,895)	(273,032)	(804,211)
Fund Balances (Deficit) at Beginning of Year	<u>2,164,532</u>	<u>646,707</u>	<u>1,188,131</u>	<u>1,158,335</u>	<u>5,157,705</u>
Fund Balances at End of Year	<u>\$2,403,122</u>	<u>\$461,833</u>	<u>\$603,236</u>	<u>\$885,303</u>	<u>\$4,353,494</u>

See accompanying notes to the basic financial statements.

SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Positive (Negative) Variance with Final Budget
Receipts				
Property and Other Local Taxes	\$1,515,276	\$1,515,276	\$1,562,312	\$47,036
Income Taxes	972,687	972,687	1,067,420	94,733
Intergovernmental	4,293,608	4,340,376	4,428,918	88,542
Interest	141,698	141,698	121,138	(20,560)
Tuition and Fees	388,943	391,943	430,588	38,645
Customer Sales and Services	5,000	5,000	749	(4,251)
Miscellaneous	6,425	9,261	9,098	(163)
Total Receipts	<u>7,323,637</u>	<u>7,376,241</u>	<u>7,620,223</u>	<u>243,982</u>
Disbursements				
Current:				
Instruction:				
Regular	3,829,162	3,836,948	3,705,572	131,376
Special	404,815	392,242	384,838	7,404
Vocational	75,919	76,444	67,956	8,488
Adult/Continuing	2,756	2,756	2,388	368
Other	367,087	362,231	362,169	62
Support Services:				
Pupils	374,128	349,888	345,974	3,914
Instructional Staff	154,275	189,801	165,379	24,422
Board of Education	38,270	38,271	36,177	2,094
Administration	694,941	681,862	663,458	18,404
Fiscal	341,873	358,147	348,098	10,049
Business	418	618	503	115
Operation and Maintenance of Plant	832,379	877,603	847,428	30,175
Pupil Transportation	510,415	532,218	513,069	19,149
Central	230	4,754	4,350	404
Operation of Non-Instructional Services				
Food Service Operations	176	177	176	1
Extracurricular Activities:				
Academic Oriented Activities	19,757	22,757	22,266	491
Occupation Oriented Activities	4,193	4,193	2,740	1,453
Sport Oriented Activities	181,762	181,762	177,455	4,307
School and Public Service				
Co-Curricular Activity	8,345	8,345	7,371	974
Debt Service:				
Principal	30,925	30,925	30,925	
Interest	7,909	7,909	7,909	
Total Disbursements	<u>7,879,735</u>	<u>7,959,851</u>	<u>7,696,201</u>	<u>263,650</u>
Excess of Receipts Over (Under) Disbursements	(556,098)	(583,610)	(75,978)	507,632
Other Financing Sources (Uses)				
Advances In	21,200	21,200	21,200	
Insurance Recoveries			3,405	3,405
Proceeds from Sale of Capital Assets				
Refund of Prior Year Disbursements	6,709	6,709	10,155	3,446
Transfers Out	(43,000)	(43,000)	(42,977)	23
Advances Out	(21,200)	(8,997)		8,997
Other Financing Uses	(14,776)	(468)		468
Total Other Financing Sources (Uses)	<u>(51,067)</u>	<u>(24,556)</u>	<u>(8,217)</u>	<u>16,339</u>
Net Change in Fund Balances	(607,165)	(608,166)	(84,195)	523,971
Fund Balance at Beginning of Year	1,931,953	1,931,953	1,931,953	
Prior Year Encumbrances Appropriated	232,579	232,579	232,579	
Fund Balance at End of Year	<u>\$1,557,367</u>	<u>\$1,556,366</u>	<u>\$2,080,337</u>	<u>\$523,971</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, 2008**

	Private Purpose Trust	Agency
	<u> </u>	<u> </u>
Assets		
Equity in Pooled Cash and Cash Equivalents	\$106,422	\$51,066
Total Assets	<u>106,422</u>	<u>51,066</u>
 Liabilities		
Current Liabilities:		
Undistributed Monies		51,066
Total Liabilities	<u> </u>	<u>51,066</u>
 Net Assets		
Unexpendable	93,555	
Held in Trust for Scholarships	<u>12,867</u>	
Total Net Assets	<u>\$106,422</u>	

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 FISCAL YEAR ENDED JUNE 30, 2008**

	Private Purpose Trust
Additions	
Gifts and Contributions	\$2,082
Interest	4,524
Miscellaneous	6,490
Total Additions	<u>13,096</u>
Deductions	
Payments in Accordance with Trust Agreements	<u>7,413</u>
Change in Net Assets	5,683
Net Assets at Beginning of Year	<u>100,739</u>
Net Assets at End of Year	<u><u>\$106,422</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, 2008**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District is located in Allen, Auglaize and Van Wert Counties. It is staffed by 39 non-certificated employees and 71 certificated full-time teaching personnel who provide services to 1009 students and other community members. The School District currently operates 1 school building that encompasses the elementary, middle and high school as well as one administration building.

A. Reporting Entity

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

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

Blended 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.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The School District is associated with four 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 Allen County Schools Health Benefit Plan, and Sheakley Uniservice, Inc. These organizations are presented in Notes 16 and 17 to the basic financial statements.

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. 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.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Program receipts include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Receipts which are not classified as program receipts are presented as general receipts of the School District, with certain limited exceptions. 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 three major funds: General, Permanent Improvement and New Campus Building funds which are presented in separate columns. 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:

- a. 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,
- b. 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.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Governmental Funds/Governmental Activities

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

General Fund - The General Fund is the primary operating fund of the School District and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds. The General Fund balance is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Permanent Improvement Fund - This fund is used to account for financial resources used for the acquisition or construction of major capital facilities.

New Campus Building Fund - This fund is used to account for financial resources used for the acquisition or construction of major capital facilities.

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

2. Fiduciary Fund Types

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

D. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control selected by the Board is at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education. Advances in and Advances out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Tax Budget

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed 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. 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 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.

4. Encumbrances

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of 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 a reservation of fund balance for subsequent-year disbursements for governmental funds.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

E. Cash and Cash Equivalents

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

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

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

During fiscal year 2008, investments were limited to non-negotiable certificate of deposit, mutual funds and STAROhio. Non-negotiable certificates of deposit are stated at cost. 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, 2008.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2008 was \$121,138, which included \$12,448 assigned from other funds.

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets represent amounts required by State statute to be set aside for the acquisition and construction of capital improvements.

G. Employer Contributions to Cost-Sharing Pension Plans

The School District recognizes the disbursements for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 10 and 11, the employer contributions include portions for pension benefits and for postretirement health care benefits.

H. Inventory and Prepaid Items

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

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Capital Assets

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. The financial statements do not report these assets.

J. Accumulated Leave

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

K. Long-Term Obligations

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

L. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to expenditure for specified purposes. At June 30, 2008, there were no School District net assets restricted by enabling legislation.

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.

M. Fund Balance Reserves/Designations

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

N. Intergovernmental Receipts

Unrestricted intergovernmental receipts received on the basis of entitlement are recorded as receipts when the entitlement is received.

O. Interfund Activity

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

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

3. COMPLIANCE

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

4. IMPLEMENTATION OF NEW ACCOUNTING POLICIES

For the year ended 2008, the School District has implemented GASB Statement No. 45, *“Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions”*, GASB Statement No. 48, *“Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues”*, GASB Statement No. 49, *“Accounting and Financial Reporting for Pollution Remediation Obligations”*, and GASB Statement No. 50, *“Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27.”*

GASB Statement No. 45 provides guidance on all aspects of OPEB reporting by employers. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

GASB Statement No. 48 provides guidance on accounting for sales and pledges of receivables and future revenues. The Statement also requires governments to disclose in the notes to the financial statements the amount of future revenues that have been pledged or sold.

GASB Statement No. 49 provides guidance on how to calculate and report the costs and obligations associated with pollution cleanup efforts.

GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of GASB Statement No. 25, “Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans”, and GASB Statement No. 27, “Accounting for Pensions by State and Local Governmental Employers”, to conform with requirements of GASB Statement No. 43, “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans”, and GASB Statement No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions”.

