



OHIO AUDITOR OF STATE  
**KEITH FABER**





**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY  
JUNE 30, 2018**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Auditor's Report .....	1
Prepared by Management:	
Management's Discussion and Analysis .....	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position .....	16
Statement of Activities.....	17
Fund Financial Statements:	
Balance Sheet	
Governmental Funds.....	18
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities .....	19
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds.....	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	21
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) General Fund.....	23
Statement of Fiduciary Net Position Fiduciary Funds.....	24
Statement of Changes in Fiduciary Net Position Fiduciary Fund .....	25
Notes to the Basic Financial Statements.....	26
Required Supplementary Information:	
Schedule of the District's Proportionate Share of the Net Pension Liability:	
School Employees Retirement System (SERS) of Ohio .....	67
State Teachers Retirement System (STRS) of Ohio.....	68
Schedule of District Pension Contributions:	
School Employees Retirement System (SERS) of Ohio .....	69
State Teachers Retirement System (STRS) of Ohio.....	71
Schedule of the District's Proportionate Share of the Net OPEB Liability:	
School Employees Retirement System (SERS) of Ohio .....	73
State Teachers Retirement System (STRS) of Ohio.....	74

AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY

TABLE OF CONTENTS  
(Continued)

<b>TITLE</b>	<b>PAGE</b>
Schedule of District OPEB Contributions:	
School Employees Retirement System (SERS) of Ohio .....	75
State Teachers Retirement System (STRS) of Ohio.....	77
Notes to Required Supplementary Information.....	79
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	81
Schedule of Findings.....	83



## INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

### ***Report on the Financial Statements***

We have audited the accompanying 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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Ayersville Local School District, Defiance County, Ohio, as of June 30, 2018, and the respective changes in financial position thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 3 to the financial statements, during 2018, the District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pension" (OPEB). We did not modify our opinion regarding this matter.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include *management's discussion and analysis* and schedules of net pension and other post-employment benefit liabilities and pension and other post-employment benefit contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2019, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Keith Faber  
Auditor of State

Columbus, Ohio

March 5, 2019

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
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, 2018. 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 2018 are as follows:

- The District's net position of governmental activities increased \$3,968,611 which represents a 28.80% increase from 2017's restated net position.
- General revenues accounted for \$7,803,756 or 73.62% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,795,652 or 26.38% of total revenues of \$10,599,408.
- The District had \$6,630,797 in expenses related to governmental activities; only \$2,795,652 of these expenses was offset by program specific charges for services, grants, or contributions. General revenues supporting governmental activities (primarily taxes, unrestricted grants and entitlements and restricted grants and entitlements) of \$7,803,756 were adequate to provide for these programs.
- The District's major governmental funds are the General Fund, Building Fund and the Classroom Facilities Fund. The General Fund had \$9,071,676 in revenues and other financing sources and \$9,485,185 in expenditures and other financing uses. The General Fund's fund balance decreased \$415,998 from \$5,969,767 to \$5,553,769.
- The Building Fund had \$42,466 in revenues and \$1,594,963 in expenditures. The Building Fund's fund balance decreased \$1,552,497 from \$3,341,117 to \$1,788,620.
- The Classroom Facilities Fund had \$10,036,171 in revenues and \$18,579,596 in expenditures. The Classroom Facilities Fund's fund balance decreased \$8,543,425 from \$13,903,819 to \$5,360,394.

**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 position 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, Building Fund and Classroom Facilities Fund are by far the most significant funds, and the only governmental funds reported as major funds.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
UNAUDITED  
(Continued)

**Reporting the District as a Whole**

*Statement of Net Position and the Statement of Activities*

While this document contains the large number of funds used by the 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 2018." The statement of net position and the statement of activities answer this question. These statements include all assets, deferred outflows, liabilities, deferred inflows, 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 position and changes in that position. This change in net position 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 position 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 informant about the District's major funds. 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 funds are the General Fund, Building Fund and the Classroom Facilities 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 position and the statement of activities and governmental funds) is reconciled in the financial statements.

**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 and one private-purpose trust fund. The District's fiduciary activities are reported in a separate statement of fiduciary net position. 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.



**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
UNAUDITED  
(Continued)

***Required Supplementary Information***

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's net pension liability and net OPEB liability.

**The District as a Whole**

The statement of net position provides the perspective of the District as a whole. The table below provides a summary of the District's net position for June 30, 2018 and June 30, 2017. Net position at June 30, 2017 has been restated as described in Note 3.A.

	<b>Net Position</b>	
	Governmental Activities 2018	Restated Governmental Activities 2017
	<u>2018</u>	<u>2017</u>
<b><u>Assets</u></b>		
Current and other assets	\$ 22,802,320	\$ 41,037,145
Capital assets, net	27,704,338	7,402,823
Total assets	<u>50,506,658</u>	<u>48,439,968</u>
<b><u>Deferred outflows of resources</u></b>		
Unamortized deferred charges on debt refunding	536,605	560,632
Pension	3,183,147	2,476,838
OPEB	161,152	17,610
Total deferred outflows of resources	<u>3,880,904</u>	<u>3,055,080</u>
<b><u>Liabilities</u></b>		
Current liabilities	5,242,110	2,860,917
Long-term liabilities:		
Due within one year	364,168	291,199
Due in more than one year:		
Net pension liability	9,952,659	13,378,918
Net OPEB liability	2,197,410	2,654,750
Other amounts	15,027,918	14,958,386
Total liabilities	<u>32,784,265</u>	<u>34,144,170</u>
<b><u>Deferred inflows of resources</u></b>		
Property taxes levied for next fiscal year	2,832,267	2,952,225
Pension	776,467	620,947
OPEB	248,246	-
Total deferred inflows of resources	<u>3,856,980</u>	<u>3,573,172</u>
<b><u>Net position</u></b>		
Net investment in capital assets	13,547,519	3,149,938
Restricted	9,346,088	17,624,568
Unrestricted (deficit)	<u>(5,147,290)</u>	<u>(6,996,800)</u>
Total net position	<u>\$ 17,746,317</u>	<u>\$ 13,777,706</u>

The net pension liability (NPL) is a significant liability reported by the District at June 30, 2018 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For fiscal year 2018, the District adopted GASB Statement 75, "Accounting and Financial Reporting

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
UNAUDITED  
(Continued)

for Postemployment Benefits Other Than Pensions,” which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the District’s actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan’s *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio’s statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the District’s proportionate share of each plan’s collective:

1. Present value of estimated future pension/OPEB benefits attributable to active and inactive employees’ past service.
2. Minus plan assets available to pay these benefits.

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the “employment exchange” – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the District is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio Revised Code permits, but does not require, the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The employee enters the employment exchange with the knowledge that the employer’s promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the District’s statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan’s *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
UNAUDITED  
(Continued)**

As a result of implementing GASB 75, the District is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2017, from \$16,414,846 to \$13,777,706.

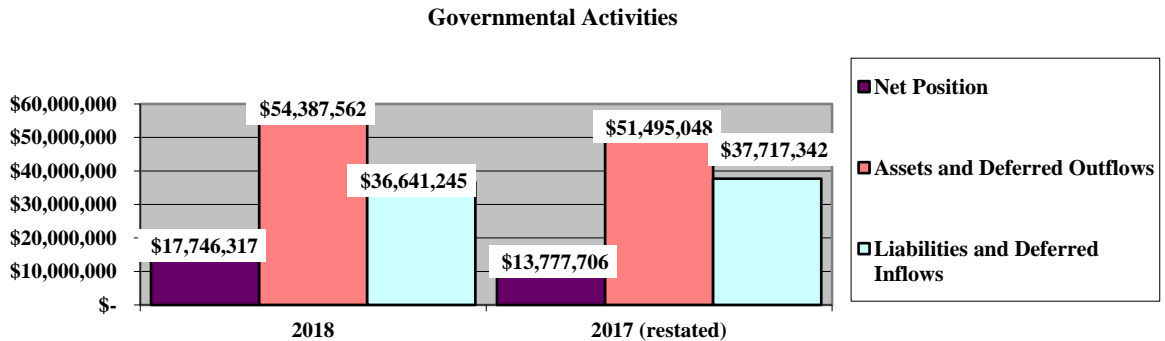
Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2018, the District's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$17,746,317.

At year-end, capital assets represented 54.85% of total assets. Capital assets include land, construction in progress, land improvements, buildings and improvements, furniture and equipment, vehicles and textbooks. The District's net investment in capital assets at June 30, 2018 was \$13,547,519. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

During fiscal year 2016, the District entered into a project agreement with the Ohio Facilities Construction Commission (OFCC) to construct a new PK-12 building. The OFCC's share of the project is \$20,291,730. The District issued \$13,661,198 in general obligation bonds to satisfy its funding requirement and for other locally funded initiatives. This project was ongoing throughout fiscal year 2018.

A portion of the District's net position, \$9,346,088 represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position was a deficit of \$5,147,290.

The graph below illustrates the District's governmental activities assets plus deferred outflows, liabilities plus deferred inflows and net position at June 30, 2018 and 2017. Net position at June 30, 2017 has been restated as described in Note 3.A.



The table below shows the changes in net position for governmental activities between 2018 and 2017. Net position at June 30, 2017 has been restated as described in Note 3.A.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
UNAUDITED  
(Continued)

**Change in Net Position**

	Governmental Activities <u>2018</u>	Restated Governmental Activities <u>2017</u>
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services and sales	\$ 2,159,388	\$ 2,097,576
Operating grants and contributions	636,264	701,181
General revenues:		
Property taxes	3,142,948	3,845,427
Income taxes	916,009	905,748
Payments in lieu of taxes	-	5,548
Unrestricted grants and entitlements	3,558,597	3,535,409
Investment earnings	175,379	148,615
Miscellaneous	<u>10,823</u>	<u>23,424</u>
Total revenues	<u>\$ 10,599,408</u>	<u>\$ 11,262,928</u>

Property taxes decreased because of a decrease in the assessed valuation of the District. Charges for services and sales increased due to an increase in open enrollment tuition revenue.

