



**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2007



Mary Taylor, CPA
Auditor of State

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Ayersville Local School District
Defiance County
28046 Watson Road
Defiance, Ohio 43512-8756

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Ayersville Local School District, Defiance County, Ohio (the District), as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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.

As further described in Note 3, during the fiscal year ended June 30, 2007, the District changed its method of accounting for payments in lieu of taxes receivable.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Ayersville Local School District, Defiance County, Ohio, as of June 30, 2007, and the respective changes in financial position, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2009, on our consideration of the 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 accounting principles generally accepted in the United States of America 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.

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

Mary Taylor, CPA
Auditor of State

January 27, 2009

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

The discussion and analysis of Ayersville Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2007 are as follows:

- In total, net assets decreased \$1,857,570 which represents a 27.77% decrease from 2006.
- General revenues accounted for \$5,021,399 or 72.63% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,892,202, or 27.37% of total revenues of \$6,913,601.
- The District had \$8,771,171 in expenses related to governmental activities; only \$1,892,202 of these expenses was offset by program specific charges for services, grants, or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$5,021,399 were not sufficient to support these programs.
- The District's major governmental fund is the general fund. The general fund had \$7,444,832 in revenues and other financing sources and \$7,520,176 in expenditures and other financing uses. The general fund's fund balance decreased from \$2,097,141 to \$2,027,841.

Using these Basic Financial Statements (BFS)

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

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole District, presenting both an aggregate view of the 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 District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund is by far the most significant fund, and the only governmental fund reported as a major fund.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

Reporting the 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 District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2007." The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expense regardless of when cash is received or paid.

These two statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the financial position of the 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 District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the District's programs and services are reported as governmental activities, as most include instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the District's major fund. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's only major governmental fund is the general fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balance left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the 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. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities and governmental funds is reconciled in the financial statements.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in two agency funds. The District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The District as a Whole

The Statement of Net Assets provides the perspective of the District as a whole. The table below provides a summary of the District's net assets for 2007 and 2006.

| | Net Assets | |
|---|--------------------------------|------------------------|
| | <u>Governmental Activities</u> | |
| | <u>2007</u> | <u>2006 (Restated)</u> |
| <u>Assets</u> | | |
| Current assets | \$ 6,513,485 | \$ 8,574,124 |
| Capital assets | 2,676,260 | 2,847,983 |
| Total assets | <u>9,189,745</u> | <u>11,422,107</u> |
| <u>Liabilities</u> | | |
| Current liabilities | 3,562,063 | 3,963,458 |
| Long-term liabilities | <u>795,278</u> | <u>768,675</u> |
| Total liabilities | <u>4,357,341</u> | <u>4,732,133</u> |
| <u>Net Assets</u> | | |
| Invested in capital assets, net of debt | 2,640,260 | 2,850,760 |
| Restricted | 312,342 | 426,353 |
| Unrestricted | <u>1,879,802</u> | <u>3,412,861</u> |
| Total net assets | <u>\$ 4,832,404</u> | <u>\$ 6,689,974</u> |

Total assets decreased by \$2,232,362. In the prior fiscal year, the District had a large amount of delinquent property taxes receivable. A portion of these taxes were collected at a significantly lower amount, which results in lower property tax revenue in this fiscal year reporting period. Subsequently, the net assets of the District decreased \$1,857,570.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

The table below shows the changes in net assets for governmental activities for fiscal years 2007 and 2006.

Change in Net Assets

| | <u>Governmental Activities</u> | |
|---|--------------------------------|------------------------|
| | <u>2007</u> | <u>2006 (Restated)</u> |
| <u>Revenues</u> | | |
| Program revenues: | | |
| Charges for services and sales | \$ 1,579,978 | \$ 1,556,533 |
| Operating grants and contributions | 312,224 | 377,604 |
| General revenues: | | |
| Property taxes | 2,140,341 | 3,803,128 |
| Grants and entitlements | 2,612,146 | 2,261,663 |
| Revenue in lieu of taxes | 63,137 | |
| Investment earnings | 179,542 | 137,531 |
| Other | <u>26,233</u> | <u>28,102</u> |
| Total revenues | <u>6,913,601</u> | <u>8,164,561</u> |
| <u>Expenses</u> | | |
| Program expenses: | | |
| Instruction: | | |
| Regular | 3,850,156 | 3,659,548 |
| Special | 715,062 | 677,808 |
| Vocational | 257,113 | 250,518 |
| Other | 265,243 | 258,456 |
| Support services: | | |
| Pupil | 333,889 | 340,317 |
| Instructional staff | 286,618 | 341,476 |
| Board of Education | 32,289 | 18,660 |
| Administration | 720,578 | 746,569 |
| Fiscal | 369,016 | 293,844 |
| Operations and maintenance | 734,133 | 664,690 |
| Pupil transportation | 248,759 | 273,394 |
| Central | 47,424 | 30,433 |
| Operation of non-instructional services | 126,425 | 130,283 |
| Extracurricular activities | 447,496 | 440,632 |
| Interest and fiscal charges | 6,666 | 5,272 |
| Food service | <u>330,304</u> | <u>375,935</u> |
| Total expenses | <u>8,771,171</u> | <u>8,507,835</u> |
| Changes in net assets | <u>\$ (1,857,570)</u> | <u>\$ (343,274)</u> |

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

Governmental Activities

Net assets of the District's governmental activities decreased \$1,857,570. Total governmental expenses of \$8,771,171 were offset by program revenues of \$1,892,202 and general revenues of \$5,021,399. Program revenues supported 21.57% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 68.74% of total governmental revenue. Real estate property is reappraised every six years.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2007 compared to 2006. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities

| | Total Cost of Services | Net Cost of Services | Total Cost of Services | Net Cost of Services |
|---|---------------------------|-------------------------|---------------------------|-------------------------|
| | <u>2007</u> | <u>2007</u> | <u>2006</u> | <u>2006</u> |
| Program expenses: | | | | |
| Instruction: | | | | |
| Regular | \$ 3,850,156 | \$ 2,648,614 | \$ 3,659,548 | \$ 2,477,470 |
| Special | 715,062 | 608,128 | 677,808 | 567,101 |
| Vocational | 257,113 | 257,113 | 250,518 | 250,518 |
| Other | 265,243 | 265,243 | 258,456 | 256,456 |
| Support services: | | | | |
| Pupil | 333,889 | 252,642 | 340,317 | 259,579 |
| Instructional staff | 286,618 | 269,110 | 341,476 | 327,874 |
| Board of Education | 32,289 | 32,289 | 18,660 | 18,660 |
| Administration | 720,578 | 720,578 | 746,569 | 707,565 |
| Fiscal | 369,016 | 364,016 | 293,844 | 288,844 |
| Operations and maintenance | 734,133 | 731,384 | 664,690 | 664,690 |
| Pupil transportation | 248,759 | 248,759 | 273,394 | 273,394 |
| Central | 47,424 | 47,424 | 30,433 | 30,433 |
| Food service operations | 330,304 | (4,112) | 375,935 | 12,723 |
| Operation of non-instructional services | 126,425 | 126,425 | 130,283 | 130,283 |
| Extracurricular activities | 447,496 | 304,690 | 440,632 | 302,836 |
| Interest and fiscal charges | 6,666 | 6,666 | 5,272 | 5,272 |
| | <u>\$ 8,771,171</u> | <u>\$ 6,878,969</u> | <u>\$ 8,507,835</u> | <u>\$ 6,573,698</u> |
| Total expenses | | | | |