Implementation of these GASB Statements did not affect the presentation of the financial statements of the School District.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

5. 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 five 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;
9. Bankers Acceptance subject to the restrictions 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, 2008
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

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.

As of June 30, 2008 the School District had \$150 in undeposited cash on hand. This amount is included in cash and cash equivalents.

At fiscal year end, the carrying amount of the School District's deposits was \$2,568,167 and the bank balance was \$2,631,972. Of the bank balance, \$200,000 was covered by federal depository insurance and \$2,431,972 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name. Although the securities serving as collateral were held by the pledging financial institution's trust department and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

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 one hundred five percent of the deposits being secured.

B. Investments

Investments are reported at carrying value. As of June 30, 2008, the School District had the following investments:

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

	Fair Market Value	Investment Maturities (in years) 0 - 1
Mutual Fund – Short-Term Government Agencies	\$ 178,672	\$ 178,672
STAROhio	1,763,993	1,796,993
Total Fair Market Value	\$1,942,665	\$1,942,665

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.

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."

D. Credit Risk

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

The mutual funds and STAROhio carry a credit rating of AAA by Standard and Poor's at June 30, 2008.

E. 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. More than 5 percent of the School District's investments are in mutual funds and STAROhio. These investments are 9.20 percent and 90.80 percent, respectively, of the School District's total investments for the amounts listed above.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

6. PROPERTY TAXES

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years through 2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursement will be phased out.

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

Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of the prior December 31. For 2007, tangible personal property was assessed at 12.5 percent for property. This percentage was reduced to 6.25 percent for 2008 and to zero for 2009.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

The School District receives property taxes from Allen, Auglaize and Van Wert Counties. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2008 are available to finance fiscal year 2008 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which fiscal year 2008 taxes were collected are:

	2007 Second-Half Collections		2008 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$79,651,280	92%	\$80,432,910	95%
Public Utility	3,935,280	5	3,447,840	4
Tangible Personal Property	2,738,781	3	658,989	1
Total Assessed Value	\$86,325,341	100%	\$84,539,739	100%
Tax rate per \$1,000 of assessed valuation	\$36.61		\$36.79	

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

7. 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.

8. DIESEL SCHOLARSHIP FUND

The Diesel Scholarship Fund was established on November 7, 1967 through a trust agreement. Qualified students may borrow amounts determined yearly dependent on the ability of the fund to pay for the costs of higher education. Repayments begin after termination of college attendance. At the close of fiscal year 2008, there were 14 students with a total outstanding principal balance of \$18,865. Of the balance, \$7,240 represents the portion that is collectable. The remaining \$11,625 is deferred until the students complete or leave post secondary schooling.

9. 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 2008, the School District contracted with Indiana Insurance Company (through O'Conner-McLaughlin Insurance Company) for property and contents insurance. Property coverages amounted to \$39,094,000. The School District has a \$2,500 deductible on this coverage.

General and professional liability is protected by Indiana Insurance Company, a Division of Ohio Casualty (through O'Connor-McLaughlin Insurance Company) with \$1,000,000 each occurrence and \$3,000,000 aggregate limit. There is a minimum \$2,500 deductible on this coverage.

Vehicles are covered by Indiana Insurance Company/The Netherland Insurance Company (through O'Connor-McLaughlin Ins. Co.) and hold a \$1,000 deductible for bus and \$500 for auto collisions. Automobile liability has a \$2,000,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past three years.

Public officials bond insurance for the Board President, Superintendent and Treasurer is provided by the Mueller-Paulus-Homan Insurance Company for a total of \$60,000 (\$20,000 each). The School District has a \$10,000 (\$500 deductible) dishonesty bond covering all employees who handle money. The dishonesty bond is provided by O'Conner McLaughlin Insurance Company.

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

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

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

9. RISK MANAGEMENT (Continued)

B. Workers' Compensation

For fiscal year 2008, the School District participated in the Sheakley Uniservice, Inc. Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (Note 17). The intent of the Plan is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participants is calculated as one experience and a common premium is applied to all participants in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual total.

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

C. Employee Medical Benefits

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

10. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

Plan Description - The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries.

STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

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.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

10. DEFINED BENEFIT PENSION PLANS (continued)

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

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

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

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006 were \$489,674, \$482,189, and \$476,229 respectively; 83 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006. There were no contributions to the DC and Combined Plans for fiscal year 2008 made by the School District or the plan members.

B. School Employee Retirement System

Plan Description - The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by 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 may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

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 School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2008, 9.16 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$95,515, \$102,460 and \$98,995 respectively; 52 percent has been contributed for the fiscal years 2008 and 100 percent for fiscal years 2007 and 2006.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

10. DEFINED BENEFIT PENSION PLANS (continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2008, three members of the Board of Education have elected Social Security. The contribution rate is 6.2 percent of wages.

11. POST-EMPLOYMENT BENEFITS

A. State Teachers Retirement System

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$37,667, \$37,093, and \$36,897 respectively; 83 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. School Employee Retirement System

Plan Description – The School District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program.

The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$15,230.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

11. POST-EMPLOYMENT BENEFITS (continued)

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$43,587, \$34,017, and \$34,547 respectively; 51 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2008, this actuarially required allocation was 0.66 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were \$6,882, \$6,967, and \$7,879 respectively; 51 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

12. LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2008 were as follows:

	Balance 6/30/2007	Additions	Reductions	Balance 6/30/2008	Due Within One Year
Note Payable HB 264, 4.65%	\$ 185,550		\$ 30,925	\$ 154,625	\$ 30,925
2004 School Improvement Bonds					
Serial, 2.0-2.7%	175,000		175,000		
Term, 3.3-5.125%	5,960,000			5,960,000	185,000
Capital Appreciation	151,991			151,991	
Capital Accretion	58,291	\$24,251		82,542	
Total Long-Term Obligations	\$6,530,832	\$24,251	205,925	\$6,349,158	\$215,925

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, 2008, are as follows:

Year	Principal	Interest	Total
2009	\$ 30,925	\$ 6,471	\$ 37,396
2010	30,925	5,033	35,958
2011	30,925	3,595	34,520
2012	30,925	2,157	33,082
2013	30,925	719	31,644
Total	\$154,625	\$17,975	\$172,600

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

12. LONG-TERM OBLIGATIONS (Continued)

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

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

The Capital Appreciation Bonds will mature in fiscal years 2019 through 2021. The maturity amount of the bonds is \$270,000 each year. During fiscal year 2008, the accretion for the Capital Appreciation bonds was \$24,251 for an accreted value of \$234,533 at June 30, 2008. Capital Appreciation Bonds are not subject to redemption prior to maturity.

Payment requirements to retire the bonds at June 30, 2008 are as follows:

Fiscal Year End June 30	Term Bonds	Capital Bonds	Total Bonds	Interest/ Accretion	Total
2009	\$ 185,000		\$ 185,000	\$ 276,237	\$ 461,237
2010	190,000		190,000	270,133	460,133
2011	195,000		195,000	263,862	458,862
2012	200,000		200,000	256,453	456,453
2013	210,000		210,000	248,853	458,853
2014-2018	1,180,000		1,180,000	1,109,010	2,289,010
2019-2023	550,000	\$151,991	701,991	1,600,159	2,302,150
2024-2028	1,625,000		1,625,000	670,250	2,295,250
2029-2032	1,625,000		1,625,000	213,713	1,838,713
Total	<u>\$5,960,000</u>	<u>\$151,991</u>	<u>\$6,111,991</u>	<u>\$4,908,670</u>	<u>\$11,020,661</u>

13. INTERFUND TRANSFERS

During fiscal year 2008, the following transfers in and out occurred:

Fund	Transfers In	Transfers Out
General Fund		\$42,977
All Other Governmental		
Termination Benefits/Local Fund	\$11,612	
Title I/Ch. 1/FY 2007	4,865	
Title I/Ch. 1/FY 2008	26,500	
Total All Other Governmental	<u>42,977</u>	
Total All	<u>\$42,977</u>	<u>\$42,977</u>

Transfers from the General Fund were made to move unrestricted balances to support expenditures in anticipation of reimbursement by granting authorities. Transfers represent the allocation of unrestricted receipts collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

14. INTERFUND ADVANCES

At June 30, 2007, \$21,200 in advances was outstanding from other governmental funds to the General Fund. During fiscal year 2008, this amount was paid in full leaving \$0 outstanding at June 30, 2008.