THIS SECTION IS INTENTIONALLY LEFT BLANK

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
UNAUDITED  
(Continued)

	<b>Change in Net Position (Continued)</b>	
	Governmental Activities <u>2018</u>	Governmental Activities <u>2017</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	\$ 2,077,802	\$ 4,074,544
Special	534,554	806,653
Vocational	109,473	77,793
Other	548,477	639,378
Support services:		
Pupil	302,399	456,941
Instructional staff	307,490	453,482
Board of education	40,016	54,814
Administration	406,483	768,432
Fiscal	247,609	385,740
Operations and maintenance	681,666	608,595
Pupil transportation	211,448	330,115
Central	38,917	37,628
Operations of non-instructional services:		
Food service operations	264,724	400,387
Other non-instructional services	95,391	123,014
Extracurricular activities	247,025	515,342
Interest and fiscal charges	<u>517,323</u>	<u>635,380</u>
Total expenses	<u>6,630,797</u>	<u>10,368,238</u>
Change in net position	3,968,611	894,690
Net position at beginning of year (restated)	<u>13,777,706</u>	<u>N/A</u>
Net position at end of year	<u>\$ 17,746,317</u>	<u>\$ 13,777,706</u>

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of \$17,610 computed under GASB 45. GASB 45 required recognizing OPEB expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report negative OPEB expense of \$329,958. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 program expenses under GASB 75	\$ 6,630,797
Negative OPEB expense under GASB 75	329,958
2018 contractually required contributions	<u>22,678</u>
Adjusted 2018 program expenses	6,983,433
Total 2017 program expenses under GASB 45	<u>10,368,238</u>
Decrease in program expenses not related to OPEB	<u>\$ (3,384,805)</u>

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
UNAUDITED  
(Continued)

Overall, expenses of the governmental activities decreased \$3,737,441 or 36.05%. This decrease is primarily the result of the State Teachers Retirement System (STRS) indefinitely suspending the Cost of Living Adjustment ("COLA") and the School Employee Retirement System (SERS) lowering the COLA from 3.00% to 2.50%. On an accrual basis, the District reported (\$3,267,595) in pension expense and (\$329,958) in OPEB expense mainly due to these benefit changes by the retirement systems.

**Governmental Activities**

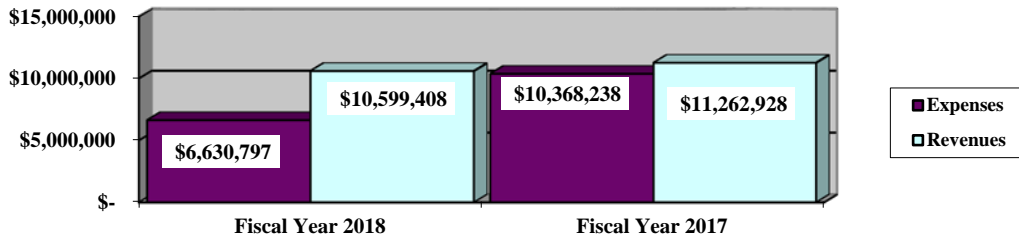
Net position of the District's governmental activities increased by \$3,968,611. Total governmental expenses of \$6,630,797 were offset by program revenues of \$2,795,652 and general revenues of \$7,803,756. Program revenues supported 42.16% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources, in addition to the collection of the District's school district income tax, represent 71.87% of total governmental revenue. Real estate property is reappraised every six years.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$3,270,306 or 49.32% of total governmental expenses for fiscal 2018.

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2018 and 2017.

**Governmental Activities - Revenues and Expenses**



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. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

THIS SECTION IS INTENTIONALLY LEFT BLANK

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
UNAUDITED  
(Continued)**

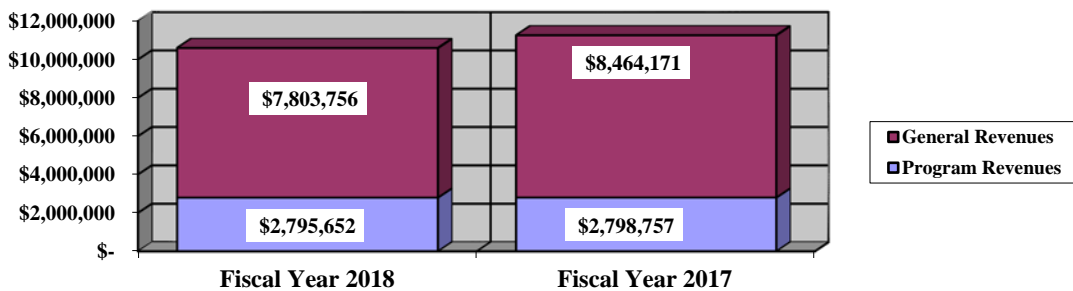
**Governmental Activities**

	Total Cost of Services 2018	Net Cost of Services 2018	Total Cost of Services 2017	Net Cost of Services 2017
<b>Program expenses</b>				
Instruction:				
Regular	\$ 2,077,802	\$ 377,480	\$ 4,074,544	\$ 2,391,102
Special	534,554	134,407	806,653	423,905
Vocational	109,473	108,168	77,793	74,589
Other	548,477	492,037	639,378	556,756
Support services:				
Pupil	302,399	300,793	456,941	455,427
Instructional staff	307,490	286,725	453,482	423,755
Board of education	40,016	40,016	54,814	54,814
Administration	406,483	405,409	768,432	767,278
Fiscal	247,609	247,609	385,740	385,740
Operations and maintenance	681,666	681,666	608,595	608,595
Pupil transportation	211,448	207,019	330,115	319,861
Central	38,917	37,517	37,628	36,308
Operations of non-instructional services:				
Food service operations	264,724	(108,371)	400,387	33,288
Other non-instructional services	95,391	86,152	123,014	113,069
Extracurricular activities	247,025	21,195	515,342	289,614
Interest and fiscal charges	517,323	517,323	635,380	635,380
<b>Total expenses</b>	<b>\$ 6,630,797</b>	<b>\$ 3,835,145</b>	<b>\$ 10,368,238</b>	<b>\$ 7,569,481</b>

The dependence upon tax and other general revenues for governmental activities is apparent as 34.01% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 57.84%. The District's taxpayers and unrestricted grants and entitlements from the State are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2018 and 2017.

**Governmental Activities - General and Program Revenues**



**The District's Funds**

The District's governmental funds reported a combined fund balance of \$13,265,931 which is less than last year's total of \$23,773,913. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2018 and 2017.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
UNAUDITED  
(Continued)

	Fund Balance <u>June 30, 2018</u>	Fund Balance <u>June 30, 2017</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
Major funds:				
General	\$ 5,553,769	\$ 5,969,767	\$ (415,998)	(6.97) %
Building	1,788,620	3,341,117	(1,552,497)	(46.47) %
Classroom Facilities	5,360,394	13,903,819	(8,543,425)	(61.45) %
Other governmental	<u>563,148</u>	<u>559,210</u>	<u>3,938</u>	0.70 %
Total	<u>\$ 13,265,931</u>	<u>\$ 23,773,913</u>	<u>\$ (10,507,982)</u>	(44.20) %

**General Fund**

The District's General Fund balance decreased \$415,998 in fiscal year 2018. Tuition revenue increased approximately \$63,000 due to increased open enrollment revenue during fiscal year 2018. Tax revenue decreased by approximately \$493,000. The most significant reason for the decrease in tax revenues is due to a decrease in property taxes available as an advance at June 30, 2018 compared to June 30, 2017. Another reason for the decrease in property tax revenues can be attributed to the decrease in the District's assessed valuation.

Total General Fund expenditures increased 12.29% from the prior fiscal year. Instructional expenditures increased approximately \$637,000. Part of this was due to customary wage and benefit increase but a significant portion of this was due to the District entering into a computer lease for \$328,320. Support services expenditures increased approximately \$431,000. This was mainly due to the boiler replacement project for \$360,294 which was paid for out of the operations and maintenance line item. Capital outlay increased due to the District entering into a new lease for copier equipment. Debt service decreased because the District's previous computer lease was paid off in fiscal year 2017 and the payments on the new computer lease are not due until fiscal year 2019.

The table that follows assists in illustrating the revenues of the General Fund.

	2018 <u>Amount</u>	2017 <u>Amount</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
<b><u>Revenues</u></b>				
Taxes	\$ 3,241,446	\$ 3,734,757	\$ (493,311)	(13.21) %
Tuition	1,673,238	1,609,889	63,349	3.93 %
Earnings on investments	16,898	36,858	(19,960)	(54.15) %
Intergovernmental	3,631,655	3,606,977	24,678	0.68 %
Other revenues	131,270	151,514	(20,244)	(13.36) %
Capital lease transaction	<u>377,169</u>	<u>-</u>	<u>377,169</u>	100.00 %
Total	<u>\$ 9,071,676</u>	<u>\$ 9,139,995</u>	<u>\$ (68,319)</u>	(0.75) %

The table that follows assists in illustrating the expenditures of the General Fund.



**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
UNAUDITED  
(Continued)

	2018 <u>Amount</u>	2017 <u>Amount</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
<b><u>Expenditures</u></b>				
Instruction	\$ 5,647,311	\$ 5,010,147	\$ 637,164	12.72 %
Support services	3,382,078	2,951,463	430,615	14.59 %
Non-instructional services	7,580	13,375	(5,795)	(43.33) %
Extracurricular activities	360,474	359,037	1,437	0.40 %
Facilities acquisition and construction	6,894	-	6,894	100.00 %
Capital outlay	48,849	-	48,849	100.00 %
Debt service	22,799	104,643	(81,844)	(78.21) %
Total	<u>\$ 9,475,985</u>	<u>\$ 8,438,665</u>	<u>\$ 1,037,320</u>	12.29 %

***Building Fund***

The Building Fund accounts for the District's locally funded initiatives of the building construction project. During fiscal year 2018, the Building Fund had \$42,466 in revenues and \$1,594,963 in expenditures. The Building Fund's fund balance decreased \$1,552,497 from \$3,341,117 to \$1,788,620.