The dependence upon tax revenues during fiscal year 2007 for governmental activities is apparent, as 74.28% of 2007 instruction activities are supported through taxes and other general revenues. The District's taxpayers, as a whole, contribute much of the support for the District's students.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. The District's major governmental fund is the general fund. Total governmental funds had revenues and other financing sources of \$8,667,740 and expenditures and other financing uses of \$8,794,420.

General Fund Budgeting Highlights

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

During the course of fiscal year 2007, the District amended its general fund budget within its own line items, none significantly. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, final budgeted revenues and other financing sources were \$7,124,496, which is \$225 lower than the original budgeted revenues. The actual budget basis revenues and other financing sources for fiscal year 2007 totaled \$7,578,903, due to a one-time, unexpected tax settlement on tangible personal property.

General fund original and final appropriations were \$7,904,030. The actual budget basis expenditures and other financing uses for fiscal year 2007 totaled \$7,573,933. This favorable variance was due largely to the non-expenditure of budgeted capital, and lower costs for staffing costs than planned.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2007, the District had \$2,676,260 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and textbooks. The following table shows fiscal 2007 balances compared to fiscal 2006:

**Capital Assets at June 30
(Net of Depreciation)**

| | <u>Governmental Activities</u> | |
|---------------------------|--------------------------------|---------------------|
| | <u>2007</u> | <u>2006</u> |
| Land | \$ 148,406 | \$ 148,406 |
| Land improvements | 165,036 | 139,350 |
| Building and improvements | 1,250,347 | 1,310,255 |
| Furniture and equipment | 885,976 | 933,445 |
| Vehicles | 160,682 | 237,560 |
| Textbooks | <u>65,813</u> | <u>78,967</u> |
| Total | <u>\$ 2,676,260</u> | <u>\$ 2,847,983</u> |

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

Debt Administration

At June 30, 2007, the District had \$36,000 in energy conservation bonds outstanding and \$53,033 in a capital lease outstanding. Of these totals, \$18,000 is due within one year and \$18,000 is due within greater than one year on the energy conservation bonds; \$12,630 and \$40,403 is due within one year and due within greater than one year on the capital lease, respectively. The following table summarized the debt outstanding.

Outstanding Debt, at Year End

| | Governmental Activities <u>2007</u> | Governmental Activities <u>2006</u> |
|---------------------------|---|---|
| Energy conservation bonds | \$ 36,000 | \$ 54,000 |
| Capital lease | <u>53,033</u> | <u>64,695</u> |
| Total | <u>\$ 89,033</u> | <u>\$ 118,695</u> |

See note 11 to the basic financial statements for additional information on the District's debt administration.

Current Financial Related Activities

Operating levies are in place on a continuing basis to help fund general fund operations; however, the future financial stability of the District is not without challenges. As of June 30, 2007, the District's expenditures nearly met revenues, which were better than projected, due to the receipt of a one-time unexpected tax settlement. House Bill 66, which was passed in the Ohio State Legislature for implementation effective July 1, 2005, brings significant challenges to the future revenue stability of the District. The elimination of the personal tangible tax base over a five year period amounts to, in total, nearly 29% of the taxable value in the District. Although the State has guaranteed that school districts will be reimbursed for this loss during this period, failure to "hold harmless" the enterprise zone donations that are based on the personal tangible tax base will cause the District to actually experience a reduction in annual revenue in upcoming years. In order to address this reduction, the Board of Education, along with reducing expenditures, asked district residents for additional tax dollars, in the form of a 5 year, 1% traditional-base income tax levy. This levy passed in November 2007 and collection began in January 2008.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ms. Connie Nicely, Treasurer, Ayersville Local School District, 28046 Watson Road, Defiance, Ohio 43512.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2007**

| | | <u>Governmental Activities</u> |
|---|----|------------------------------------|
| Assets: | | |
| Equity in pooled cash and cash equivalents . . . | \$ | 3,128,549 |
| Receivables: | | |
| Taxes | | 2,671,313 |
| Accounts | | 1,447 |
| Intergovernmental | | 25,130 |
| Payment in lieu of taxes | | 649,142 |
| Prepayments | | 8,984 |
| Materials and supplies inventory | | 28,920 |
| Capital assets: | | |
| Land | | 148,406 |
| Depreciable capital assets, net | | 2,527,854 |
| Capital assets, net. | | <u>2,676,260</u> |
| Total assets. | | <u>9,189,745</u> |
| Liabilities: | | |
| Accounts payable. | | 5,023 |
| Accrued wages and benefits | | 860,565 |
| Pension obligation payable. | | 173,982 |
| Intergovernmental payable | | 29,407 |
| Deferred revenue | | 2,492,912 |
| Accrued interest payable | | 174 |
| Long-term liabilities: | | |
| Due within one year. | | 205,840 |
| Due within more than one year | | 589,438 |
| Total liabilities | | <u>4,357,341</u> |
| Net Assets: | | |
| Invested in capital assets, net of related debt. | | 2,640,260 |
| Restricted for: | | |
| Capital projects | | 148,812 |
| State funded programs. | | 7,258 |
| Federally funded programs. | | 301 |
| Student activities. | | 43,223 |
| Other purposes | | 112,748 |
| Unrestricted | | <u>1,879,802</u> |
| Total net assets | \$ | <u><u>4,832,404</u></u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