15. STATUTORY RESERVES

State statute annually requires the School District to set aside in the General Fund an amount based on a statutory formula to purchase textbooks and other instructional materials and an equal amount to acquire and construct capital improvements. Amounts not spent by fiscal year-end, or offset by similarly restricted resources received during the fiscal year, must be held in cash at fiscal year-end and carried forward to be used for the same purposes in future fiscal years. The following cash basis information describes the change in the fiscal year-end set-aside amounts for textbooks and capital acquisition. State statute requires disclosing this information. For fiscal year ended June 30, 2008, the reserve activity was as follows:

	Textbook Reserve	Capital Maintenance Reserve
Carryover Balance, June 30, 2007	\$206,649	
Required Set-Aside	151,245	\$ 151,245
Qualifying Disbursements	(71,312)	(31,189)
Prior Year Offsets Carried Forward		(6,806,991)
Current Year Offsets		(120,056)
Balance June 30, 2008	\$285,582	(\$6,806,991)
Balance Carried Forward to FY09	\$285,582	
Offset Carried Forward to FY09		(\$6,806,991)

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

16 JOINTLY GOVERNED ORGANIZATIONS

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

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

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

16. JOINTLY GOVERNED ORGANIZATIONS (continued)

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.

17. GROUP PURCHASING POOLS

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

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

18. CONTINGENCIES

Grants - The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2008.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

19. OPERATING LEASES

The School District is obligated under an operating lease agreement with Perry Corporation for copiers for a period of 5 years beginning January 2, 2007. The minimum requirement of the lease is 2,400,000 copies in each 12 month period at \$0.0121 per black and white copy and \$0.08 per color copy, for a total of 11,880,000 copies per lease. During fiscal year 2008, \$29,927 was paid on this lease. The School District is also obligated under a 36 month operating lease agreement with Hasler Mailing Systems for a postage meter that began November 28, 2007. This lease replaced the expired lease for the same equipment. Total lease payments to Hasler Mailing Systems during fiscal year 2008 were \$908.

The estimated future lease payments are as follows:

Year Ending June 30,	Copier Lease	Postage Meter
2009	\$ 29,500	\$ 588
2010	29,500	588
2011	29,500	588
2012	29,500	588
	\$118,000	\$1,764

20. CONTRACTUAL COMMITMENTS

At June 30, 2008 the School District had the following outstanding contractual commitments for the building construction project:

Contractor/Vendor	Current Contract Value	Disbursed through June 30, 2008	Escrow Balance	Balance
RAME Inc.	\$ 1,378,984	\$ 1,355,069	\$ 5,415	\$ 18,500
C&T Design and Equipment	335,193	325,567	267	9,359
Area Energy	292,817	286,239	3,883	2,695
Microman	741,294	721,972	920	18,402
Total	\$ 2,748,288	\$ 2,688,847	\$ 10,485	\$48,956

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**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR YEAR ENDED JUNE 30, 2008**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. DEPARTMENT OF AGRICULTURE						
(Passed through Ohio Department of Education)						
Nutrition Cluster:						
Food Distribution Program	N/A	10.550		\$35,253		\$35,253
National School Lunch Program	045807-LLP4-2008	10.555	\$135,211		\$135,211	
Total National School Lunch			<u>135,211</u>	<u>35,253</u>	<u>135,211</u>	<u>35,253</u>
Total U.S. Department of Agriculture - Nutrition Cluster			135,211	35,253	135,211	35,253
U.S. DEPARTMENT OF EDUCATION						
(Passed through Ohio Department of Education)						
Title I, Part A, IASA	045807-C1S1-2008	84.010	122,561		124,725	
IDEA-B, Special Education Grants to States	045807-6BSF-2007 045807-6BSF-2008	84.027	26,111 <u>174,463</u>		20,807 <u>199,243</u>	
Total IDEA-B			200,574		220,050	
Vocational Education - Basic Grants to States	2008	84.048	1,368		1,368	
Drug Free Grant	045807-DRS1-2008	84.186	2,511		2,968	
Title V, Innovative Education Program Strategies	045807-C2S1-2008	84.298	1,314		1,761	
Technology Literacy	045807-TJS1-2007 045807-TJS1-2008	84.318	1,080 <u>410</u>		284 <u>284</u>	
Total Technology Literacy			1,490		284	
Improving Teacher Quality	045807-TRS1-2007 045807-TRS1-2008	84.367	34,157		4,000 <u>36,497</u>	
Total Improving Teacher Quality			<u>34,157</u>		<u>40,497</u>	
Total U.S. Department of Education			<u>363,975</u>		<u>391,653</u>	
Total Federal Assistance			<u>\$499,186</u>	<u>\$35,253</u>	<u>\$526,864</u>	<u>\$35,253</u>

See accompanying notes to the schedule of federal awards receipts and expenditures.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE C – FOOD DONATION PROGRAM

Program regulations do not require the School District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair value of the commodities received.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)**

This discussion and analysis provides key information from management highlighting the financial performance of the Spencerville Local School District (the "School District") for the year ended June 30, 2007. This is meant to be an easily readable summary of the most important financial information regarding the accompanying financial statements. Please read it in conjunction with the School District's financial statements and notes.

Financial Highlights

Key financial highlights for 2007 are as follows:

- Net assets of governmental activities decreased \$8,313,232, or 62 percent. The decrease is because the amounts of disbursements for the construction of school facilities were in excess of current year receipts. A significant amount of receipts for the school facilities construction were actually received in the previous fiscal year.
- General Receipts accounted for \$7,572,092 in receipts or 73 percent of all receipts. The School District's general receipts are primarily property taxes and grants and entitlements not restricted to specific programs. These receipts represent 29.0 percent and 54.3 percent, respectively, of the total general receipts received from governmental activities during the fiscal year.
- Total program expenses were \$18,652,317. The School District has undertaken the construction of new school facilities through the Ohio School Facilities Construction Program. Disbursements for this construction project represent 51.7 percent of governmental activities disbursements.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. The report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement 34, as applicable to the School District's cash basis of accounting. The statements are organized so the reader can understand the Spencerville Local School District as a whole operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column. For fiscal year 2007, the General Fund, Permanent Improvement Fund, Ohio School Facilities Commission Fund, and the New Campus Building Fund are the most significant funds.

Basis of Accounting

The School District has elected to present its financial statements on a 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.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)
(Continued)**

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

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 2007?" The Statement of Net Assets and the Statement of Activities answer this question.

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements - The analysis of the School District's major funds begins on page 47. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds include the General Fund, Permanent Improvement Fund, Ohio School Facilities Commission Fund, and the New Campus Building Fund.

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

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

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)
(Continued)**

Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for some of its scholarship and trust programs. This activity is presented as a private purpose trust. The School District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in agency funds. The School District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 56 and 57. These activities are excluded from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

The School District as a Whole

This year's financial statements were prepared on the cash basis utilizing the GASB 34 format. The School District has provided a comparative analysis between fiscal year 2007 and 2006.

**(Table 1)
Net Assets – Cash Basis**

	Governmental Activities	
	2007	2006 (Restated)
Assets		
Cash and cash equivalents	\$5,157,705	\$7,028,905
Investments		6,442,032
Total Assets	<u>5,157,705</u>	<u>13,470,937</u>
Net Assets		
Restricted:		
Capital Projects	2,327,553	10,828,939
Debt Service	232,892	207,901
Other Purposes	432,728	489,889
Set Asides	206,649	129,030
Unrestricted	1,957,883	1,815,178
Total Net Assets	<u>\$5,157,705</u>	<u>\$13,470,937</u>

Table 2 shows the changes in net assets for fiscal year 2007 in comparison to fiscal year 2006. This will enable the reader to draw further conclusion about the School District's financial status and possibly project future problems.