***Classroom Facilities Fund***

The Classroom Facilities fund accounts for the OFCC's portion and the District's required local portion of the building construction project. During fiscal year 2018, the Classroom Facilities Fund had \$10,036,171 in revenues and \$18,579,596 in expenditures. The Classroom Facilities Fund's fund balance decreased \$8,543,425 from \$13,903,819 to \$5,360,394.

***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 2018, the District amended its General Fund budget several times. For the General Fund, original budgeted revenues and financing sources were \$8,763,157 and final budgeted revenues and other financing sources were unchanged from the original budget. Actual revenues and other financing sources for fiscal 2018 were \$8,756,994. This represents a \$6,163 decrease from final budgeted revenues.

General Fund original appropriations (appropriated expenditures including other financing uses) of \$9,350,525 were increased to \$10,033,654 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2018 totaled \$9,436,183 which was \$597,471 less than the final budget appropriations.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2018, the District had \$27,704,338 invested in land, construction on progress, land improvements, buildings and improvements, furniture and equipment, vehicles and textbooks. The following table shows fiscal 2018 balances compared to fiscal 2017.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
UNAUDITED  
(Continued)

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

	Governmental Activities	
	2018	2017
Land	\$ 148,406	\$ 148,406
Construction in progress	25,757,257	5,592,525
Land improvements	92,465	96,636
Building and improvements	672,258	922,294
Furniture and equipment	893,997	453,131
Vehicles	137,414	185,865
Textbooks	2,541	3,966
Total	\$ 27,704,338	\$ 7,402,823

Total additions to capital assets for 2018 were \$20,742,313 and total disposals were \$248,104 (net of accumulated depreciation). Depreciation recorded for the fiscal year totaled \$192,694.

See Note 9 to the basic financial statements for further details on the District's capital assets.

***Debt Administration***

At June 30, 2018, the District had \$13,428,500 in general obligation bonds and \$377,169 in capital leases outstanding. Of these totals, \$275,314 is due within one year and \$13,530,355 is due in greater than one year. The following table summarized the debt outstanding.

**Outstanding Debt, at Year End**

	Activities 2018	Activities 2017
Capital lease - copiers	\$ 48,849	\$ 21,770
Capital lease - computers	328,320	-
General obligation bonds	13,428,500	13,569,429
Total	\$ 13,805,669	\$ 13,591,199

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

**Current Financial Related Activities**

Property tax levies on a continuing basis and a five-year, one-percent income tax are in place to help fund the general fund operations of the District. Residential and agricultural property tax revenue and public utility taxes declined in 2018, while income tax receipts held steady. Incoming open enrollment made up seventeen percent and reimbursement from the State for tangible personal property tax losses due to House Bill 66 made up five percent of general fund revenue in fiscal year 2018. Overall, revenue for the District is lower than last fiscal year due to a decrease in real estate tax, public utility personal property tax, and tangible personal property tax reimbursement.

State funding estimates for the District show a slight increase as the second year of the state biennial budget begins in fiscal year 2019 due to an increase in enrollment. The state reimbursement of tangible personal property tax is

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
UNAUDITED  
(Continued)**

projected to continue its phase-out during this current biennial budget. The phase-out of these funds will remain a concern in the future as the District relies heavily on this reimbursement to fund operations.

The District continues to manage its resources in spite of a difficult economy. General Fund cash basis expenditures increased by 9.5% compared to the prior fiscal year due mainly to increased salaries and benefits and replacing the boilers in the portion of the old building being kept. The uncertainty associated with the long-term effects of the elimination of the tangible personal property tax base and state funding revisions will create future challenges; however, the financial stability of the District continues to be a top priority.

**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. Abby Sharp, CFO/Treasurer, Ayersville Local School District, 28046 Watson Road, Defiance, Ohio, 43512-8756.

**This page intentionally left blank.**

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

STATEMENT OF NET POSITION  
JUNE 30, 2018

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and investments. . . . .	\$ 11,985,598
Investments. . . . .	5,490,251
Receivables:	
Property taxes . . . . .	3,286,267
Income taxes. . . . .	318,747
Accounts. . . . .	53
Accrued interest . . . . .	22,073
Intergovernmental . . . . .	1,678,437
Prepayments . . . . .	14,384
Materials and supplies inventory. . . . .	5,140
Inventory held for resale. . . . .	1,370
Capital assets:	
Nondepreciable capital assets . . . . .	25,905,663
Depreciable capital assets, net. . . . .	1,798,675
Capital assets, net . . . . .	27,704,338
Total assets. . . . .	50,506,658
<b>Deferred outflows of resources:</b>	
Unamortized deferred charges on debt refunding	536,605
Pension. . . . .	3,183,147
OPEB . . . . .	161,152
Total deferred outflows of resources . . . . .	3,880,904
<b>Liabilities:</b>	
Accounts payable. . . . .	11,518
Contracts payable. . . . .	3,513,257
Retainage payable . . . . .	554,704
Accrued wages and benefits . . . . .	912,056
Intergovernmental payable . . . . .	32,657
Pension and postemployment benefits payable.	135,830
Accrued interest payable . . . . .	82,088
Long-term liabilities:	
Due within one year. . . . .	364,168
Due in more than one year:	
Net pension liability . . . . .	9,952,659
Net OPEB liability . . . . .	2,197,410
Other amounts due in more than one year .	15,027,918
Total liabilities. . . . .	32,784,265
<b>Deferred inflows of resources:</b>	
Property taxes levied for the next fiscal year. .	2,832,267
Pension. . . . .	776,467
OPEB . . . . .	248,246
Total deferred inflows of resources . . . . .	3,856,980
<b>Net position:</b>	
Net investment in capital assets . . . . .	13,547,519
Restricted for:	
Capital projects . . . . .	8,996,674
Classroom facilities maintenance . . . . .	142,515
Debt service. . . . .	102,478
Locally funded programs . . . . .	850
Federally funded programs . . . . .	5,293
Student activities . . . . .	52,556
Natatorium operations. . . . .	45,722
Unrestricted (deficit) . . . . .	(5,147,290)
Total net position. . . . .	\$ 17,746,317

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

		Program Revenues		Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental activities:</b>				
Instruction:				
Regular . . . . .	\$ 2,077,802	\$ 1,592,941	\$ 107,381	\$ (377,480)
Special . . . . .	534,554	126,375	273,772	(134,407)
Vocational . . . . .	109,473		1,305	(108,168)
Other . . . . .	548,477		56,440	(492,037)
Support services:				
Pupil . . . . .	302,399	1,294	312	(300,793)
Instructional staff . . . . .	307,490		20,765	(286,725)
Board of education . . . . .	40,016			(40,016)
Administration . . . . .	406,483		1,074	(405,409)
Fiscal . . . . .	247,609			(247,609)
Operations and maintenance . . . . .	681,666			(681,666)
Pupil transportation . . . . .	211,448	1,820	2,609	(207,019)
Central . . . . .	38,917		1,400	(37,517)
Operation of non-instructional services:				
Food service operations . . . . .	264,724	239,735	133,360	108,371
Other non-instructional services . . . . .	95,391	7,639	1,600	(86,152)
Extracurricular activities . . . . .	247,025	189,584	36,246	(21,195)
Interest and fiscal charges . . . . .	517,323			(517,323)
<b>Total governmental activities . . . . .</b>	<b>\$ 6,630,797</b>	<b>\$ 2,159,388</b>	<b>\$ 636,264</b>	<b>(3,835,145)</b>
<b>General revenues:</b>				
Property taxes levied for:				
General purposes . . . . .				2,313,651
Debt service . . . . .				605,429
Capital outlay . . . . .				97,152
Natatorium operations . . . . .				79,501
Classroom facilities maintenance . . . . .				47,215
Income taxes levied for:				
General purposes . . . . .				916,009
Grants and entitlements not restricted				
to specific programs . . . . .				3,558,597
Investment earnings . . . . .				175,379
Miscellaneous . . . . .				10,823
<b>Total general revenues . . . . .</b>				<b>7,803,756</b>
Change in net position . . . . .				3,968,611
<b>Net position at beginning of year (restated) . . . . .</b>				<b>13,777,706</b>
<b>Net position at end of year . . . . .</b>				<b>\$ 17,746,317</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET POSITION OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2018

<b>Total governmental fund balances</b>		\$	13,265,931
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			27,704,338
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.			
Property taxes receivable	\$	14,000	
Accrued interest receivable		5,401	
Intergovernmental receivable		1,524,699	
Total			1,544,100
Unamortized premiums on bonds issued are not recognized in the funds.			(1,059,439)
Unamortized amounts on refundings are not recognized in the funds.			536,605
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(82,088)
The net pension/OPEB liabilities are not due and payable in the current period; therefore, the liabilities and related deferred inflows/outflows are not reported in governmental funds.			
Deferred outflows - pension		3,183,147	
Deferred inflows - pension		(776,467)	
Net pension liability		(9,952,659)	
Deferred outflows - OPEB		161,152	
Deferred inflows - OPEB		(248,246)	
Net OPEB liability		(2,197,410)	
Total			(9,830,483)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
General obligation bonds		(13,428,500)	
Capital lease obligations		(377,169)	
Compensated absences		(526,978)	
Total			(14,332,647)
<b>Net position of governmental activities</b>		\$	17,746,317