| | | Program Revenues | | Net (Expense) Revenue and Changes in Net Assets |
|--|---------------------|--------------------------------------|--|--|
| | Expenses | Charges for Services and Sales | Operating Grants and Contributions | Governmental Activities |
| Governmental activities: | | | | |
| Instruction: | | | | |
| Regular | \$ 3,850,156 | \$ 1,170,997 | \$ 30,545 | \$ (2,648,614) |
| Special | 715,062 | | 106,934 | (608,128) |
| Vocational | 257,113 | | | (257,113) |
| Other | 265,243 | | | (265,243) |
| Support services: | | | | |
| Pupil | 333,889 | | 81,247 | (252,642) |
| Instructional staff | 286,618 | | 17,508 | (269,110) |
| Board of education | 32,289 | | | (32,289) |
| Administration | 720,578 | | | (720,578) |
| Fiscal | 369,016 | | 5,000 | (364,016) |
| Operations and maintenance | 734,133 | 2,749 | | (731,384) |
| Pupil transportation | 248,759 | | | (248,759) |
| Central | 47,424 | | | (47,424) |
| Operation of non-instructional services: | | | | |
| Food service operations | 330,304 | 264,212 | 70,204 | 4,112 |
| Other non-instructional services | 126,425 | | | (126,425) |
| Extracurricular activities | 447,496 | 142,020 | 786 | (304,690) |
| Interest and fiscal charges | 6,666 | | | (6,666) |
| Total governmental activities | \$ 8,771,171 | \$ 1,579,978 | \$ 312,224 | (6,878,969) |
| General Revenues: | | | | |
| Property taxes levied for: | | | | |
| General purposes | | | | 1,982,892 |
| Special revenue | | | | 69,934 |
| Debt service | | | | 19,904 |
| Capital projects | | | | 67,611 |
| Grants and entitlements not restricted to specific programs | | | | 2,612,146 |
| Revenue in lieu of taxes | | | | 63,137 |
| Investment earnings | | | | 179,542 |
| Miscellaneous | | | | 26,233 |
| Total general revenues | | | | 5,021,399 |
| Change in net assets | | | | (1,857,570) |
| Net assets at beginning of year (restated) | | | | 6,689,974 |
| Net assets at end of year | | | | \$ 4,832,404 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007**

| | General | Other Governmental Funds | Total Governmental Funds |
|--|--------------|--------------------------------|--------------------------------|
| Assets: | | | |
| Equity in pooled cash and cash equivalents | \$ 2,647,018 | \$ 477,009 | \$ 3,124,027 |
| Receivables: | | | |
| Taxes | 2,494,481 | 176,832 | 2,671,313 |
| Accounts | 1,433 | 14 | 1,447 |
| Intergovernmental | | 25,130 | 25,130 |
| Payment in Lieu of Taxes | 595,271 | 53,871 | 649,142 |
| Prepayments | 7,997 | 987 | 8,984 |
| Materials and supplies inventory | 22,966 | 5,954 | 28,920 |
| Restricted assets: | | | |
| Equity in pooled cash and cash equivalents | 4,522 | | 4,522 |
| Total assets | \$ 5,773,688 | \$ 739,797 | \$ 6,513,485 |
| Liabilities: | | | |
| Accounts payable | \$ 3,833 | \$ 1,190 | \$ 5,023 |
| Accrued wages and benefits | 814,169 | 46,396 | 860,565 |
| Compensated absences payable | | 129,163 | 129,163 |
| Pension obligation payable. | 154,652 | 19,330 | 173,982 |
| Intergovernmental payable. | 28,042 | 1,365 | 29,407 |
| Deferred revenue. | 2,745,151 | 204,907 | 2,950,058 |
| Total liabilities | 3,745,847 | 402,351 | 4,148,198 |
| Fund Balances: | | | |
| Reserved for encumbrances | 73,087 | 15,039 | 88,126 |
| Reserved for materials and supplies inventory. | 22,966 | 5,954 | 28,920 |
| Reserved for prepayments | 7,997 | 987 | 8,984 |
| Reserved for property tax unavailable for appropriation | 155,000 | 11,700 | 166,700 |
| Reserved for school bus purchase | 4,522 | | 4,522 |
| Unreserved, undesignated, reported in: | | | |
| General fund | 1,764,269 | | 1,764,269 |
| Special revenue funds. | | 200,520 | 200,520 |
| Capital projects funds. | | 103,246 | 103,246 |
| Total fund balances | 2,027,841 | 337,446 | 2,365,287 |
| Total liabilities and fund balances | \$ 5,773,688 | \$ 739,797 | \$ 6,513,485 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2007**

| | | | |
|--|----|----------------|-------------------------|
| Total governmental fund balances | | \$ | 2,365,287 |
| <i>Amounts reported for governmental activities in the statement of net assets are different because:</i> | | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | | | 2,676,260 |
| Other long-term assets (taxes) are not available to pay for current-period expenditures and therefore are deferred in the funds. | | | |
| Taxes | \$ | 11,701 | |
| Intergovernmental revenue | | 3,057 | |
| Payment in lieu of taxes | | <u>442,388</u> | |
| Total | | | 457,146 |
| Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds. | | | (174) |
| Long-term liabilities, including bonds and lease-purchase agreements payable, are not due and payable in the current period and therefore are not reported in the funds. | | | |
| Compensated absences | \$ | 577,082 | |
| Capital lease obligation | | 53,033 | |
| Energy conservation bond | | <u>36,000</u> | |
| Total | | | <u>(666,115)</u> |
| Net assets of governmental activities | | \$ | <u>4,832,404</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