**(Table 2)
Governmental Activities**

	2007 Governmental Activities	2006 (Restated) Governmental Activities
Revenues		
Program Receipts		
Charges for Services	\$ 740,327	\$ 707,321
Operating Grants, Contributions and Interest	881,684	790,209
Capital Grants, Contributions and Interest	1,144,982	12,136,564
General Receipts		
Property Taxes	2,202,974	2,199,080
Income Taxes	972,687	928,513
Grants and Entitlements	4,109,220	4,120,970
Other	287,211	418,523
Total Receipts	<u>10,339,085</u>	<u>21,301,180</u>

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)
(Continued)**

**(Table 2)
Governmental Activities
(Continued)**

	2007 Governmental Activities	2006 (Restated) Governmental Activities
Program Disbursements		
Instruction	4,725,272	4,719,948
Support Services	2,947,880	2,800,242
Non-Instructional	106,325	28,457
Food Service	349,968	364,002
Extracurricular	380,027	345,802
Capital Outlay	9,644,642	16,184,904
Repayment of Debt	498,203	498,310
Total Disbursements	<u>18,652,317</u>	<u>24,941,665</u>
Decrease in Net Assets	<u>(\$ 8,313,232)</u>	<u>(\$ 3,640,485)</u>

Governmental Activities

Program receipts of \$2,766,993 represent 26.8 percent of the total governmental activities receipts of \$10,339,085. These receipts are down, at 48.5 percent of last year. The decrease in the percentage of program receipts occurred because \$10,991,582 less in capital grants was received than the previous year. These grants are mostly from the State and are actually drawdowns from the Ohio School Facilities Commission (OSFC) building project. The draw downs are made on a quarterly basis and are determined by the projected expenses on the OSFC building project for the quarter.

The government still relies on general receipts to fund the cost of services provided to the students. Of these general receipts, 41.9 percent (\$3,175,661) comes from tax levies and 54.3 percent (\$4,109,220) is from state and federal funding. The School District's operations are reliant upon its tax levies and the state's foundation program.

Approximately 14.8 percent of the disbursements of the general government programs were recouped through program receipts. Instruction costs were \$4,725,272, or 25.3 percent of disbursements, but program receipts contributed to fund 17.5 percent of those costs. Thus, general revenues of \$3,889,078 were used to support the remainder of the instruction costs.

The School District's total cost for services for all non-instructional services decreased by almost \$6.3 million. This decrease was mostly created by the School District's decrease in capital outlay costs by nearly \$6.5 million. The total cost of services is expected to continue decreasing in future years.

The School District's governmental activities cash balances decreased by \$8,313,232. During the year, the School District had a full year of expenses from the OSFC building project. This cash balance is projected to slowly decline while the OSFC building project is being completed.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)
(Continued)**

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

**(Table 3)
Governmental Activities**

	2007		2006 (Restated)	
	Total Cost of Service	Net Cost of Services	Total Cost of Service	Net Cost of Services
Instruction	\$ 4,725,272	\$ 3,889,079	\$ 4,719,948	\$ 3,779,051
Support Services:				
Pupil and Instructional Staff	625,657	528,574	621,548	569,972
Board of Education, Business, Administration, and Fiscal	1,041,364	1,023,650	1,045,247	1,035,590
Operation and Maintenance of Plant	811,301	781,422	670,397	670,397
Pupil Transportation	464,431	443,979	457,090	433,319
Central	5,127	127	5,960	960
Operation of Non-Instructional	106,325	57,519	28,457	27,872
Operation of Food Service	349,968	(10,847)	364,002	10,643
Extracurricular Activities	380,027	224,103	345,802	233,117
Capital Outlay	9,644,642	8,509,266	16,184,904	4,048,340
Repayment of Debt	498,203	438,452	498,310	498,310
Total	\$18,652,317	\$ 15,885,324	\$24,941,665	\$ 11,307,571

The School District's Funds

For fiscal year 2007, the School District had four major governmental funds: the General Fund, Permanent Improvement Fund, Ohio School Facilities Construction Fund (OSFC) Fund and the New Campus Building Fund. The assets of these funds comprise \$4,343,986, or 84.2 percent of the \$5,157,705 in total governmental assets.

General Fund – The General Fund cash balance at June 30, 2007 was \$2,164,532, which represents 42.0 percent of total governmental fund cash balances. Receipts and other financing sources of the General Fund comprise \$7,551,898 (72.4 percent) of the total \$10,428,598 governmental funds' receipts and 39.1 percent of the total disbursements and other financing uses for the governmental funds. General fund receipts were more than disbursements by \$220,324, indicating that the general fund is not in a deficit spending situation. The change in the General Fund cash balance was due mainly to increases in receipts with only a slight increase in disbursements.

Permanent Improvement Fund – The Permanent Improvement Fund cash balance at June 30, 2007 was \$646,707, which represents 12.5 percent of total governmental fund cash balances. Receipts and other financing sources of the Permanent Improvement Fund comprise \$173,027 (1.7 percent) of the total governmental funds' receipts and 0.4 percent of total disbursements and other financing uses. The change in the Permanent Improvement Fund cash balance was due to funding exceeding disbursements.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)
(Continued)**

OSFC Fund – The OSFC Fund cash balance at June 30, 2007 was \$344,616, which represents 6.7 percent of total governmental fund cash balances. Receipts of the OSFC Fund comprise \$968,767 (9.3 percent) of total governmental funds' receipts and other financing sources and 43.1 percent of total disbursements and other financing uses. The change in the OSFC Fund cash balance was due to disbursements exceeding funding.

New Campus Building Fund – The New Campus Building Fund cash balance at June 30, 2007 was \$1,188,131, which represents 23.0 percent of total governmental fund cash balances. The New Campus Building Fund receipts comprise \$82,003 (0.8 percent) of total governmental funds' receipts and 3.3 percent of total disbursements. The change in the New Campus Building Fund cash balance was due to disbursements exceeding funding.

General Fund Budgeting Highlights

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

During the course of fiscal year 2007, the School District amended its general fund budget to reflect changing circumstances. The actual receipts varied from the final budgeted receipts by \$55,453 mainly due to an increase in tax receipts. Actual disbursements were less than final budgeted disbursements by \$470,294 mainly due to the School District cutting instructional costs. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

Capital Assets and Debt Administration

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

Debt - At June 30, 2007, the School District's outstanding debt included an energy conservation improvement note in the amount of \$185,550 and a bond issue in the amount of \$6,286,991 for the construction of new school facilities. During fiscal year 2007, the School District paid principal on its HB-264 energy conservation improvement note in the amount of \$30,925 and \$175,000 on the school facility bond issue. Further information on these debt instruments can be found at Note 12 in the notes to the basic financial statements.

Economic Factors

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

As for expenses, the School District faces continued increases in the cost of health care for its employees. The School District also must consider a number of children requiring special education and services. Charges to provide these services increase every year. The School District has faced these challenges the last few years by making cuts to its budget, services offered and not replacing retiring/resigning staff. January 2007 began an exciting new challenge as K-12 students and staff moved to one new building with one cafeteria and the ability to share space and services. The installation of a geothermal system was very important to this School District and utility savings are anticipated.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)
(Continued)**

Current Issues

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

Thus, school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 21.1 percent of revenues for governmental activities for the School District in fiscal year 2007.

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 the last levy has stretched for longer than it 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, and increases in health insurance and other insurances.

The 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 percent income tax will be on the November 2007 ballot. This tax has been a healthy and diverse income for the School District since 1993. This income has potential for growth and eases the burden on the agricultural community. Historically, the passage of this tax has been healthy.