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, 2018

	<u>General</u>	<u>Building</u>	<u>Classroom Facilities</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>					
From local sources:					
Property taxes . . . . .	\$ 2,325,437			\$ 833,511	\$ 3,158,948
Income taxes. . . . .	916,009				916,009
Payment in lieu of taxes . . . . .	5,089			459	5,548
Tuition. . . . .	1,673,238				1,673,238
Transportation fees. . . . .	1,820				1,820
Earnings on investments . . . . .	16,898	\$ 42,466	\$ 118,149	5	177,518
Charges for services . . . . .				239,562	239,562
Extracurricular. . . . .	1,105			136,289	137,394
Classroom materials and fees . . . . .	52,355				52,355
Other local revenues . . . . .	70,877			32,607	103,484
Intergovernmental - state . . . . .	3,595,907		9,918,022	82,914	13,596,843
Intergovernmental - federal. . . . .	35,748			459,064	494,812
<b>Total revenues . . . . .</b>	<b>8,694,483</b>	<b>42,466</b>	<b>10,036,171</b>	<b>1,784,411</b>	<b>20,557,531</b>
<b>Expenditures:</b>					
Current:					
Instruction:					
Regular. . . . .	4,300,190			115,024	4,415,214
Special . . . . .	719,535			153,416	872,951
Vocational . . . . .	108,141				108,141
Other . . . . .	519,445			60,765	580,210
Support services:					
Pupil . . . . .	464,833			5,656	470,489
Instructional staff. . . . .	449,992			20,530	470,522
Board of education . . . . .	40,016				40,016
Administration . . . . .	838,943			1,156	840,099
Fiscal . . . . .	375,550	3,001	6,826	16,229	401,606
Operations and maintenance . . . . .	901,480			128,743	1,030,223
Pupil transportation . . . . .	271,174				271,174
Central . . . . .	40,090			550	40,640
Operation of non-instructional services					
Food service operations. . . . .				381,824	381,824
Other non-instructional services. . . . .	7,580			102,928	110,508
Extracurricular activities. . . . .	360,474			151,413	511,887
Facilities acquisition and construction. . . . .	6,894	1,591,962	18,572,770		20,171,626
Capital outlay . . . . .	48,849				48,849
Debt service:					
Principal retirement. . . . .	21,770			195,000	216,770
Interest and fiscal charges . . . . .	1,029			483,295	484,324
<b>Total expenditures . . . . .</b>	<b>9,475,985</b>	<b>1,594,963</b>	<b>18,579,596</b>	<b>1,816,529</b>	<b>31,467,073</b>
Excess of expenditures over revenues. . . . .	(781,502)	(1,552,497)	(8,543,425)	(32,118)	(10,909,542)
<b>Other financing sources (uses):</b>					
Sale of capital assets . . . . .	24			28,712	28,736
Transfers in. . . . .				9,200	9,200
Transfers (out) . . . . .	(9,200)				(9,200)
Capital lease transaction . . . . .	377,169				377,169
<b>Total other financing sources (uses) . . . . .</b>	<b>367,993</b>			<b>37,912</b>	<b>405,905</b>
Net change in fund balances . . . . .	(413,509)	(1,552,497)	(8,543,425)	5,794	(10,503,637)
<b>Fund balances at beginning of year. . . . .</b>	<b>5,969,767</b>	<b>3,341,117</b>	<b>13,903,819</b>	<b>559,210</b>	<b>23,773,913</b>
<b>Decrease in reserve for inventory. . . . .</b>	<b>(2,489)</b>			<b>(1,856)</b>	<b>(4,345)</b>
<b>Fund balances at end of year. . . . .</b>	<b>\$ 5,553,769</b>	<b>\$ 1,788,620</b>	<b>\$ 5,360,394</b>	<b>\$ 563,148</b>	<b>\$ 13,265,931</b>

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, 2018

**Net change in fund balances - total governmental funds** \$ (10,503,637)

*Amounts reported for governmental activities in the statement of activities are different because:*

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 asset additions	\$	20,742,313	
Current year depreciation		(192,694)	
Total			20,549,619

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net position. (248,104)

Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed. (4,345)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property taxes		(16,000)	
Payment in lieu of taxes		(5,548)	
Earnings on investments		(2,134)	
Intergovernmental		(9,934,441)	
Total			(9,958,123)

Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position. 216,770

Issuance of capital leases are recorded as other financing sources in the funds; however, in the statement of activities, they are not reported as other financing sources as they increase liabilities on the statement of net position. (377,169)

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.

Pension		712,351	
OPEB		22,678	
Total			735,029

Except for amounts reported as deferred inflows/outflows, changes in the net pension/OPEB liability are reported as pension/OPEB expense in the statement of activities

Pension		3,264,697	
OPEB		329,958	
Total			3,594,655

-- Continued

**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 (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in less interest being reported in the statement of activities:

Increase in accrued interest payable	\$	(1,258)	
Accreted interest on capital appreciation bonds		(54,071)	
Amortization of bond premiums		46,357	
Amortization of deferred charges		(24,027)	
Total		(32,999)	\$ (32,999)

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.

(3,085)

**Change in net position of governmental activities**

\$ 3,968,611

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 (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
From local sources:				
Property taxes . . . . .	\$ 2,611,347	\$ 2,611,347	\$ 2,431,437	\$ (179,910)
Income taxes. . . . .	889,686	889,686	889,616	(70)
Payment in lieu of taxes. . . . .			5,089	5,089
Tuition. . . . .	1,682,000	1,682,000	1,673,238	(8,762)
Transportation fees. . . . .	1,940	1,940	1,820	(120)
Earnings on investments . . . . .	50,000	50,000	91,825	41,825
Classroom materials and fees . . . . .	32,235	32,235	26,661	(5,574)
Other local revenues . . . . .	13,000	13,000	10,813	(2,187)
Intergovernmental - state . . . . .	3,417,987	3,417,987	3,551,626	133,639
Intergovernmental - federal . . . . .	40,000	40,000	35,748	(4,252)
<b>Total revenues . . . . .</b>	<u>8,738,195</u>	<u>8,738,195</u>	<u>8,717,873</u>	<u>(20,322)</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	4,174,313	4,479,280	4,059,724	419,556
Special. . . . .	586,680	629,542	723,084	(93,542)
Vocational. . . . .	69,896	75,002	108,618	(33,616)
Other. . . . .	533,125	572,074	521,151	50,923
Support services:				
Pupil. . . . .	375,444	402,873	419,102	(16,229)
Instructional staff . . . . .	399,022	428,174	461,308	(33,134)
Board of education . . . . .	65,103	69,859	45,317	24,542
Administration. . . . .	716,720	769,082	827,135	(58,053)
Fiscal . . . . .	375,251	402,666	398,496	4,170
Operations and maintenance. . . . .	1,342,205	1,440,264	1,096,201	344,063
Pupil transportation . . . . .	266,472	285,940	292,580	(6,640)
Central. . . . .	34,548	37,072	41,495	(4,423)
Other non-instructional services . . . . .	9,094	9,758	7,821	1,937
Extracurricular activities. . . . .	290,817	312,063	316,222	(4,159)
Facilities acquisition and construction . . . . .			16,388	(16,388)
<b>Total expenditures . . . . .</b>	<u>9,238,690</u>	<u>9,913,649</u>	<u>9,334,642</u>	<u>579,007</u>
Excess of expenditures over revenues. . . . .	(500,495)	(1,175,454)	(616,769)	558,685
<b>Other financing sources (uses):</b>				
Refund of prior year's expenditures . . . . .	24,957	24,957	39,097	14,140
Refund of prior year's receipts. . . . .	(5)	(5)	(21)	(16)
Transfers in . . . . .	5	5		(5)
Transfers (out). . . . .	(111,830)	(120,000)	(101,520)	18,480
Sale of capital assets . . . . .			24	24
<b>Total other financing sources (uses) . . . . .</b>	<u>(86,873)</u>	<u>(95,043)</u>	<u>(62,420)</u>	<u>32,623</u>
Net change in fund balance . . . . .	(587,368)	(1,270,497)	(679,189)	591,308
<b>Fund balance at beginning of year . . . . .</b>	5,746,372	5,746,372	5,746,372	
<b>Prior year encumbrances appropriated . . . . .</b>	278,218	278,218	278,218	
<b>Fund balance at end of year . . . . .</b>	<u>\$ 5,437,222</u>	<u>\$ 4,754,093</u>	<u>\$ 5,345,401</u>	<u>\$ 591,308</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2018

	<b>Private Purpose Trust</b>	
	<b>Scholarship</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash and investments. . . . .	\$ 22,522	\$ 183,630
Total assets. . . . .	\$ 22,522	\$ 183,630
<b>Liabilities:</b>		
Accrued wages and benefits. . . . .	-	\$ 128,504
Due to students. . . . .	-	55,126
Total liabilities. . . . .	-	\$ 183,630
<b>Net position:</b>		
Held in trust for scholarships . . . . .	\$ 22,522	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<b>Private Purpose Trust</b>
	<b>Scholarship</b>
<b>Additions:</b>	
Interest. . . . .	\$ 436
Gifts and contributions. . . . .	2,200
Total additions. . . . .	2,636
<b>Deductions:</b>	
Scholarships awarded . . . . .	17,102
Change in net position . . . . .	(14,466)
<b>Net position at beginning of year. . . . .</b>	<b>36,988</b>
<b>Net position at end of year . . . . .</b>	<b>\$ 22,522</b>

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, 2018**

**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 staffed by 37 classified employees and 60 certified employees, which includes 5 administrative personnel, who provide services to approximately 765 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'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” and GASB Statement No. 61, “The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34”. The reporting entity is composed of the primary government and component units. 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 organization's 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 access the organization's 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. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. 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:

***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, Lucas, Wood and Williams Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)**

administrative and instructional functions among member school districts. NWOCA is governed by the Northern Buckeye Education Council and its participating members. Total disbursements made by the District to NWOCA during this fiscal year were \$44,968. Financial information can be obtained from Tammy Butler, who serves as Treasurer, at 209 Nolan Parkway, 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, Lucas, Wood, 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 six 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. Total disbursements made by the District to NBEC this fiscal year were \$220. To obtain financial information write to the Northern Buckeye Education Council, Tammy Butler, who serves as Treasurer, at 209 Nolan Parkway, 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. Total disbursements made by the District to the Four County Career Center during this fiscal year were \$108,488. To obtain financial information write to Four County Career Center, Connie Nicely, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

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. Total disbursements made by the District to NOERC during this fiscal year were \$200. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., P.O. Box 456, Ashland, Ohio 44805.