| | <u>General</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|---------------------|---|---|
| Revenues: | | | |
| From local sources: | | | |
| Taxes | \$ 3,175,188 | \$ 264,451 | \$ 3,439,639 |
| Tuition | 1,124,958 | | 1,124,958 |
| Charges for services. | | 261,833 | 261,833 |
| Earnings on investments. | 176,384 | 3,158 | 179,542 |
| Classroom materials and fees. | 45,288 | | 45,288 |
| Extracurricular. | | 106,969 | 106,969 |
| Other local revenues. | 26,233 | 38,967 | 65,200 |
| Revenue in lieu of taxes. | 343,093 | 52,595 | 395,688 |
| Intergovernmental - State. | 2,550,402 | 75,538 | 2,625,940 |
| Intergovernmental - Federal | | 281,997 | 281,997 |
| Total revenues | <u>7,441,546</u> | <u>1,085,508</u> | <u>8,527,054</u> |
| Expenditures: | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 3,578,899 | 137,998 | 3,716,897 |
| Special. | 586,824 | 175,283 | 762,107 |
| Vocational. | 235,533 | 29,882 | 265,415 |
| Other. | 262,967 | | 262,967 |
| Support services: | | | |
| Pupil. | 261,706 | 100,657 | 362,363 |
| Instructional staff | 280,325 | 36,061 | 316,386 |
| Board of education | 32,289 | | 32,289 |
| Administration. | 656,624 | 6,857 | 663,481 |
| Fiscal | 333,010 | 21,028 | 354,038 |
| Operations and maintenance. | 564,980 | 159,648 | 724,628 |
| Pupil transportation | 226,348 | | 226,348 |
| Central. | 47,424 | | 47,424 |
| Operation of non-instructional services: | | | |
| Food service operations | | 328,224 | 328,224 |
| Other non-instructional services. | 15,573 | 114,325 | 129,898 |
| Extracurricular activities. | 283,857 | 143,840 | 427,697 |
| Facilities acquisition and construction | 1 | | 1 |
| Debt service: | | | |
| Principal retirement | 11,662 | 18,000 | 29,662 |
| Interest and fiscal charges | 4,754 | 1,904 | 6,658 |
| Total expenditures | <u>7,382,776</u> | <u>1,273,707</u> | <u>8,656,483</u> |
| Excess of revenues over (under) expenditures | <u>58,770</u> | <u>(188,199)</u> | <u>(129,429)</u> |
| Other financing sources (uses): | | | |
| Transfers in | 537 | 137,400 | 137,937 |
| Transfers (out) | (137,400) | (537) | (137,937) |
| Sale of capital assets. | 2,749 | | 2,749 |
| Total other financing sources (uses) | <u>(134,114)</u> | <u>136,863</u> | <u>2,749</u> |
| Net change in fund balances | (75,344) | (51,336) | (126,680) |
| Fund balances at beginning of year (restated). | 2,097,141 | 390,525 | 2,487,666 |
| Increase in reserve for inventory | 6,044 | (1,743) | 4,301 |
| Fund balances at end of year | <u>\$ 2,027,841</u> | <u>\$ 337,446</u> | <u>\$ 2,365,287</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

| | | |
|--|-------------|-------------|
| Net change in fund balances - total governmental funds | \$ | (126,680) |
| <i>Amounts reported for governmental activities in the statement of activities are different because:</i> | | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. | | |
| Capital outlay | \$ 231,953 | |
| Depreciation expense | (346,796) | |
| Total | | (114,843) |
| The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. | | |
| Capital asset disposals | (120,252) | |
| Accumulated depreciation on disposals | 63,372 | |
| Total | | (56,880) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | | |
| Taxes | (1,299,298) | |
| Intergovernmental | 15,647 | |
| Payment in lieu of taxes | (332,551) | |
| Total | | (1,616,202) |
| Repayment of bond and lease-purchase agreements principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. | | |
| | | 29,662 |
| Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is due to the accrued interest on bonds. | | |
| | | (8) |
| Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. | | |
| | | 23,080 |
| Governmental funds report expenditures for inventory when purchased, however; in the statement of activities they are reported as an expense when consumed. | | |
| | | 4,301 |
| Change in net assets of governmental activities | \$ | (1,857,570) |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

| | <u>Budgeted Amounts</u> | | | Variance with Final Budget Positive (Negative) |
|--|-------------------------|---------------------|---------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| Revenues: | | | | |
| From local sources: | | | | |
| Taxes | \$ 2,880,119 | \$ 2,879,894 | \$ 3,208,963 | \$ 329,069 |
| Tuition. | 1,099,260 | 1,099,260 | 1,124,958 | 25,698 |
| Earnings on investments. | 80,000 | 80,000 | 176,384 | 96,384 |
| Classroom materials and fees | 52,800 | 52,800 | 45,054 | (7,746) |
| Other local revenues | 22,425 | 22,425 | 26,024 | 3,599 |
| Revenue in lieu of taxes. | 427,106 | 427,106 | 422,505 | (4,601) |
| Intergovernmental - State | 2,563,011 | 2,563,011 | 2,550,401 | (12,610) |
| Total revenue | <u>7,124,721</u> | <u>7,124,496</u> | <u>7,554,289</u> | <u>429,793</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 3,721,180 | 3,721,180 | 3,550,360 | 170,820 |
| Special. | 703,639 | 703,639 | 671,339 | 32,300 |
| Vocational. | 247,120 | 247,120 | 235,776 | 11,344 |
| Other. | 272,879 | 272,879 | 260,353 | 12,526 |
| Support services: | | | | |
| Pupil. | 272,869 | 272,869 | 260,343 | 12,526 |
| Instructional staff | 294,897 | 294,897 | 281,360 | 13,537 |
| Board of education | 32,887 | 32,887 | 31,377 | 1,510 |
| Administration. | 708,382 | 708,382 | 675,864 | 32,518 |
| Fiscal | 346,889 | 346,889 | 330,965 | 15,924 |
| Operations and maintenance. | 592,056 | 592,056 | 564,878 | 27,178 |
| Pupil transportation | 236,896 | 236,896 | 226,021 | 10,875 |
| Central. | 49,706 | 49,706 | 47,424 | 2,282 |
| Operation of non-instructional services: | | | | |
| Other non-instructional services. | 16,165 | 16,165 | 15,423 | 742 |
| Extracurricular activities. | 298,764 | 298,764 | 285,049 | 13,715 |
| Facilities acquisition and construction. | 1 | 1 | 1 | |
| Total expenditures | <u>7,794,330</u> | <u>7,794,330</u> | <u>7,436,533</u> | <u>357,797</u> |
| Excess of revenues over (under) expenditures. | <u>(669,609)</u> | <u>(669,834)</u> | <u>117,756</u> | <u>787,590</u> |
| Other financing sources (uses): | | | | |
| Refund of prior year expenditure. | | | 19,528 | 19,528 |
| Transfers in. | | | 537 | 537 |
| Transfers (out) | (109,700) | (109,700) | (137,400) | (27,700) |
| Advances in. | | | 1,800 | 1,800 |
| Sale of capital assets. | | | 2,749 | 2,749 |
| Total other financing sources (uses) | <u>(109,700)</u> | <u>(109,700)</u> | <u>(112,786)</u> | <u>(3,086)</u> |
| Net change in fund balance | (779,309) | (779,534) | 4,970 | 784,504 |
| Fund balance at beginning of year. | 2,515,394 | 2,515,394 | 2,515,394 | |
| Prior year encumbrances appropriated | 54,254 | 54,254 | 54,254 | |
| Fund balance at end of year | <u>\$ 1,790,339</u> | <u>\$ 1,790,114</u> | <u>\$ 2,574,618</u> | <u>\$ 784,504</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2007**

| | <u>Agency</u> |
|---|------------------|
| Assets: | |
| Equity in pooled cash and cash equivalents | \$ 45,762 |
| Total assets. | <u>\$ 45,762</u> |
| Liabilities: | |
| Due to students | 45,762 |
| Total liabilities | <u>\$ 45,762</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