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

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

Contacting the School District's Financial Management

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

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**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**STATEMENT OF NET ASSETS - CASH BASIS
JUNE 30, 2007**

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$5,157,705
Total Assets	<u>5,157,705</u>
Net Assets	
Restricted for:	
Debt Service	232,892
Capital Projects	2,327,553
Other Purposes	432,728
Set Asides	206,649
Unrestricted (Deficit)	1,957,883
Total Net Assets	<u><u>\$5,157,705</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, 2007**

	<u>Program Revenues</u>			Net (Expense) Revenue and Change in Net Assets	
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants, Contributions, and Interest</u>	<u>Capital Grants Contributions, and Interest</u>	<u>Governmental Activities</u>
Governmental Activities					
Instruction:					
Regular	\$3,714,692	\$385,856	\$78,080		(\$3,250,756)
Special	635,606		353,063		(282,543)
Vocational	60,048		17,195		(42,853)
Adult / Continuing	2,651				(2,651)
Other	312,275		2,000		(310,275)
Support Services:					
Pupils	449,725	702	79,744		(369,279)
Instructional Staff	175,932		16,637		(159,295)
Board of Education	57,198				(57,198)
Administration	665,545	955	11,296		(653,294)
Fiscal	318,207	5,048			(313,159)
Business	414	414			
Operation and Maintenance of Plant	811,301		29,879		(781,422)
Pupil Transportation	464,431		10,846	\$9,606	(443,979)
Central	5,127		5,000		(127)
Noninstructional Services	106,325	2,130	46,676		(57,519)
Food Service	349,968	235,716	125,099		10,847
Extracurricular Activities	380,027	109,506	46,418		(224,103)
Capital Outlay	9,644,642			1,135,376	(8,509,266)
Debt Service:					
Principal	205,925		59,751		(146,174)
Interest and fiscal charges	292,278				(292,278)
Total Governmental Activities	<u>\$18,652,317</u>	<u>\$740,327</u>	<u>\$881,684</u>	<u>\$1,144,982</u>	<u>(15,885,324)</u>

General Revenues

Property Taxes Levied for:

General Purposes	1,631,116
Debt Service	431,396
Capital Projects	105,010
Building Maintenance	35,452
Income Taxes	972,687
Gain on Sale of Capital Assets	114,056
Grants and Entitlements not Restricted to Specific Programs	4,109,220
Interest	143,106
Miscellaneous	<u>30,049</u>
Total General Revenues	<u>7,572,092</u>
 Change in Net Assets	 (8,313,232)
 Net Assets at Beginning of Year	 <u>13,470,937</u>
 Net Assets at End of Year	 <u><u>\$5,157,705</u></u>

See accompanying notes to the basic financial statements.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2007**

	<u>General</u>	<u>Permanent Improvement</u>	<u>Ohio School Facilities Construction</u>	<u>New Campus Building Fund</u>	<u>Other Governmental</u>	<u>Total</u>
Assets						
Equity in Pooled Cash and Cash Equivalents	\$1,948,277	\$646,707	\$344,616	\$1,188,131	\$813,719	\$4,941,450
Restricted Assets:						
Equity in Pooled Cash and Cash Equivalents	216,255					216,255
Total Assets	<u>\$2,164,532</u>	<u>\$646,707</u>	<u>\$344,616</u>	<u>\$1,188,131</u>	<u>\$813,719</u>	<u>\$5,157,705</u>
Fund Balances						
Reserved for Encumbrances	232,579	39,998	390,476	499,738	225,059	1,387,850
Reserved for Textbooks/Instructional Materials	206,649					206,649
Reserved for Bus Purchases	9,606					9,606
Unreserved, Designated for Severance					124,101	124,101
Unreserved, Reported in						
General Fund	1,715,698					1,715,698
Special Revenue Funds					231,103	231,103
Debt Service Funds					232,892	232,892
Capital Projects Funds		606,709	(45,860)	688,393	564	1,249,806
Total Fund Balance	<u>2,164,532</u>	<u>646,707</u>	<u>344,616</u>	<u>1,188,131</u>	<u>813,719</u>	<u>5,157,705</u>
Total Liabilities and Fund Balances	<u>\$2,164,532</u>	<u>\$646,707</u>	<u>\$344,616</u>	<u>\$1,188,131</u>	<u>\$813,719</u>	<u>\$5,157,705</u>

See accompanying notes to the basic financial statements.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<u>General</u>	<u>Permanent Improvement</u>	<u>Ohio School Facilities Construction</u>	<u>New Campus Building Fund</u>	<u>Other Governmental</u>	<u>Total</u>
Receipts						
Property and Other Local Taxes	\$1,631,116	\$105,010			\$466,848	\$2,202,974
Income Tax	972,687					972,687
Intergovernmental	4,284,879	10,853	\$748,782		581,897	5,626,411
Interest	143,106	29,164	219,985	\$82,003	65,910	540,168
Tuition and Fees	385,856					385,856
Extracurricular Activities					113,409	113,409
Gifts and Donations					90,465	90,465
Customer Sales and Services	5,462				257,478	262,940
Miscellaneous	1,393					1,393
<i>Total Receipts</i>	<u>7,424,499</u>	<u>145,027</u>	<u>968,767</u>	<u>82,003</u>	<u>1,576,007</u>	<u>10,196,303</u>
Disbursements						
Current:						
Instruction:						
Regular	3,611,348			7,225	96,119	3,714,692
Special	351,895				283,711	635,606
Vocational	60,048					60,048
Adult / Continuing	2,651					2,651
Other	299,932				12,343	312,275
Support Services:						
Pupils	346,789	1,054			101,882	449,725
Instructional Staff	139,974				35,958	175,932
Board of Education	47,714			9,484		57,198
Administration	647,735			6,130	11,680	665,545
Fiscal	303,816	2,018		2,542	9,831	318,207
Business	414					414
Operation and Maintenance of Plant	729,510			51,904	29,887	811,301
Pupil Transportation	464,431					464,431
Central	127				5,000	5,127
Operation of Noninstructional Services						
Food Service Operations				16,184	90,141	106,325
Extracurricular Activities	208,522				349,968	349,968
Capital Outlay		65,641	8,093,895	522,633	171,505	380,027
Debt Service					962,473	9,644,642
Principal	30,925				175,000	205,925
Interest	9,347				282,931	292,278
Total Disbursements	<u>7,255,178</u>	<u>68,713</u>	<u>8,093,895</u>	<u>616,102</u>	<u>2,618,429</u>	<u>18,652,317</u>
Excess of Receipts Over Disbursements	169,321	76,314	(7,125,128)	(534,099)	(1,042,422)	(8,456,014)
Other Financing Sources (Uses)						
Transfers In					64,973	64,973
Advance In	14,197				10,343	24,540
Sale of Capital Assets	84,476	28,000			1,580	114,056
Insurance Recoveries	1,891					1,891
Refund of Prior Year Expenditures	26,835					26,835
Transfers Out	(64,973)					(64,973)
Advance Out	(11,423)				(13,117)	(24,540)
Total Other Financing Sources (Uses)	<u>51,003</u>	<u>28,000</u>			<u>63,779</u>	<u>142,782</u>
Changes in Fund Balances	220,324	104,314	(7,125,128)	(534,099)	(978,643)	(8,313,232)
Fund Balances (Deficit) at Beginning of Year	<u>1,944,208</u>	<u>542,393</u>	<u>7,469,744</u>	<u>1,722,230</u>	<u>1,792,362</u>	<u>13,470,937</u>
Fund Balances at End of Year	<u>\$2,164,532</u>	<u>\$646,707</u>	<u>\$344,616</u>	<u>\$1,188,131</u>	<u>\$813,719</u>	<u>\$5,157,705</u>