State Support Team Region One – State Support Teams address school improvement through their role in the implementation of the Ohio Improvement Process (OIP). The State Support Team Region 1 builds capacity region-wide through facilitating and supporting district-wide OIP implementation and providing technical assistance and coaching to school teams and learning communities. The State Support Team Region 1 is located at 2275 Collingwood Boulevard, Suite C, Toledo, Ohio 43620.

*GROUP PURCHASING POOLS*

Optimal Health Initiative Consortium (OHI) Insurance Benefits Program (the Pool) – The District participates in a group health insurance pool through the Northern Buckeye Health Plan (NBHP), Northwest Division of Optimal Health Initiative Consortium (OHI) Insurance Benefits Program (the Pool). NBHP is a joint self-insurance arrangement created pursuant to the authority vested in Ohio Revised Code Section 9.833. The Pool is a public entity shared risk pool consisting of educational entities throughout the State. The Pool is governed by OHI and its participating members.



**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)

The District contributed a total of \$1,114,482 to Northern Buckeye Health Plan, Northwest Division of OHI for all four employee insurance plans. Financial information for the period can be obtained from Charlie LeBoeuf, Treasurer at 201 East 5<sup>th</sup> Street,, Suite 2100, Cincinnati, Ohio 45202.

Optimal Health Initiative Consortium (OHI) Workers' 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 Health Plan, Northern Division of OHI Workers' Compensation Group Rating Pool (WCGRP) was established on January 1, 2012 through NBHP as an insurance purchasing pool. The group was formed to create a workers' compensation group rating plan which would allow employers to group together to achieve a potentially lower premium rate than they may otherwise be able to acquire as individual employers. NBHP has created a workers' compensation group rating and risk management program which will potentially reduce the workers' compensation premiums for the District.

NBHP has retained Sheakley Uniservice as the servicing agent to perform administrative, actuarial, cost control, claims, and safety consulting services and unemployment claims services for program participants. The District did not make any payments to the WCGRP during this fiscal year.

Southwestern Ohio Educational Purchasing Council Liability, Fleet, and Property Program – The District participates in the Southwestern Ohio Educational Purchasing Council Liability, Fleet and Property Program (LFP). The LFP's business and affairs are conducted by a six member committee consisting of various LFP representatives that are elected by the general assembly. The purpose of the LFP is to jointly provide or obtain casualty, property, employer liability, general liability, risk management, professional liability, group coverage and other protections for participants. The District paid \$39,566 for those services to Southwestern Ohio Educational Purchasing Council during fiscal year 2018.

**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 three categories: governmental, proprietary 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, deferred outflows and liabilities and deferred inflows is reported as fund balance. The following are the District's major governmental funds:

General Fund – The general fund is used to account for and report all financial resources not accounted for and reported 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.

Building Fund – A capital projects fund used to account for resources that are restricted for the acquisition of capital facilities and capital assets. Expenditures recorded here represent the costs of acquiring capital facilities, including real property.

Classroom Facilities Fund – A capital projects fund used to account for and report monies received that are restricted for expenditures in connection with contracts entered into by the District and the Ohio Facilities Construction Commission for the building and equipping of classroom facilities.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)

Other governmental funds of the District are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets, (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects and (c) financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

*PROPRIETARY FUNDS*

Proprietary funds are used to account for proprietary activities which are similar to those often found in the private sector. The District has no proprietary funds.

*FIDUCIARY FUNDS*

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private purpose trust, which primarily accounts for scholarship programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency funds account for student managed activities, OHSAA tournament monies, and payroll clearing account activity.

**C. Basis of Presentation and Measurement Focus**

Government-Wide Financial Statements – The statement of net position 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 statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of 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 not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the District are included on the statement of net position.

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 into one column. Fiduciary funds are reported by fund type.

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows, current liabilities and deferred inflows generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)

explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Private-purpose trust funds are reported using the economic resources measurement focus. 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, income taxes, payment in lieu of taxes, interest, tuition, grants, student fees and rentals.

Deferred Outflows of Resources and Deferred Inflows of Resources – In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the District, see Notes 14 and 15 for deferred outflows of resources related to the District's net pension liability and net OPEB liability, respectively. In addition, deferred outflows of resources include a deferred charge on debt refunding. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, both the government-wide statement of net position and the governmental fund financial statements report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the District, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2017, but which were levied to finance fiscal year 2018 operations. These amounts have been recorded as a deferred inflow of resources on both the government-wide

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)**

statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the District unavailable revenue includes, but is not limited to, delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

See Notes 14 and 15 for deferred inflows of resources related to the District's net pension liability and net OPEB liability, respectively. This deferred inflow of resources is only reported on the government-wide statement of net position.

*Expenses/Expenditures* – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement 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. Unused donated commodities are 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 2018 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 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 July 1, 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 2018.
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.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)**

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 appropriation amounts. All supplemental appropriations were legally enacted by the Board during fiscal 2018. The amounts reported in the budgetary statement reflect the amounts set forth in the original and final budgeted appropriations for fiscal year 2018.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be re-appropriated. Cash disbursements plus encumbrances may not legally exceed budgeted appropriations at the object level.

**F. Cash and Investments**

To improve cash management, cash received by the District is pooled. Monies for all funds, including proprietary 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 investments" on the basic financial statements.

During fiscal year 2018, investments were limited to federal agency securities, negotiable certificates of deposit, U.S. Treasury bills, U.S. government money market mutual funds and commercial paper. Investments are reported at fair value, which is based on quoted market prices.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenues credited to the General Fund during fiscal year 2018 amounted to \$16,898, which includes \$1,126 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 reported as "equity in pooled cash and investments." Investments with an original maturity of more than three months that are not made from the pool are reported as "investments."

An analysis of the District's investments 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.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)

**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 position, but are not reported in the fund financial statements.

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 acquisition values as of the date received. During fiscal year 2018, the District maintained a capitalization threshold of \$1,500. 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 and construction in progress 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.

Description	Governmental Activities <u>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.

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. Net pension/OPEB liability should be recognized in the governmental funds to the extent

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)

that benefit payments are due and payable and the pension/OPEB plan's fiduciary net position is not sufficient for payment of those benefits. Bonds and capital leases are recognized as a liability in the fund financial statements when due.

**K. Fund Balance**

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

*Nonspendable* – The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

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

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

*Assigned* – Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

*Unassigned* – Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

**L. Net Position**

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component “net investment in capital assets,” consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)

by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is 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 statement of net position and 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.

**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. The District reports no restricted assets.

**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. Interfund Balances**

Interfund loans that are used to cover negative cash balances are classified as "due to/from other funds". These amounts are eliminated in the governmental activities columns of the statement of net position.

**R. Pensions/Other Postemployment Benefits (OPEB)**

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

**S. 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



**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)

and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2018.

**T. Bond Premium/Accounting Gain or Loss**

On the government-wide financial statements, bond premiums are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Bond premiums are presented as an addition to the face amount of the bonds.

For advance refundings resulting in the defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This accounting gain or loss is amortized using the straight-line method, which approximates the effective interest method, over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as a deferred outflow on the government-wide financial statements.

On the governmental fund financial statements, bond premiums and discounts are recognized in the current period. A reconciliation between the bonds face value and the amount reported on the statement of net position is presented in Note 11.A.

**U. Fair Market Value**

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

**NOTE 3 – ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles/Restatement of Net Position**

For fiscal year 2018, the District has implemented GASB Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pension”, GASB Statement No. 81 “Irrevocable Split-Interest Agreements” GASB Statement No. 85, “Omnibus 2017” and GASB Statement No. 86, “Certain Debt Extinguishments”.

GASB Statement No. 75 improves the accounting and financial reporting by state and local governments for postemployment benefits other than pension (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The implementation of GASB Statement No. 75 affected the District’s postemployment benefit plan disclosures, as presented in Note 15 to the basic financial statements and added required supplementary information.

GASB Statement No. 81 improves the accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the District.

GASB Statement No. 85 addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and OPEB. The implementation of GASB Statement No. 85 did not have an effect on the financial statements of the District.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)

GASB Statement No. 86 improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the District.

A net position restatement is required in order to implement GASB Statement No 75. The governmental activities at July 1, 2017 have been restated as follows:

	Governmental Activities
Net position as previously reported	\$ 16,414,846
Deferred outflows - payments subsequent to measurement date	17,610
Net OPEB liability	(2,654,750)
Restated net position at July 1, 2017	\$ 13,777,706

Other than employer contributions subsequent to the measurement date, the District made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available. The restatement had no effect on fund balances.

**B. Deficit Fund Balances**

Fund balances at June 30, 2018 included the following individual fund deficits:

Nonmajor funds	Deficit
Food service	\$ 34,547
Miscellaneous state grants	237
Title VI-B	32,654
Title I	10,582
Title II-A	11,137
Miscellaneous federal grants	5,312

The General Fund is liable for any deficit in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted 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.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)**

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;
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 items (1) or (2) above 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 (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 if training requirements have been met.

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.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)

**A. Cash on Hand**

At fiscal year end, the District had \$200 in undeposited cash on hand which is included on the financial statements of the District as part of “equity in pooled cash and investments”.

**B. Deposits with Financial Institutions**

At June 30, 2018, the carrying amount of all District deposits was \$7,001,775. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2018, \$516,611 of the District’s bank balance of \$7,021,511 was exposed to custodial risk as discussed below, while \$6,504,900 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the District will 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 credit risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by (1) eligible securities pledged to the District’s and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured, or (2) participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State. Although all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the District to a successful claim by the FDIC.