The District was established in 1938 through the consolidation of existing land areas and school districts. The District serves an area of approximately fifty-five square miles. It is located in Defiance County. The District is the 523rd largest in the State of Ohio (among the 614 public school districts) in terms of enrollment. It is staffed by 33 classified employees and 64 certified employees, including four administrative personnel, who provide services to 882 students and other community members. The District currently operates one instructional building and one bus garage.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units." The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise have access to the organizations resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

JOINTLY GOVERNED ORGANIZATIONS

Northwest Ohio Computer Association - The District is a participant in the Northwest Ohio Computer Association (NWOCA). NWOCA is an association of public school districts within the boundaries of Defiance, Fulton, Henry, and Williams Counties. 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. NWOCA is governed by the Northern Buckeye Education Council and its participating members. Financial information can be obtained from Robin Pfund, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

Northern Buckeye Education Council - The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among various educational entities located in Defiance, Fulton, Henry, and Williams counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the four counties in which the member educational entities are located. The Board is elected from an Assembly consisting of a representative from each participating educational entity. To obtain financial information write to the Northern Buckeye Education Council, Robin Pfund, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

Four County Career Center - The Four County 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 educational service centers from the counties of Defiance, Fulton, Henry, and Williams; one representative from each of the city school districts; one representative from each of the exempted village school districts; and one additional representative from Fulton County educational service center. The Four County Career Center possesses its own budgeting and taxing authority. To obtain financial information write to Four County Career Center, Jennifer Bonner, who serves as Treasurer, at Route 1, Box 245A, Archbold, Ohio 43502.

Northwest Ohio Special Education Regional Resource Center – The Northwest Ohio Special Education Regional Resource Center (SERRC) is a jointly governed organization formed to provide services to families, educators, and agencies regarding educational law and curriculum and instruction for students with disabilities. The SERRC serves a thirteen county area in Northwest Ohio. The Governing Board consists of superintendents from each of the cooperating School Districts, the fiscal agent superintendent, two parents of children with disabilities, one superintendent of a county board of MR/DD, one representative from a chartered non-public school, one representative from the University of Toledo, one representative from Bowling Green State University, one representative from a community school, and any other representatives from other agencies as designated by the Governing Board or the Ohio Department of Education. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from Dave Michel, Eastwood Local School District, 4800 Sugar Ridge Road, Pemberville, Ohio 43450.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Northwest Ohio Regional Professional Development Center – The Northwest Ohio Regional Professional Development Center (RPDC) is a jointly governed organization among the school districts in Defiance, Erie, Fulton, Henry, Lucas, Ottawa, Sandusky, Williams, and Wood counties. The RPDC focuses on the implementation of academic content standards and the deployment of State initiatives. All activities reflect definition of high quality professional development, including job-embedded, connected to strategic goals, sustained, intensive skill building, and measurement of impact on student learning.

The Center is governed by a fifteen 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 the Northwest Ohio Regional Professional Development Center, 414 Emerald Street, 2nd Floor, Toledo, Ohio 43602.

Northwest Ohio Education Council – The Northwest Ohio Education Council (NWOEC) was established to foster cooperation among various school districts within Ohio that participate in the Northwest Ohio Educational Council Self-Insurance Pool Program (NOEC Program). NWOEC is organized under Chapter 167.01 of the Ohio Revised Code as a regional council of governments pursuant to a written agreement entered into by its members and by policies adopted by the member school districts. NWOEC members consist of the school districts' superintendents. To obtain financial information write to Frank McKain, MARSH USA, 600 Renaissance Center, Suite 2100, Detroit, Michigan 48243.

Northwestern Ohio Education Research Council, Inc. - Northwestern Ohio Education Research Council, Inc. (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.

GROUP PURCHASING POOLS

Northern Buckeye Education Council's Employee Insurance Benefits Program - Northern Buckeye Education Council's Employee Insurance Benefits Program (the Pool) is a public entity shared risk pool consisting of educational entities located in Defiance, Fulton, Henry, and Williams counties. The Pool is governed by the Northern Buckeye Education Council and its participating members. Total disbursements made by the District to NBEC for employee insurance benefits during fiscal year ending June 30, 2007 were \$796,113. Financial information can be obtained from Northern Buckeye Education Council, Robin Pfund, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Northern Buckeye Education Council's Worker's Compensation Group Rating Plan - The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Northern Buckeye Education Council's Workers' Compensation Group Rating Plan (WCGRP) was established through the Northern Buckeye Education Council (NBEC) as a group purchasing pool.

The WCGRP's business and affairs are conducted by a three member board of directors consisting of two Assembly representatives for each of the counties of Defiance, Fulton, Henry, and Williams and the representative of the member serving as fiscal agent for NBEC. The Executive Director of the Council shall coordinate the management and administration of the program. Each year, the participating members pay an enrollment fee to WCGRP to cover the costs of administering the program. The District paid \$932 for these services to NBEC in fiscal year 2007.

Northwest Ohio Educational Council Self-Insurance Pool Program

The District participates in the Northwest Ohio Educational Council Self-Insurance Pool Program (NOEC Program) which is an insurance purchasing pool. The NOEC Program is created and organized pursuant to and as authorized by 2744.081 of the Ohio Revised Code. The Northwest Ohio Education Council (NWOEC) is a Council of Governments created pursuant to Chapter 167.01 of the Ohio Revised Code. The NOEC Program is a non-profit organization to its members and an instrumentality for each member for the purpose of enabling members of the NOEC Program to provide for a formalized, joint insurance program to maintain adequate insurance protection, risk management programs, and other administrative services. The NOEC Program's business and affairs are conducted by a nine member Insurance Committee created by the governing board of the NWOEC. The NOEC Program has an agreement with Marsh USA for administrative services and Cambridge Integrated Services, Inc. for claims processing. The District paid \$35,678 for these services to NOEC in fiscal year 2007.

B. Fund Accounting

The District uses funds to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into two categories: governmental and fiduciary. Each category is divided into separate fund types.

GOVERNMENTAL FUNDS

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the District's major governmental fund:

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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

Other governmental funds of the District are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities; and (c) for grants and other resources whose use is restricted to a particular purpose.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is made up of the agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

C. Basis of Presentation

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The government-wide statements are prepared using the economic resources measurement focus. Governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues 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. Revenues which are not classified as program revenues are presented as general revenues of the District. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, tuition, grants, student fees and rentals.

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Property taxes for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

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

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2007 is as follows.

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the original and final Amended Certificates issued for fiscal year 2007.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund and object level of expenditures, which are the legal levels of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.)

Board adopted appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed appropriations at the legal level of control.

5. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions within a fund must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All departments/functions and funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated, increased or decreased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal 2007. The amounts reported in the budgetary statement reflect the amounts set forth in the original and final budgeted appropriations for fiscal year 2007.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Cash disbursements plus encumbrances may not legally exceed budgeted appropriations at the object level.

As part of the formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On fund financial statements, encumbrances outstanding at year end (not already recorded in accounts payable) are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds. A reserve for encumbrances is not reported on government-wide financial statements.

F. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

During fiscal year 2007, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for non-participating investment contracts, investments are reported at fair value, which is based on quoted market prices. Non-participating investment contracts, such as non-negotiable certificates of deposits, are valued at cost.

The District has invested funds in STAR Ohio during fiscal 2007. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2007.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. 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 amounted to \$176,384, which includes \$24,923 assigned from other District funds.

For presentation on the financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District's investment account at year-end is provided in Note 4.

G. Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the purchase method on the fund financial statements and using the consumption method on the government-wide financial statements.

On fund financial statements, inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

H. Capital Assets

General capital assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and deletions during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$250. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is not capitalized for governmental activities.

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives.

| <u>Description</u> | <u>Governmental Activities Estimated Lives</u> |
|------------------------|--|
| Land improvements | 20 years |
| Buildings/improvements | 25 - 50 years |
| Furniture/equipment | 5 - 20 years |
| Vehicles | 6 - 10 years |
| Textbooks | 5 years |

I. Compensated Absences

The District reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

J. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and long-term loans are recognized as a liability in the fund financial statements when due.

K. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, prepayments, tax revenue unavailable for appropriation and school bus purchases. The reserve for tax revenue unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

M. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

N. Estimates

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

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

O. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the 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 enabling legislation. Restricted assets include the amount set aside for the purchase of school buses.

P. Interfund Activity

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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2007.

NOTE 3 – ACCOUNTABILITY AND COMPLIANCE

A. Restatement of Net Assets

The beginning balance of Governmental Type Activities was changed to reflect a change in accounting for payment in lieu of taxes receivable.

The change in accounting principal had the following effect on the District's net assets as previously reported:

| | Other Governmental Type Activity |
|--------------------------------------|---|
| Net Assets, June 30, 2006 | \$ 5,915,035 |
| Adjustment to restate to Net Assets: | |
| Payment in Lieu of Taxes Receivable | 774,939 |
| Restated June 30, 2006 Net Assets | \$ 6,689,974 |

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

NOTE 3 – ACCOUNTABILITY AND COMPLIANCE – (Continued)

B. Deficit Fund Balance

Fund balances at June 30, 2007, included the following individual fund deficit:

| <u>Nonmajor Fund</u> | <u>Deficit</u> |
|---|----------------|
| Education Management Information System (EMIS) Fund | \$96 |

This fund complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in this fund and provides transfers when cash is required, not when accruals occur. The deficit fund balance results from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

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 federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool State Treasury Asset Reserve of Ohio (STAR Ohio);
8. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
9. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At year-end, the District had \$470 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

B. Deposits with Financial Institutions

At June 30, 2007, the carrying amount of all District deposits was \$602,202. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007, \$656,769 of the District's bank balance of \$782,352 was exposed to custodial risk as discussed below, while \$127,163 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be able to recover deposits or collateral securities that are in the possession of an outside party. The District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or protected by eligible securities pledged to and deposited either with the 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.

All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

C. Investments

As of June 30, 2007, the District had the following investments and maturities:

| <u>Investment type</u> | <u>Investment Maturities</u> | |
|------------------------|----------------------------------|-----------------------------|
| | <u>Balance at Fair Value</u> | <u>6 months or less</u> |
| STAR Ohio | \$ 2,571,639 | \$ 2,571,639 |

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the District, and that an investment must be purchased with the expectation that it will be held to maturity. State statute limits investments in commercial paper to a maximum maturity of 180 days from the date of purchase. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2% and be marked to market daily.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

Credit Risk: Standard & Poor's has assigned STAR Ohio an AAAM money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market mutual fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. The District has no investment policy that would further limit its investment choices.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer; however, state statute limits investments in commercial paper and bankers' acceptances to 25% of the interim monies available for investment at any one time. The District held all its investments with STAR Ohio at June 30, 2007.

D. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2007:

| | |
|--|--------------------|
| <u>Cash and investments per footnote:</u> | |
| Carrying amount of deposits | \$ 602,202 |
| Investments | 2,571,639 |
| Cash on hand | <u>470</u> |
| Total | <u>\$3,174,311</u> |
| <u>Cash and investments per Statement of Net Assets:</u> | |
| Governmental activities | \$3,128,549 |
| Agency funds | <u>45,762</u> |
| Total | <u>\$3,174,311</u> |

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transfers for the year ended June 30, 2007, consisted of the following, as reported on the fund financial statements:

| | |
|--|------------|
| Transfer from General Fund to: | |
| Retirement and Severance Benefits Fund | \$ 132,000 |
| Education Management Information System Fund | 5,400 |
| Transfer to General Fund: | |
| Career Technical and Adult Education Fund | 524 |
| Title V Fund | 4 |
| Miscellaneous Grant Fund | 9 |

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid 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.

Public utility property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2005, were levied after April 1, 2006 and are collected in 2007 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2007 (other than public utility property) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value as of December 31, 2005. Tangible personal property capital assets and inventory are currently assessed at eighteen and seventy-five one hundredths percent of true value. Payments 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. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Defiance County. The County Auditor periodically advances to the 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 as an advance at June 30, 2007 was \$155,000 in the general fund, \$5,300 in the Special Levy special revenue fund (a nonmajor governmental fund) and \$6,400 in the Permanent Improvement capital projects fund (a nonmajor governmental fund). The amount available for advance at June 30, 2006 was \$188,775 in the general fund, \$6,473 in the Special Levy special revenue fund (a nonmajor governmental fund) and \$7,856 in the Permanent Improvement capital projects fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary depending upon when the tax bills are sent by the County Auditor.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

NOTE 6 - PROPERTY TAXES – (Continued)

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2007 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

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

| | 2006 Second Half Collections | | 2007 First Half Collections | |
|--|---------------------------------|-------------------|--------------------------------|-------------------|
| | <u>Amount</u> | <u>Percent</u> | <u>Amount</u> | <u>Percent</u> |
| Agricultural/residential and other real estate | \$ 73,764,580 | 76.53 | \$ 70,291,240 | 81.06 |
| Public utility personal property | 3,110,740 | 3.22 | 3,175,870 | 3.67 |
| Tangible personal property | <u>19,516,028</u> | <u>20.25</u> | <u>13,244,654</u> | <u>15.27</u> |
| Total | <u>\$ 96,391,348</u> | <u>100.00</u> | <u>\$ 86,711,764</u> | <u>100.00</u> |
| Tax rate per \$1,000 of assessed valuation: | | | | |
| Operations | | 41.48 | | 41.48 |
| Permanent improvement | | 2.00 | | 2.00 |

NOTE 7 - RECEIVABLES

Receivables at June 30, 2007 consisted of taxes, accounts, payment in lieu of taxes receivable, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the items of receivables reported on the Statement of Net Assets follows:

| | |
|---------------------------------|-------------------------|
| Governmental Activities: | |
| Taxes | \$ 2,671,313 |
| Accounts | 1,447 |
| Payment in lieu of taxes | 649,142 |
| Intergovernmental | <u>25,130</u> |
| Total | <u>\$ 3,347,032</u> |

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

NOTE 7 – RECEIVABLES – (Continued)

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year; however, the status of delinquent tax collections is unknown.