See accompanying notes to the basic financial statements

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance with Final Budget</u>
Receipts				
Property and Other Local Taxes	\$1,640,354	\$1,582,598	\$1,631,116	\$48,518
Income Taxes	956,368	972,687	972,687	
Intergovernmental	4,275,226	4,285,029	4,284,879	(150)
Interest	120,000	133,764	143,106	9,342
Tuition and Fees	361,218	385,241	385,856	615
Gifts and Donations		2,495		(2,495)
Customer Sales and Services		5,200	5,462	262
Miscellaneous	1,782	3,923	3,284	(639)
Total Receipts	<u>7,354,948</u>	<u>7,370,937</u>	<u>7,426,390</u>	<u>55,453</u>
Disbursements				
Current:				
Instruction:				
Regular	3,940,343	3,903,966	3,642,446	261,520
Special	374,865	385,275	382,081	3,194
Vocational	57,349	67,637	66,934	703
Adult/Continuing	4,750	4,750	2,651	2,099
Other	382,860	373,088	343,875	29,213
Support Services:				
Pupils	359,847	373,848	349,654	24,194
Instructional Staff	178,532	168,838	144,573	24,265
Board of Education	32,247	50,717	48,394	2,323
Administration	672,021	693,609	668,987	24,622
Fiscal	359,038	377,921	335,717	42,204
Business	575	575	414	161
Operation and Maintenance of Plant	717,871	808,344	778,323	30,021
Pupil Transportation	429,200	491,199	474,421	16,778
Central		330	325	5
Extracurricular Activities:				
Academic Oriented Activities	21,520	21,520	19,315	2,205
Occupation Oriented Activities	4,450	4,450	4,097	353
Sport Oriented Activities	182,750	182,751	177,223	5,528
School and Public Service Co-Curricular Activity	8,911	8,961	8,055	906
Debt Service:				
Principal	30,925	30,925	30,925	
Interest	9,347	9,347	9,347	
Total Disbursements	<u>7,767,401</u>	<u>7,958,051</u>	<u>7,487,757</u>	<u>470,294</u>
Excess of Receipts Over (Under) Disbursements	(412,453)	(587,114)	(61,367)	525,747
Other Financing Sources (Uses)				
Advances In	14,197	14,197	14,197	
Proceeds from Sale of Capital Assets	1,656	80,254	84,476	4,222
Refund of Prior Year Disbursements	1,037	26,835	26,835	
Transfers Out	(113,000)	(69,000)	(64,973)	4,027
Advances Out	(20,223)	(11,423)	(11,423)	
Refund of Prior Year Receipts	(2,000)	(2,000)		2,000
Other Financing Uses	(701,480)	(626,871)		626,871
Total Other Financing Sources (Uses)	<u>(819,813)</u>	<u>(588,008)</u>	<u>49,112</u>	<u>637,120</u>
Net Change in Fund Balances	(1,232,266)	(1,175,122)	(12,255)	1,162,867
Fund Balance at Beginning of Year	1,699,868	1,699,868	1,699,868	
Prior Year Encumbrances Appropriated	244,340	244,340	244,340	
Fund Balance at End of Year	<u>\$711,942</u>	<u>\$769,086</u>	<u>\$1,931,953</u>	<u>\$1,162,867</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, 2007**

	Private Purpose Trust	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$100,739	\$46,753
Total Assets	<u>100,739</u>	<u>46,753</u>
Liabilities		
Current Liabilities:		
Undistributed Monies		46,753
Total Liabilities		<u>46,753</u>
Net Assets		
Unexpendable	93,555	
Held in Trust for Scholarships	7,184	
Total Net Assets	<u>\$100,739</u>	

See accompanying notes to the basic financial statements.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**STATEMENT OF CHANGE IN FIDUCIARY NET ASSETS - CASH BASIS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	Private Purpose Trust
Additions	
Gifts and Contributions	\$1,554
Interest	5,102
Miscellaneous	4,465
Total Additions	<u>11,121</u>
Deductions	
Payments in Accordance with Trust Agreements	<u>11,916</u>
Change in Net Assets	(795)
Net Assets at Beginning of Year	<u>101,534</u>
Net Assets at End of Year	<u><u>\$100,739</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, 2007**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Spencerville Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by state statute and/or federal guidelines. The School District is located in Allen, Auglaize and Van Wert Counties. It is staffed by 37 non-certificated employees and 73 certificated full-time teaching personnel who provide services to 994 students and other community members. The School District currently operates 1 school building that encompasses the elementary, middle and high school as well as one administration building.

A. Reporting Entity

The reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Spencerville Local School District, this includes general operations, food service, and student related activities of the School District. Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District has the following component unit:

1. Blended Component Unit

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

The Spencerville Education Foundation, Inc. - (the "Foundation") was organized under the 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.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

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

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, the West Central Ohio Special Education Regional Resource Center, Northwestern Ohio Educational Research Council, Inc., the Allen County Schools Health Benefit Plan, and Sheakley Uniservice, Inc. These organizations are presented in Notes 16 and 17 to the basic financial statements.

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. Following are the more significant of the School District's accounting policies.

A. Basis of Accounting

Although required by Ohio Administrative Code Sections 117-2-03(B) to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP), the School District chooses to prepare its financial statements and notes in accordance with 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 expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in the financial statements.

Budgetary presentations report budgetary expenditures 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 expenditures 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.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The statement of net assets presents the cash balance of the governmental activities of the School District at fiscal year end. The statement of activities presents a comparison between direct disbursements and program receipts for each function of the governmental activities. Direct disbursements are those that are specifically associated with a service, program or department and are therefore identifiable to a particular function. Program receipts include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Receipts which are not classified as program receipts are presented as general receipts of the School District, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on the cash basis of accounting or draws from the general receipts of the School District.

2. Fund Financial Statements

Fund financial statements report detailed information about the School District. The focus of governmental financial statements is on major funds rather than reporting funds by type. During fiscal year 2007, the School District had four major funds: the General Fund, Permanent Improvement Fund, Ohio School Facilities Construction Fund and the New Campus Building Fund which are presented in separate columns. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

C. Fund Accounting

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

1. Governmental Funds/Governmental Activities

Governmental funds are those through which most governmental functions of the School District are financed. The acquisition, use, and balances of the School District's expendable financial resources (except those accounted for in fiduciary funds) are accounted for through governmental funds. The School District's major funds are the General Fund, Permanent Improvement Fund, Ohio School Facilities Construction Fund and the New Campus Building Fund.

General Fund - The General Fund is the primary operating fund of the School District and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds. The General Fund balance is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Permanent Improvement Fund - The Permanent Improvement Fund is used to account for financial resources used for the acquisition or construction of major capital facilities.

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

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Campus Building Fund - This fund is used to accumulate currently available resources for the acquisition, construction, or improvement of Spencerville High School, Elementary/Middle School and/or other appropriate uses.

2. Fiduciary Fund Types

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

D. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

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

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. 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.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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.

4. Encumbrances

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of 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 a reservation of fund balance for subsequent-year disbursements for 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.

E. Cash and Cash Equivalents

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

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

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

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

During fiscal year 2007, investments were limited to non-negotiable certificates of deposit, mutual funds, and STAROhio. Non negotiable certificates of deposit are stated at cost. 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, 2007.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2007 was \$143,106, which included \$10,687 assigned from other funds.

F. Inventory and Prepaid Items

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

G. Property, Plant and Equipment

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. The financial statements do not report these assets.

H. Compensated Absences

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.

I. Interfund Receivables/Payables

The School District reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

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 reported as disbursements.

K. Net Assets/Restricted Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to expenditure for specified purposes. At June 30, 2007, there were no School District net assets restricted by enabling legislation.

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

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Fund Balance Reserves/Designations

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

M. Intergovernmental Receipts

Unrestricted intergovernmental receipts received on the basis of entitlement are recorded as receipts when the entitlement is received.

N. Interfund Activity

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

O. Employer Contributions to Cost-Sharing Pension Plans

The School District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 10 and 11, the employer contributions include portions for pension benefits and for postretirement health care benefits.

P. Receipts and Disbursements

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

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

3. COMPLIANCE

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

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

4. RESTATEMENT OF FUND BALANCE/NET ASSETS

For fiscal year 2007, scholarship funds that were previously classified as Governmental fund types have been reclassified to Private Purpose Trust Funds since they may not be used for the School District's operations. The beginning fund balance of Other Governmental Funds has been restated as follows:

	Government-Wide Statements	Other Governmental Fund Statement
Cash Basis Fund Balance		
Reported Fund Balances at June 30, 2006	\$13,477,139	\$2,340,958
Less: Current year major fund (Permanent Improvement)		(542,393)
Less: Funds reclassified to Private Purpose Trusts	(6,202)	(6,202)
Restated Fund Balance at July 1, 2007	\$13,470,937	\$1,792,363

The beginning net assets of the Private Purpose Trust Funds have been restated as follows:

Cash Basis Net Assets	Fund Statements
Reported Net Assets at June 30, 2006	\$ 95,332
Add: Fund reclassified to Private Purpose Trust	6,202
Restated Net Assets at July 1, 2007	\$101,534

5. 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 five 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;

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, contracting to sell securities that have not yet been acquired on speculation that bond prices will decline, the use of current investment assets as collateral to purchase other assets, leverage and short selling are also prohibited. Investments in a fund established by another country, subdivision, treasurer or governing board for the purpose of investing the public funds of the subdivisions, other than STAROhio and funds established to acquire, construct, lease or operate a municipal utility are not allowed.