**C. Investments**

As of June 30, 2018, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair value</u>	<u>Investment Maturities</u>				
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>19 to 24 months</u>	<u>Greater than 24 months</u>
FHLB	\$ 291,460	\$ 199,740	\$ -	\$ -	\$ -	\$ 91,720
FHLMC	721,958	-	99,078	-	-	622,880
FNMA	1,347,567	-	-	93,596	53,938	1,200,033
FAMC	245,010	-	-	-	-	245,010
Negotiable CDs	3,220,562	1,613,896	263,807	586,878	220,672	535,309
Commercial paper	2,914,413	2,914,413	-	-	-	-
U.S. Treasury bills	1,703,597	1,703,597	-	-	-	-
U.S. Government money market funds	235,459	235,459	-	-	-	-
	<u>\$ 10,680,026</u>	<u>\$ 6,667,105</u>	<u>\$ 362,885</u>	<u>\$ 680,474</u>	<u>\$ 274,610</u>	<u>\$ 2,694,952</u>

The weighted average maturity of investments is 0.97 years.

The District’s investments in U.S. Government money market mutual funds are valued using quoted market prices in active markets (Level 1 inputs). The District’s investments in federal agency securities, negotiable CDs, U.S. Treasury bills and commercial paper are valued using quoted prices in markets that

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)

are not considered to be active, dealer quotations or alternative pricing sources for similar assets or liabilities for which all significant inputs are observable, either directly or indirectly (Level 2 inputs).

*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.

*Credit Risk:* U.S. Government money market mutual funds carry a rating of AAAM by Standard & Poor's. The District's investments in federal agency securities were rated AA+ and Aaa by Standard & Poor's and Moody's Investor Services, respectively. The District's investments in commercial paper and U.S. Treasury bills were rated A-1+ or A-1 by Standard & Poor's and P-1 by Moody's Investor Services.

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The negotiable CDs are covered by FDIC. The federal agency securities, commercial paper and U.S. Treasury bills are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the District's name. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

*Concentration of Credit Risk:* The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2018:

<u>Investment type</u>	<u>Fair value</u>	<u>% of Total</u>
FHLB	\$ 291,460	2.73
FHLMC	721,958	6.76
FNMA	1,347,567	12.62
FAMC	245,010	2.29
Negotiable CDs	3,220,562	30.16
Commercial paper	2,914,413	27.29
U.S. Treasury bills	1,703,597	15.95
U.S. Government money market funds	235,459	2.20
	<u>\$ 10,680,026</u>	<u>100.00</u>

**D. Reconciliation of Cash and Investments to the Statement of Net Position**

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2018:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 7,001,775
Investments	10,680,026
Cash on hand	<u>200</u>
Total	<u>\$ 17,682,001</u>

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)

<u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 17,475,849
Private-purpose trust fund	22,522
Agency funds	<u>183,630</u>
Total	<u>\$ 17,682,001</u>

**NOTE 5 – INTERFUND TRANSACTIONS**

- A. Interfund transfers for the year ended June 30, 2018, consisted of the following, as reported on the fund financial statements:

<u>Transfers from General Fund to:</u>	<u>Amount</u>
Nonmajor Governmental Funds	\$ 9,200

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.

All transfers made in fiscal year 2018 were in accordance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16. Transfers between governmental funds are eliminated for reporting on the government-wide financial statements.

- B. Interfund balances consisted of the following due to/from other funds at June 30, 2018, as reported on the fund statements:

<u>Due to the General Fund from:</u>	<u>Amount</u>
Nonmajor Governmental Funds	\$ 81,072

The primary purpose of the interfund loans due to the General Fund is to cover negative cash balances in the Nonmajor Governmental Funds. These negative cash balances are allowable under Ohio Revised Code Section 3315.20. The interfund balances will be repaid once the anticipated revenues are received.

Amounts due to/from other funds between governmental funds are eliminated on the government-wide financial statements.

**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 property and public utility property. Real property tax revenues received in calendar year 2018 represent the collection of calendar year 2017 taxes. Real property taxes received in calendar year 2018 were levied after April 1, 2017, on the assessed values as of January 1, 2017, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2018 represent the collection of calendar year 2017 taxes. Public utility real and personal property taxes received in calendar year 2018 became a lien on December 31, 2016, were levied after April 1, 2017, and are collected with real property taxes. Public utility

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)

real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

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, 2018, are available to finance fiscal year 2018 operations. The amount available as an advance at June 30, 2018 was \$309,000 in the General Fund, \$101,000 in the Bond Retirement Fund, a nonmajor governmental fund, \$13,000 in the Permanent Improvement Fund, a nonmajor governmental fund, \$7,000 in the Classroom Facilities Maintenance Fund, a nonmajor governmental fund, and \$10,000 in the Natatorium Special Levy Fund, a nonmajor governmental fund. This amount is recorded as revenue. The amount available for advance at June 30, 2017 was \$415,000 in the General Fund, \$124,000 in the Bond Retirement Fund, a nonmajor governmental fund, \$18,000 in the Permanent Improvement Fund, a nonmajor governmental fund, \$9,000 in the Classroom Facilities Maintenance Fund, a nonmajor governmental fund and \$14,000 in the Natatorium Special Levy Fund, a nonmajor governmental fund. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2018 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 inflows.

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

The assessed values upon which the fiscal year 2018 taxes were collected are:

	2017 Second Half Collections		2018 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 96,526,210	89.55	\$ 95,309,970	93.71
Public utility personal	<u>11,260,360</u>	<u>10.45</u>	<u>6,392,300</u>	<u>6.29</u>
Total	<u>\$ 107,786,570</u>	<u>100.00</u>	<u>\$ 101,702,270</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 50.43		\$ 50.28	

**NOTE 7 – RECEIVABLES**

Receivables at June 30, 2018 consisted of property taxes, income taxes, accrued interest, accounts, 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 principal items of receivables reported on the statement of net position follows:

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)

<b>Governmental activities:</b>	
Property taxes	\$ 3,286,267
Income taxes	318,747
Accounts	53
Intergovernmental	1,678,437
Accrued interest	<u>22,073</u>
Total	<u>\$ 5,305,577</u>

Receivables have been disaggregated on the face of the basic financial statements. An intergovernmental receivable in the amount of \$1,454,155 reported in the classroom facilities fund is expected to be collected over the life of the OFCC project. All other receivables are expected to be collected within the subsequent year; however, the status of any delinquent tax collections is unknown.

**NOTE 8 – INCOME TAXES**

The District levies a voted income tax of one percent on the income of residents and on estates for general operations of the District. The income tax became effective on January 1, 2008 and was in effect for a period of five years, until December 31, 2012. In March 2012, voters renewed this levy for an additional five years, effective January 1, 2013 through December 31, 2017. In November 2017, voters renewed this levy for an additional five years, effective January 1, 2018 through December 31, 2022. Employers of residents are required to withhold income tax on employee compensation and then remit that income tax to the State, and taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the general fund and amounted to \$916,009 for fiscal year 2018.

**NOTE 9 – CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:



**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

(Continued)

	<u>Balance</u>			<u>Balance</u>
	<u>June 30, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2018</u>
<b>Governmental activities</b>				
Capital assets, not being depreciated:				
Land	\$ 148,406	\$ -	\$ -	\$ 148,406
Construction in progress	<u>5,592,525</u>	<u>20,164,732</u>	-	<u>25,757,257</u>
Total capital assets, not being depreciated	<u>5,740,931</u>	<u>20,164,732</u>	-	<u>25,905,663</u>
Capital assets, being depreciated:				
Land improvements	365,303	7,120	-	372,423
Building/improvements	3,274,306	-	(480,751)	2,793,555
Furniture/equipment	2,098,243	570,461	(160,190)	2,508,514
Vehicles	925,573	-	-	925,573
Textbooks	<u>651,209</u>	-	<u>(331,371)</u>	<u>319,838</u>
Total capital assets, being depreciated	<u>7,314,634</u>	<u>577,581</u>	<u>(972,312)</u>	<u>6,919,903</u>
Less: accumulated depreciation				
Land improvements	(268,667)	(11,291)	-	(279,958)
Building/improvements	(2,352,012)	(28,350)	259,065	(2,121,297)
Furniture/equipment	(1,645,112)	(103,177)	133,772	(1,614,517)
Vehicles	(739,708)	(48,451)	-	(788,159)
Textbooks	<u>(647,243)</u>	<u>(1,425)</u>	<u>331,371</u>	<u>(317,297)</u>
Total accumulated depreciation	<u>(5,652,742)</u>	<u>(192,694)</u>	<u>724,208</u>	<u>(5,121,228)</u>
Governmental activities capital assets, net	<u>\$ 7,402,823</u>	<u>\$ 20,549,619</u>	<u>\$ (248,104)</u>	<u>\$ 27,704,338</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 34,381
Special	3,170
Vocational	1,332
Other	718

Support services:

Pupil	1,168
Instructional staff	12,448
Administration	3,372
Fiscal	3,617
Operations and maintenance	68,819
Pupil transportation	49,300
Food service operations	1,355
Extracurricular activities	<u>13,014</u>
Total depreciation expense	<u>\$ 192,694</u>

**NOTE 10 – CAPITAL LEASES – LESSEE DISCLOSURE**

The District entered into capital leases for the acquisition of copiers and laptop computers for the one-to-one laptop initiative for high school students. All leases meet the criteria of a capital lease as defined by generally accepted accounting principles, 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, all leases were accounted for as an other financing source and the copier lease reported a capital outlay expenditure in the General Fund, while the computer lease reported a regular instruction expenditure in the General Fund.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)

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 the copier capital lease have been capitalized in the governmental activities on the statement of net position in an amount equal to the present value of the future minimum lease payments as of the date of their inception. The equipment acquired by the computer capital lease is under the District's capitalization threshold of \$1,500 per item. A corresponding liability has been recorded in the governmental activities on the statement of net position. Principal payments made during fiscal year 2018 totaled \$21,770 for the copiers. There were no principal payments made during fiscal year 2018 for the computers.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2018.