NOTE 8 – PAYMENT IN LIEU OF TAXES

The District has entered into agreements with a number of property owners under which the District has granted property tax abatements to those property owners. The property owners have agreed to make payments to the District which reflect all or a portion of the property taxes which the property owners would have paid if their taxes had not been abated. The property owner's contractual promise to make these payments in lieu of taxes generally continue until the agreement expires.

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

| | <u>Balance</u> <u>June 30, 2006</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance</u> <u>June 30, 2007</u> |
|---|--|---------------------|--------------------|--|
| Governmental Activities | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 148,406 | _____ | _____ | \$ 148,406 |
| Capital assets, being depreciated: | | | | |
| Land improvements | 260,173 | \$ 52,550 | | 312,723 |
| Building/improvements | 2,976,131 | | | 2,976,131 |
| Furniture/equipment | 2,203,293 | 142,367 | \$ (49,298) | 2,296,362 |
| Vehicles | 624,477 | 11,028 | (70,954) | 564,551 |
| Textbooks | 574,903 | 26,008 | _____ | 600,911 |
| Total capital assets, being depreciated | <u>6,638,977</u> | <u>231,953</u> | <u>(120,252)</u> | <u>6,750,678</u> |
| Less: accumulated depreciation | | | | |
| Land improvements | (120,823) | (26,864) | | (147,687) |
| Building/improvements | (1,665,876) | (59,908) | | (1,725,784) |
| Furniture/equipment | (1,269,848) | (184,237) | 43,699 | (1,410,386) |
| Vehicles | (386,917) | (36,625) | 19,673 | (403,869) |
| Textbooks | (495,936) | (39,162) | _____ | (535,098) |
| Total accumulated depreciation | <u>(3,939,400)</u> | <u>(346,796)</u> | <u>63,372</u> | <u>(4,222,824)</u> |
| Governmental activities capital assets, net | <u>\$ 2,847,983</u> | <u>\$ (114,843)</u> | <u>\$ (56,880)</u> | <u>\$ 2,676,260</u> |

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

NOTE 9 - CAPITAL ASSETS – (Continued)

Depreciation expense was charged to governmental functions as follows:

| | |
|---|-------------------|
| Instruction: | |
| Regular | \$ 121,707 |
| Special | 5,471 |
| Vocational | 20,252 |
| | |
| Support Services: | |
| Pupil | 1,972 |
| Instructional staff | 56,735 |
| Administration | 11,423 |
| Fiscal | 2,648 |
| Operations and maintenance | 63,187 |
| Pupil transportation | 32,680 |
| Operation of non-instructional services | 7,364 |
| Extracurricular activities | <u>23,357</u> |
| | |
| Total depreciation expense | <u>\$ 346,796</u> |

NOTE 10 – CAPITAL LEASES – LESSEE DISCLOSURE

In fiscal year 2006, the District entered into a capital lease for the acquisition of copiers. The lease meets the criteria of a capital lease as defined by FASB Statement No. 13, “Accounting for Leases”, which defines a capital lease generally as one which transfers the benefits and risks of ownership to the lessee at the conclusion of the lease term. At inception, the lease was accounted for as an other financing source and a capital outlay expenditures in the general fund. Capital lease payments have been reclassified and shown as debt service expenditures in the general fund. These expenditures will be reflected as function expenditures on a budgetary basis. The general capital assets acquired by this capital lease have been capitalized in the governmental activities on the statement of net assets in the amount of \$69,895, which is equal to the present value of the future minimum lease payments as of the date of their inception. A corresponding liability has been recorded in the governmental activities on the statement of net assets. Principal payments made during fiscal year 2007 totaled \$11,662.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2007.

| <u>Fiscal Year Ending June 30,</u> | <u>Amount</u> |
|------------------------------------|------------------|
| 2008 | \$ 16,416 |
| 2009 | 16,416 |
| 2010 | 16,416 |
| 2011 | <u>12,312</u> |
| Total minimum lease payments | 61,560 |
| Less amount representing interest | <u>(8,527)</u> |
| Total | <u>\$ 53,033</u> |

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

NOTE 11 – LONG-TERM OBLIGATIONS

- A. All current obligation bonds outstanding, issued to provide funds for the acquisition and construction of equipment and facilities, are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Payments of principal and interest relating to these liabilities are recorded as expenditures in the debt service fund.

The following is a description of the District's bonds outstanding as of June 30, 2007:

| <u>Purpose</u> | <u>Interest Rate</u> | <u>Issue Date</u> | <u>Maturity Date</u> | <u>Bonds Outstanding June 30, 2006</u> | <u>Retired 2007</u> | <u>Bonds Outstanding June 30, 2007</u> |
|------------------------------|--------------------------|-----------------------|--------------------------|--|-------------------------|--|
| Energy conservation bonds | 5.78% | 02/01/99 | 12/01/08 | \$ 54,000 | \$ (18,000) | \$ 36,000 |

The following is a summary of the District's future annual debt service requirements to maturity for general obligation bonds:

| <u>Year Ending June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------------------|------------------|-----------------|--------------|
| 2008 | \$ 18,000 | \$ 1,562 | \$ 19,562 |
| 2009 | 18,000 | 522 | 18,522 |
| Total | \$ 36,000 | \$ 2,084 | \$ 38,084 |

- B. The changes in the District's long-term obligations during the year consist of the following:

| | <u>Balance June 30, 2006</u> | <u>Increase</u> | <u>Decrease</u> | <u>Balance June 30, 2007</u> | <u>Amounts Due in One Year</u> |
|---|----------------------------------|-----------------|-----------------|----------------------------------|--|
| Governmental Activities | | | | | |
| Compensated absences payable | \$ 649,980 | \$ 109,339 | \$ (53,074) | \$ 706,245 | \$ 175,210 |
| Capital Lease | 64,695 | | (11,662) | 53,033 | 12,630 |
| General obligation bonds payable | 54,000 | | (18,000) | 36,000 | 18,000 |
| Total governmental activities long-term liabilities | \$ 768,675 | \$ 109,339 | \$ (82,736) | \$ 795,278 | \$ 205,840 |

Compensated absences will be paid from the fund from which the employee is paid.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

NOTE 11 – LONG-TERM OBLIGATIONS – (Continued)

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation use in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2007, are a voted debt margin of \$5,868,047 and an unvoted debt margin of \$72,325.