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

A. Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of School District cash and deposits is provided by the Federal Deposit Insurance Corporation, as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize uninsured public deposits.

As of June 30, 2007 the School District had \$150 in undeposited cash on hand. This amount is included in cash and cash equivalents.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

At fiscal year end, the carrying amount of the School District's deposits was \$2,382,384 and the bank balance was \$2,660,139. Of the bank balance, \$258,054 was covered by federal depository insurance and \$2,402,085 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name. Although the securities serving as collateral were held by the pledging financial institution's trust department and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

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 one hundred five percent of the deposits being secured.

B. Investments

Investments are reported at carrying value. As of June 30, 2007, the School District had the following investments:

	Carrying Value	Investment Maturities (in months) 0-6
Mutual Fund - Short-Term Government Agencies	\$ 440,248	\$ 440,248
STAROhio	2,482,415	2,482,415
Total Carrying Value	\$2,922,663	\$2,922,663

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.

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."

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

D. Credit Risk

The School District has no investment policy dealing with credit risk beyond the requirements in state statutes. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service and that the mutual funds be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. The mutual funds and STAROhio carry a rating of AAA by Standard and Poor's at June 30, 2007.

E. 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. More than 5 percent of the School District's investments are in mutual funds and STAROhio. These investments are 15.06 percent and 84.94 percent, respectively, of the School District's total investments for the amounts listed above.

6. PROPERTY TAXES

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

Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. The tangible personal property tax is being phased out. The assessment for all property, including inventory, for 2007 is 12.5 percent. This will reduced to 6.25 for 2008 and zero for 2009.

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

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

The School District receives property taxes from Allen, Auglaize and Van Wert Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

6. PROPERTY TAXES (Continued)

The assessed values upon which fiscal year 2007 taxes were collected are:

	2006 Second-Half Collections		2007 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$73,470,670	90%	\$79,651,280	92%
Public Utility	3,788,070	5	3,935,280	5
Tangible Personal Property	4,258,881	5	2,738,781	3
Total Assessed Value	\$81,517,621	100%	\$86,325,341	100%
Tax rate per \$1,000 of assessed valuation	\$37.63		\$36.61	

7. 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, 2003, and will continue for five years. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

8. DIESEL SCHOLARSHIP FUND

The Diesel Scholarship Fund was established on November 7, 1967 through a trust agreement. Qualified students may borrow amounts determined yearly dependent on the ability of the fund to pay for the costs of higher education. Repayments begin after termination of college attendance. At the close of fiscal year 2007, there were 12 students with a total principal balance of \$13,955. Of the balance, \$8,555 represents the portion that is collectable. The remaining \$5,400 is deferred until the student completes or leaves post secondary schooling.

9. 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 2007, the School District contracted with Indiana Insurance Company (through O'Conner-McLaughlin Ins. Co.) for property and contents insurance. Property coverages amounted to \$37,467,000. The School District has a \$2,500 deductible on this coverage. General and professional liability is protected by Indiana Insurance Company (through O'Connor-McLaughlin Ins. Co.) with \$1,000,000 each occurrence and \$3,000,000 aggregate limit. There is a minimum \$2,500 deductible on this coverage.

Vehicles are covered by Indiana Insurance Company (through O'Connor-McLaughlin Ins. Co.) and hold a \$1,000 deductible for bus and \$500 for auto collisions. Automobile liability has a \$2,000,000 combined single limit of liability.

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

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

9. 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 \$2,500 (\$500 deductible) dishonesty bond covering all employees who handle money. The dishonesty bond is provided by O'Conner McLaughlin Insurance Company.

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

B. Workers' Compensation

For fiscal year 2007, the School District participated in the Sheakley Uniservice, Inc. Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool (Note 17). The intent of the Plan is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participants is calculated as one experience and a common premium is applied to all participants in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual total. 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 shares equally in the overall performance of the Plan.

C. Employee Medical Benefits

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

10. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement and disability benefits. Benefits are established by Chapter 3307 of the Ohio Revised Code.

STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained after December 26, 2007 by writing to the STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771 or by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans: a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. 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 member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

10. DEFINED BENEFIT PENSION PLANS (Continued)

Under ORC Chapter 3307, DB retirement plan benefits are available to any member whom either has: five years of service credit and attained age 60, twenty-five years of service credit and attained age 55, or thirty years of service credit regardless of age. Benefits are increased annually by 3 percent of the original base amount for the DB Plan participants. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment choices of the member. Under Revised Code Sections 3307.80 to 3307.89, 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. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service.

The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The 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. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

A DB or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. 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. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC, or Combined Plans. Various other benefits are available to members' beneficiaries.

Upon termination of a reemployed member, or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of member contributions with interest before age 65, once employment is terminated.

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

The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$482,189, \$476,229 and \$474,183 respectively; 83 percent has been contributed for fiscal year 2007 and 100 percent has been contributed for fiscal years 2006 and 2005. Contributions to the DC and Combined Plans for fiscal year 2007 were \$17 made by the School District and \$16 made by the plan members.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

10. DEFINED BENEFIT PENSION PLANS (Continued)

B. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by 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 may be obtained by writing SERS, 300 E. Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853, or on their website at www.ohsers.org.

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 School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.69 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board.

The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$102,460, \$98,995, and \$100,502, respectively; 50 percent has been contributed for fiscal year 2007 and 100 percent has been contributed for fiscal years 2006 and 2005.

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, 2007, three members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

11. POST-EMPLOYMENT BENEFITS

The School District provides comprehensive health care benefits to retirees who participated in the DB or Combined Plans and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS).

Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed. Pursuant to the Revised Code, the State Teachers Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, and June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, these amounts were \$37,093 and 36,897, respectively.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

11. POST-EMPLOYMENT BENEFITS (Continued)

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2007, the balance in the Fund was \$4.1 billion. For the fiscal year ended June 30, 2007, net health care costs paid by STRS were \$265,558,000 and STRS had 122,937 eligible benefit recipients. For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and disability, and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the School District, this amount was \$14,939.

Healthcare benefits are financed on a pay-as-you-go basis. The target level for the health care fund is 150 percent of projected claims less premium contributions for the next fiscal year. Net health care costs for the fiscal year ended June 30, 2006 (the latest information available) were \$158,751,207. As of June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million, which is about 221 percent of next year's projected net health care costs. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 59,492 participants eligible to receive benefits.

12. LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2007 were as follows:

	Balance 6/30/2006	Additions	Reductions	Balance 6/30/2007	Due Within One Year
Note Payable HB264, 4.65%	\$216,475		\$30,925	\$185,550	\$30,925
2004 School Improvement Bonds					
Serial, 2.0-2.7%	350,000		175,000	175,000	175,000
Term, 3.3-5.125%	5,960,000			5,960,000	
Capital Appreciation	151,991			151,991	
Capital Accretion	36,727	\$21,564		58,291	
Total Long-Term Obligations	\$6,715,193	\$21,564	\$205,925	\$6,530,832	\$205,925

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, 2007, are as follows:

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

12. LONG-TERM OBLIGATIONS (Continued)

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 30,925	\$ 7,909	\$ 38,834
2009	30,925	6,471	37,396
2010	30,925	5,033	35,958
2011	30,925	3,595	34,520
2012	30,925	2,157	33,082
2013	30,925	719	31,644
Total	<u>\$185,550</u>	<u>\$25,884</u>	<u>\$211,434</u>

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

The Current Interest Bonds start maturing on December 01, 2007. The Bonds are subject to mandatory sinking fund redemption starting on December 1, 2008, and on each December 1 thereafter, at 100 percent of the principal amount thereof plus accrued interest to the date of redemption. Unless otherwise called for redemption, the remaining principal amount of the Bonds is to be paid at stated maturity.