<u>Fiscal year ending June 30.</u>	<u>Copiers</u>	<u>Computers</u>	<u>Total</u>
2019	\$ 11,903	\$ 84,200	\$ 96,103
2020	11,904	84,200	96,104
2021	11,905	84,200	96,105
2022	11,904	84,200	96,104
2023	<u>11,905</u>	<u>-</u>	<u>11,905</u>
Total minimum lease payment	59,521	336,800	396,321
Less amount representing interest	<u>(10,672)</u>	<u>(8,480)</u>	<u>(19,152)</u>
Total	<u>\$ 48,849</u>	<u>\$ 328,320</u>	<u>\$ 377,169</u>

**NOTE 11 – LONG-TERM OBLIGATIONS**

- A. The District has restated long-term obligations at June 30, 2017 as described in Note 3.A. The changes in the District's long-term obligations during the year consist of the following:

	Restated Balance <u>June 30, 2017</u>	<u>Increase</u>	<u>Decrease</u>	Balance <u>June 30, 2018</u>	Amounts Due in <u>One Year</u>
<b>Governmental activities:</b>					
Compensated absences payable	\$ 552,590	\$ 50,627	\$ (76,239)	\$ 526,978	\$ 88,854
Net pension liability	13,378,918	-	(3,426,259)	9,952,659	-
Net OPEB liability	2,654,750	10,892	(468,232)	2,197,410	-
General obligation bonds - series 2015	9,960,769	31,023	(125,000)	9,866,792	125,000
Refunding bonds - series 2016	3,608,660	23,048	(70,000)	3,561,708	60,000
Capital lease - copiers	21,770	48,849	(21,770)	48,849	8,214
Capital lease - computers	<u>-</u>	<u>328,320</u>	<u>-</u>	<u>328,320</u>	<u>82,100</u>
Total governmental activities long-term liabilities	<u>\$ 30,177,457</u>	<u>\$ 492,759</u>	<u>\$ (4,187,500)</u>	26,482,716	<u>\$ 364,168</u>
Add: unamortized premium on bond issue				1,059,439	
Total on statement of net position				<u>\$ 27,542,155</u>	

Compensated absences will be paid from the General Fund.

The District's net pension liability is discussed in Note 14.

The District's net OPEB liability is discussed in Note 15.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)

The District's capital leases are discussed in Note 10.

School Facilities Construction and Improvement Bonds – Series 2015:

On July 22, 2015, the District issued \$13,661,198 in general obligation bonds to provide funds for the District's building project. These bonds 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 this bond are recorded as expenditures in the Bond Retirement Fund, a nonmajor governmental fund.

This issue is comprised of both current interest bonds, par value \$13,655,000, and capital appreciation bonds, par value \$6,198. The interest rates on the current interest bonds range from 1.00% to 5.00%. The capital appreciation bonds mature on November 1, 2019 (approximate initial offering yield to maturity 1.92%), November 1, 2020 (approximate initial offering yield to maturity 2.16%), and November 1, 2021 (approximate initial offering yield to maturity 2.46%), at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$380,000. A total of \$50,594 in accreted interest on the capital appreciation bonds has been included on the statement of net position at June 30, 2018.

On November 30, 2016, the District issued \$3,599,923 (refunding school facilities construction and improvement bonds - series 2016) to advance refund a portion of the bonds. The refunded portions of the series 2015 bonds included portions of the term bonds. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net position.

Interest payments on the current interest bonds are due on May 1 and November 1 of each year. The final maturity stated of the current interest bonds is November 1, 2052.

At June 30, 2018, \$3,828,946 of the proceeds of the series 2015 general obligations are unspent.

The following is a schedule of activity for fiscal year 2018 on the series 2015 general obligation bonds:

<u>Series 2015</u>	<u>Balance</u> <u>6/30/17</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/18</u>
Current interest bonds	\$ 9,935,000	\$ -	\$ (125,000)	\$ 9,810,000
Capital appreciation bonds	6,198	-	-	6,198
Accreted interest	19,571	31,023	-	50,594
Total series 2015	<u>\$ 9,960,769</u>	<u>\$ 31,023</u>	<u>\$ (125,000)</u>	<u>\$ 9,866,792</u>

Refunding School Facilities Construction and Improvement Bonds - Series 2016:

On November 30, 2016, the District issued general obligation bonds (series 2016 refunding bonds) to advance refund a portion of the series 2015 current interest general obligation bonds. The issuance proceeds of \$4,295,267 were used to purchase securities which were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net position. The principal balance outstanding of the defeased bonds was \$3,600,000 at June 30, 2018. These bonds 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 this bond are recorded as expenditures in the Bond Retirement Fund, a nonmajor governmental fund.

This issue is comprised of both current interest bonds, par value \$3,455,000, and capital appreciation bonds, par value \$144,923. The interest rates on the current interest bonds range from 1.25% to 3.50%. The capital appreciation bonds mature on November 1, 2031 (approximate initial offering yield to maturity 3.15%), November 1, 2032 (approximate initial offering yield to maturity 3.21%), November 1, 2033 (approximate initial offering yield to maturity 3.27%) and November 1, 2034 (approximate initial offering yield to maturity 3.32%), at a redemption price equal to 100% of the principal, plus

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)

accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$1,425,000. A total of \$31,785 in accreted interest on the capital appreciation bonds has been included on the statement of net position at June 30, 2018.

The reacquisition price exceeded the net carrying amount of the old debt by \$574,648. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt. This refunding was undertaken to reduce total debt service payments by \$372,334 and resulted in an economic gain of \$276,578.

Interest payments on the current interest bonds are due May 1 and November 1 each year. The final maturity stated on the issue is November 1, 2040.

The following is a schedule of activity for fiscal year 2018 on the series 2016 refunding bonds:

Series 2016	Balance 6/30/17	Additions	Reductions	Balance 6/30/18
Current interest bonds	\$ 3,455,000	\$ -	\$ (70,000)	\$ 3,385,000
Capital appreciation bonds	144,923	-	-	144,923
Accreted interest	8,737	23,048	-	31,785
Total series 2016	<u>\$ 3,608,660</u>	<u>\$ 23,048</u>	<u>\$ (70,000)</u>	<u>\$ 3,561,708</u>

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

Fiscal Year Ended	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 185,000	\$ 479,982	\$ 664,982	\$ -	\$ -	\$ -
2020	95,000	477,651	572,651	3,178	91,822	95,000
2021	65,000	476,425	541,425	1,963	128,037	130,000
2022	65,000	475,385	540,385	1,057	153,943	155,000
2023	215,000	472,095	687,095	-	-	-
2024 - 2028	1,315,000	2,250,850	3,565,850	-	-	-
2029 - 2033	950,000	2,024,338	2,974,338	81,255	618,745	700,000
2034 - 2038	1,160,000	1,916,700	3,076,700	63,668	661,332	725,000
2039 - 2043	2,340,000	1,585,638	3,925,638	-	-	-
2044 - 2048	3,005,000	1,072,100	4,077,100	-	-	-
2049 - 2053	3,800,000	394,000	4,194,000	-	-	-
Total	<u>\$ 13,195,000</u>	<u>\$ 11,625,164</u>	<u>\$ 24,820,164</u>	<u>\$ 151,121</u>	<u>\$ 1,653,879</u>	<u>\$ 1,805,000</u>

**B. 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 used 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

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)**

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, 2018, are a voted debt margin of \$(3,930,436), including available funds of \$262,481, and an unvoted debt margin of \$101,702. The District is allowed to exceed its debt margin under Ohio Revised Code Section 133.06(I).

**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 five days if the accumulation is greater than 200 days, plus three days if notice of retirement is received by the Superintendent prior to March 1, to a maximum of fifty-eight 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.

**B. Employee Insurance Benefits Program**

The District participates in the Optimal Health Initiative Consortium (OHI), a public entity risk pool consisting of school districts within Defiance, Fulton, Henry and Williams counties and other eligible governmental entities. The District pays monthly premiums to the OHI for the benefits offered to its employees, which includes health, dental, and life insurance plans. OHI 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 of 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 Health Plan, Northern Division of OHI (NBHP) 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. The Executive Director coordinates the management and administration of the program.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)

**NOTE 14 – DEFINED BENEFIT PENSION PLANS**

***Net Pension Liability***

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

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

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

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

The proportionate share of each plan’s unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *pension and postemployment benefits payable* on both the accrual and modified accrual bases of accounting.

***Plan Description – School Employees Retirement System (SERS)***

Plan Description – The District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)**

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2018, the allocation to pension, death benefits, and Medicare B was 13.5 percent. The remaining 0.5 percent of the employer contribution rate was allocated to the Health Care Fund.

The District’s contractually required contribution to SERS was \$139,778 for fiscal year 2018. Of this amount, \$18,551 is reported as pension and postemployment benefits payable.

***Plan Description – State Teachers Retirement System (STRS)***

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB Plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)

unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For fiscal year 2018, plan members were required to contribute 14 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was \$572,573 for fiscal year 2018. Of this amount, \$99,092 is reported as pension and postemployment benefits payable.