NOTE 12 - COMPENSATED ABSENCES

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Twelve month classified employees earn five to twenty days of vacation per fiscal year, depending upon length of service. Up to three years' vacation time may be accumulated. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred days for both classified and certified employees with less than 25 years of service, and up to a maximum of two hundred and ten days once 25 years of service is achieved. Upon retirement, payment is made for twenty-five percent of accrued plus three days if notice of retirement is received by the Superintendent prior to April 1, to a maximum of fifty-three days.

NOTE 13 - RISK MANAGEMENT

A. Comprehensive

The District maintains comprehensive insurance coverage with private carriers for liability, real property, building contents, and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. In addition, real property contents are fully insured.

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 last year.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

NOTE 13 - RISK MANAGEMENT – (Continued)

B. Employee Insurance Benefits Program

The District participates in the Northern Buckeye Education Council's Employee Insurance Benefits Program (the Program), a public entity shared risk pool consisting of school districts within Defiance, Fulton, Henry, and Williams Counties and other governmental entities. The District pays monthly premiums to the Northern Buckeye Education Council (NBEC) for the benefits offered to its employees including health, dental, vision, and life insurance. NBEC is responsible for the management and operations of the Program. The agreement for the Program provides for additional assessments to participants if the premiums are insufficient to pay the program costs for the fiscal year. Upon withdrawal from the Program, a participant is responsible for any claims not processed and paid and any related administrative costs.

C. Workers' Compensation Group Program

The District participates in the Northern Buckeye Education Council's Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool. The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate.

Participation in the Plan is limited to educational entities that can meet the Plan's selection criteria. Each participant must apply annually. The Plan provides the participants with a centralized program for the processing, analysis, and management of workers' compensation claims and a risk management program to assist in developing safer work environments.

Each participant must pay its premiums, enrollment or other fees, and perform its obligations in accordance with the terms of the agreement.

NOTE 14 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The 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 to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

NOTE 14 - DEFINED BENEFIT PENSION PLANS – (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2007, 10.68 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 District's required contribution for pension obligations to SERS for fiscal years ended 2007, 2006, and 2005, were \$99,659, \$82,467, and \$93,692, respectively; 51.05 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. \$63,948 represents the unpaid pension contribution for fiscal year 2007 and is recorded as a liability within the respective funds.

B. State Teachers Retirement System

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. 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 43215-3371, or by calling (614) 227-4090, or by visiting the STRS Ohio website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times 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 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. 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. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. 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 dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

NOTE 14 - DEFINED BENEFIT PENSION PLANS – (Continued)

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation 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 District's required contributions for fund pension obligations to the DB Plan for the fiscal years ended June 30, 2007, 2006, and 2005 were \$548,803, \$492,438 and \$520,772, respectively; 84.04 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. \$94,304 represents the unpaid pension contribution for fiscal year 2007 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2007 were \$83 made by the District and \$4,022 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2007, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 15 - POSTEMPLOYMENT BENEFITS

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

All STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$42,216 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006 (the latest information available), net health care costs paid by STRS Ohio were \$282.743 million and STRS Ohio had 119,184 eligible benefit recipients.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

NOTE 15 - POSTEMPLOYMENT BENEFITS – (Continued)

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. 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, a decrease of .10 percent from fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. Total surcharge is capped at 2 percent of each employer's SERS salaries. For the 2007 fiscal year, District paid \$36,808 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were \$158.751 million. At June 30, 2006 (the latest information available), SERS had net assets available for payment of health care benefits of \$295.6 million. At June 30, 2006 (the latest information available), SERS had 59,492 participants currently receiving health care benefits.

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual Comparison (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING – (Continued)

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

| Net Change in Fund Balance | <u>General Fund</u> |
|---|---------------------|
| Budget basis | \$ 4,970 |
| Net adjustment for revenue accruals | (112,743) |
| Net adjustment for expenditure accruals | (23,164) |
| Net adjustment for other sources/uses | (21,328) |
| Adjustment for encumbrances | <u>76,921</u> |
| GAAP basis | <u>\$ (75,344)</u> |

NOTE 17 - CONTINGENCIES

Grants

The District receives financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

NOTE 18 - STATUTORY RESERVES

The District is required by state law to annually set aside, in the general fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year end. These amounts must be carried forward and used for the same purposes in future years. In addition, the District received and has available state funds in the amount of \$4,522 that are required to be used for the purchase of a school bus. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2007, the reserve activity was as follows:

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

NOTE 18 - STATUTORY RESERVES – (Continued)

| | <u>Instructional Materials</u> | <u>Capital Maintenance</u> |
|--|------------------------------------|--------------------------------|
| Set-aside cash balance as of June 30, 2006 | \$ (240,532) | |
| Current year set-aside requirement | 133,290 | \$ 133,290 |
| Qualifying disbursements | <u>(189,978)</u> | <u>(178,999)</u> |
| Total | <u>\$ (297,220)</u> | <u>\$ (45,709)</u> |
| Balance carried forward to FY 2008 | <u>\$ (297,220)</u> | <u> </u> |

Although the District had offsets and qualifying disbursements during the year that reduced the set-aside amount below zero for the capital improvement reserve, this extra amount may not be used to reduce the set-aside requirement for future years. The negative amount is therefore not presented as being carried forward to the next fiscal year.

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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*

Ayersville Local School District
Defiance County
28046 Watson Road
Defiance, Ohio 43512-8756

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 Ayersville Local School District, Defiance County, Ohio (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 27, 2009, wherein we noted the District changed its method of accounting for payments in lieu of taxes receivable. 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 District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the 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 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 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 District's internal control will not prevent or detect a material financial statement misstatement.

One Government Center / Suite 1420 / Toledo, OH 43604-2246
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484
www.auditor.state.oh.us

Ayersville Local School District
Defiance County

Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Required by *Government Auditing Standards*.

Page 2

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 District's management in a separate letter dated January 27, 2009.

Compliance and Other Matters

As part of reasonably assuring whether the 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of the audit committee, management, and the Board of Education. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

January 27, 2009



Mary Taylor, CPA
Auditor of State

AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 17, 2009