The Capital Appreciation Bonds will mature in fiscal years 2019 through 2021. The maturity amount of the bonds is \$270,000 each year. During fiscal year 2007, the accretion for the Capital Appreciation bonds was \$21,564 for an accreted value of \$210,282 at June 30, 2007. Capital Appreciation Bonds are not subject to redemption prior to maturity.

Payment requirements to retire the bonds at June 30, 2007 are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Serial Bonds</u>	<u>Term Bonds</u>	<u>Capital Bonds</u>	<u>Total Bonds</u>	<u>Interest/ Accretion</u>	<u>Total</u>
2008	\$175,000			\$ 175,000	\$ 280,963	\$ 455,963
2009		\$ 185,000		185,000	276,237	461,237
2010		190,000		190,000	270,133	460,133
2011		195,000		195,000	263,862	458,862
2012		200,000		200,000	256,453	456,453
2013-2017		1,135,000		1,135,000	1,155,835	2,290,835
2018-2022		525,000	\$151,991	676,991	1,624,286	2,301,277
2023-2027		1,545,000		1,545,000	746,419	2,291,419
2028-2032		1,985,000		1,985,000	315,444	2,300,444
Total	<u>\$175,000</u>	<u>\$5,960,000</u>	<u>\$151,991</u>	<u>\$6,286,991</u>	<u>\$5,189,632</u>	<u>\$11,476,623</u>

13. INTERFUND TRANSFERS

During fiscal year 2007, the following transfers were made:

Transfers from the General Fund to Other Governmental Funds	<u>\$64,973</u>
--	-----------------

Transfers represent the allocation of unrestricted receipts collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

14. INTERFUND ADVANCES

Interfund balances at June 30, 2007 consisted of the following individual fund receivables and payables:

Due to the General Fund from	
Other Governmental Funds	<u>\$21,200</u>

15. STATUTORY RESERVES

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

The following cash basis information describes the change in the fiscal year-end set-aside amounts for textbooks and capital acquisition. State statute requires disclosing this information. For fiscal year ended June 30, 2007, the reserve activity was as follows:

	Textbook Reserve	Capital Maintenance Reserve
Carryover Balance, June 30, 2006	\$129,030	
Required Set-Aside	152,282	\$1 52,282
Qualifying Disbursements	(74,663)	(36,419)
Prior Year Offsets Carried Forward		(6,806,991)
Current Year Offsets		(115,863)
Balance June 30, 2007	206,649	(6,806,991)
Balance Carried Forward to FY08	\$206,649	
Offset Carried Forward to FY08		(\$6,806,991)

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

16 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.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

16 JOINTLY GOVERNED ORGANIZATIONS (Continued)

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

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

West Central Ohio Special Education Regional Resource Center (SERRC) - The SERRC is a jointly governed organization formed to initiate, expand, and improve special education programs and services for children with disabilities and for their parents. The SERRC is governed by a fifty-two member board consisting of the superintendent from the fifty participating school districts, one representative from a non-public school, and one representative from Wright State University. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from Peg Grimm, Treasurer, Auglaize County Educational Service Center, 1045 Dearbaugh Avenue, Wapakoneta, Ohio 45895.

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.

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

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

17. GROUP PURCHASING POOL (Continued)

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

18. CONTRACTUAL COMMITMENTS

At June 30, 2007 the School District had the following outstanding contractual commitments for the building construction project:

<u>Contractor/Vendor</u>	<u>Current Contract Value</u>	<u>Amount Disbursed Through June 30, 2006</u>	<u>Escrow Balance</u>	<u>Balance</u>
LJ Irving	\$ 309,000	\$ 172,649	\$ 7,644	\$ 128,707
Miller Contracting Group	1,815,246	1,532,478	33,692	249,076
Ferguson	12,108,847	11,840,116	233,880	34,851
RAME Inc.	1,389,728	1,336,968	5,415	47,345
Vulcan Fire Protection	330,513	325,413	4,430	670
Miracle Recreation	87,586	81,967	1,677	3,942
C&T Design and Equipment	335,193	325,567	267	9,359
Continental Office Furniture	777,379	684,708	674	91,997
Schumm - Plumbing	1,169,258	1,134,159	16,909	18,190
Schumm - HVAC	2,888,287	2,816,461	30,641	41,185
Woolace Electric	2,660,309	2,638,815	19,778	1,716
Area Energy	283,214	271,255	3,883	8,077
Loopmaster	878,703	829,712	20,638	28,353
Microman	739,334	714,593	920	23,821
Consolidated Hunter	10,550			10,550
Premier Mechanical	32,437			32,437
Sprint Electric	53,040	12,524		40,516
Total	<u>\$25,868,624</u>	<u>\$24,717,385</u>	<u>\$380,448</u>	<u>\$ 770,792</u>

19. OPERATING LEASES

The School District is obligated under operating lease agreements with Perry Corporation for copiers. The minimum requirement of the lease is 2,400,000 copies in each 12 month period at \$0.0121 per black and white copy and \$0.08 per color copy, for a total of 11,880,000 copies per lease. The School District is also obligated under a 60 month operating lease agreement for a postage meter.

The estimated future lease payments are as follows:

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

19. OPERATING LEASES (Continued)

Year Ending June 30,	Copier Lease	Postage Meter
2008	\$ 30,379	\$720
2009	30,379	
2010	30,379	
2011	30,379	
2012	30,379	
	<u>\$151,895</u>	<u>\$720</u>

20. CONTINGENCIES

Grants - The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2007.

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Mary Taylor, CPA

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 the Spencerville Local School District, Allen County, (the School District) as of and for the years ended June 30, 2008 and 2007, which collectively comprise the School District's basic financial statements and have issued our report thereon dated February 5, 2009, wherein we noted the School District uses a comprehensive basis of accounting 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 expressing our opinions on the financial statements, but not to opine on the effectiveness of the School District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the School District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the School District's internal control will not prevent or detect a material financial statement misstatement.

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

We noted certain matters that we reported to the School District's management in a separate letter dated February 5, 2009.

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402
Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688
www.auditor.state.oh.us

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2008-001.

We also noted a certain noncompliance or other matter not requiring inclusion in this report that we reported to the School District's management in a separate letter dated February 5, 2009.

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

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



Mary Taylor, CPA
Auditor of State

February 5, 2009



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

Compliance

We have audited the compliance of Spencerville Local School District, 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 apply to its major federal programs for the year ended June 30, 2008. 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 express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of 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 those 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 those requirements.

In our opinion, the Spencerville Local School District complied, in all material respects, with the requirements referred to above that apply to its major federal programs for the year ended June 30, 2008.

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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

**Internal Control Over Compliance
(Continued)**

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to administer a federal program such that there is more than a remote likelihood that the Government's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the School District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

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 that might be 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, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

February 5, 2009

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2008 AND 2007**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

FINDING NUMBER 2008-001

Noncompliance - Report Presentation

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

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

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

To provide users with more meaningful financial statements, the School District should prepare their financial statements according to generally accepted accounting principles.

Officials' Response:

The Board in official action #6-06-26 approved the return to reporting on a cash basis/GASB 34 format and recognized that a state auditor's opinion would be issued and a fine would be therefore assessed. The Board also contracted with REA and Associates, Inc. for compilation of these cash basis financial reports. Consideration of the State Auditor's finding will be considered for future reporting.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**SPENCERVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2008 AND 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2006-001	Ohio Rev. Code Section 117.38; Ohio Admin Code Section 117-2-03(B) –preparation of financial statements in accordance with generally accepted accounting principles.	No	Repeated as 2008-001



Mary Taylor, CPA
Auditor of State

SPENCERVILLE LOCAL SCHOOL DISTRICT

ALLEN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 10, 2009