***Net Pension Liability***

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net pension liability prior measurement date	0.03015130%	0.03337650%	
Proportion of the net pension liability current measurement date	<u>0.03239560%</u>	<u>0.03374877%</u>	
Change in proportionate share	<u>0.00224430%</u>	<u>0.00037227%</u>	
Proportionate share of the net pension liability	\$ 1,935,566	\$ 8,017,093	\$ 9,952,659
Pension expense	\$ (5,701)	\$ (3,261,894)	\$ (3,267,595)



**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)

At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred outflows of resources</b>			
Differences between expected and actual experience	\$ 83,300	\$ 309,582	\$ 392,882
Changes of assumptions	100,089	1,753,426	1,853,515
Difference between District contributions and proportionate share of contributions/change in proportionate share	145,233	79,166	224,399
District contributions subsequent to the measurement date	<u>139,778</u>	<u>572,573</u>	<u>712,351</u>
Total deferred outflows of resources	<u>\$ 468,400</u>	<u>\$ 2,714,747</u>	<u>\$ 3,183,147</u>
<b>Deferred inflows of resources</b>			
Differences between expected and actual experience	\$ -	\$ 64,614	\$ 64,614
Net difference between projected and actual earnings on pension plan investments	9,189	264,574	273,763
Difference between District contributions and proportionate share of contributions/change in proportionate share	<u>-</u>	<u>438,090</u>	<u>438,090</u>
Total deferred inflows of resources	<u>\$ 9,189</u>	<u>\$ 767,278</u>	<u>\$ 776,467</u>

\$712,351 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2019	\$ 141,080	\$ 198,580	\$ 339,660
2020	165,707	558,490	724,197
2021	57,391	460,436	517,827
2022	<u>(45,122)</u>	<u>160,665</u>	<u>115,543</u>
Total	<u>\$ 319,056</u>	<u>\$ 1,378,171</u>	<u>\$ 1,697,227</u>

***Actuarial Assumptions – SERS***

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

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)**

potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2017, are presented below:

Wage inflation	3.00 percent
Future salary increases, including inflation	3.50 percent to 18.20 percent
COLA or ad hoc COLA	2.50 percent
Investment rate of return	7.50 percent net of investments expense, including inflation
Actuarial cost method	Entry age normal (level percent of payroll)

Prior to 2017, an assumption of 3 percent was used for COLA or Ad Hoc COLA.

For 2017, the mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates, and 110 percent of female rates. Mortality among disabled members was based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

The most recent experience study was completed for the five year period ended June 30, 2015.

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

The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)

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

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

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net pension liability	\$ 2,686,062	\$ 1,935,566	\$ 1,306,872

**Actuarial Assumptions – STRS Ohio**

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2017, actuarial valuation, compared with July 1, 2016 are presented below:

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)

	July 1, 2017	July 1, 2016
Inflation	2.50 percent	2.75 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65	12.25 percent at age 20 to 2.75 percent at age 70
Investment rate of return	7.45 percent, net of investment expenses, including inflation	7.75 percent, net of investment expenses, including inflation
Payroll increases	3 percent	3.5 percent
Cost-of-living adjustments (COLA)	0.0 percent, effective July 1, 2017	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences on fifth anniversary of retirement date.

For the July 1, 2017, actuarial valuation, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

For the July 1, 2016 actuarial valuation, mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above.

Actuarial assumptions used in the July 1 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016. Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

Asset Class	Target Allocation	Long Term Expected Real Rate of Return *
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	100.00 %	

\*10-Year geometric nominal returns, which include the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)

above target allocations should generate a return above the actuarial rate of return, without net value added by management.

**Discount Rate** – The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS’ fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2017.

**Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** – The following table presents the District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.45 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current rate:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
District's proportionate share of the net pension liability	\$ 11,492,229	\$ 8,017,093	\$ 5,089,811

**NOTE 15 – DEFINED BENEFIT OPEB PLANS**

***Net OPEB Liability***

The net OPEB liability reported on the statement of net position represents a liability to employees for OPEB. OPEB is a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. OPEB are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

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

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

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)

funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net OPEB liability* on the accrual basis of accounting. Any liability for the contractually-required OPEB contribution outstanding at the end of the year is included in *pension and postemployment benefits payable* on both the accrual and modified accrual bases of accounting.

***Plan Description – School Employees Retirement System (SERS)***

Health Care Plan Description – The District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was \$23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the District's surcharge obligation was \$17,501.

The surcharge added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The District's contractually required contribution to SERS was \$22,678 for fiscal year 2018. Of this amount, \$18,187 is reported as pension and postemployment benefits payable.

***Plan Description – State Teachers Retirement System (STRS)***

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians'

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)

fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to post-employment health care.

***Net OPEB Liability, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB***

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on the District's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net OPEB liability prior measurement date	0.03051413%	0.03337650%	
Proportion of the net OPEB liability current measurement date	<u>0.03281460%</u>	<u>0.03374877%</u>	
Change in proportionate share	<u>0.00230047%</u>	<u>0.00037227%</u>	
Proportionate share of the net OPEB liability	\$ 880,658	\$ 1,316,752	\$ 2,197,410
OPEB expense	\$ 69,000	\$ (398,958)	\$ (329,958)

At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred outflows of resources</b>			
Differences between expected and actual experience	\$ -	\$ 76,011	\$ 76,011
Difference between District contributions and proportionate share of contributions/change in proportionate share	45,398	17,065	62,463
District contributions subsequent to the measurement date	<u>22,678</u>	<u>-</u>	<u>22,678</u>
Total deferred outflows of resources	<u>\$ 68,076</u>	<u>\$ 93,076</u>	<u>\$ 161,152</u>

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred inflows of resources</b>			
Net difference between projected and actual earnings on OPEB plan investments	\$ 2,326	\$ 56,281	\$ 58,607
Changes of assumptions	<u>83,570</u>	<u>106,069</u>	<u>189,639</u>
Total deferred inflows of resources	<u>\$ 85,896</u>	<u>\$ 162,350</u>	<u>\$ 248,246</u>

\$22,678 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2019	\$ (14,865)	\$ (16,235)	\$ (31,100)
2020	(14,865)	(16,235)	(31,100)
2021	(11,438)	(16,235)	(27,673)
2022	(583)	(16,235)	(16,818)
2023	-	(2,167)	(2,167)
Thereafter	<u>-</u>	<u>(2,167)</u>	<u>(2,167)</u>
Total	<u>\$ (41,751)</u>	<u>\$ (69,274)</u>	<u>\$ (111,025)</u>

***Actuarial Assumptions – SERS***

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

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

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2017, are presented below:



**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)

Wage inflation	3.00 percent
Future salary increases, including inflation	3.50 percent to 18.20 percent
Investment rate of return	7.50 percent net of investments expense, including inflation
Municipal bond index rate:	
Measurement date	3.56 percent
Prior measurement date	2.92 percent
Single equivalent interest rate, net of plan investment expense, including price inflation:	
Measurement date	3.63 percent
Prior measurement date	2.98 percent
Medical trend assumption:	
Medicare	5.50 to 5.00 percent
Pre-Medicare	7.50 to 5.00 percent

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

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

**Discount Rate** – The discount rate used to measure the total OPEB liability at June 30, 2017 was 3.63 percent. The discount rate used to measure total OPEB liability prior to June 30, 2017 was 2.98 percent. The projection

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)

of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.56 percent, as of June 30, 2017 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

***Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates*** – The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.63%) and higher (4.63%) than the current discount rate (3.63%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.5% decreasing to 4.0%) and higher (8.5% decreasing to 6.0%) than the current rate.

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
District's proportionate share of the net OPEB liability	\$ 1,063,506	\$ 880,658	\$ 735,795
	1% Decrease (6.5 % decreasing to 4.0 %)	Current Trend Rate (7.5 % decreasing to 5.0 %)	1% Increase (8.5 % decreasing to 6.0 %)
District's proportionate share of the net OPEB liability	\$ 714,588	\$ 880,658	\$ 1,100,454

***Actuarial Assumptions – STRS***

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2017, actuarial valuation are presented below:

Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment rate of return	7.45 percent, net of investment expenses, including inflation
Payroll increases	3 percent
Cost-of-living adjustments (COLA)	0.0 percent, effective July 1, 2017
Blended discount rate of return	4.13 percent
Health care cost trends	6 to 11 percent initial, 4.5 percent ultimate

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)**

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Since the prior measurement date, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB) and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. Subsequent to the current measurement date, the date for discontinuing remaining Medicare Part B premium reimbursements was extended to January 2020.

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

Asset Class	Target Allocation	Long Term Expected Real Rate of Return *
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	100.00 %	

\*10-Year geometric nominal returns, which include the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

**Discount Rate** – The discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. The OPEB plan's fiduciary net position was projected to become insufficient to make

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)

future benefit payments during the fiscal year ending June 30, 2037. Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected benefit payments through the fiscal year ending June 30, 2036 and the Bond Buyer 20-year municipal bond rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

***Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rate*** – The following table represents the net OPEB liability as of June 30, 2017, calculated using the current period discount rate assumption of 4.13 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.13 percent) or one percentage point higher (5.13 percent) than the current assumption. Also shown is the net OPEB liability as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
District's proportionate share of the net OPEB liability	\$ 1,767,719	\$ 1,316,752	\$ 960,341
	1% Decrease	Current Trend Rate	1% Increase
District's proportionate share of the net OPEB liability	\$ 914,823	\$ 1,316,752	\$ 1,845,738

**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 (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 assigned or committed 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, 2018  
(Continued)

- (d) Investments are reported at fair value (GAAP basis) rather than cost (budget basis); and,
- (e) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

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	\$ (679,189)
Net adjustment for revenue accruals	(110,243)
Net adjustment for expenditure accruals	(334,689)
Net adjustment for other sources/uses	338,093
Funds budgeted elsewhere	68,770
Adjustment for encumbrances	303,749
GAAP basis	<u>\$ (413,509)</u>

Certain funds that are legally budgeted in separate special revenue funds are considered part of the General Fund on a GAAP basis. This includes the Special Trust Fund, the Public School Support Fund, the Termination Benefits Fund, and the Management Information System Fund.

**NOTE 17 – CONTINGENCIES**

**A. Grants**

The District receives significant 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds; however, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District at June 30, 2018.

**B. Litigation**

The District is not a party to legal proceedings that, in the opinion of management, would have a material adverse effect on the financial statements.

**C. Foundation Funding**

School district Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the member school districts, which can extend past the fiscal year-end. FTE adjustment #2 was made December 14, 2018 and resulted in a receivable of \$2,997. This amount has not been included in the financial statements.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)

**NOTE 18 – SET-ASIDES**

The District is required by State law to annually set-aside certain general fund revenue amounts, as defined by statutory formula, 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 fiscal year-end. This amount must be carried forward to be used for the same purpose in future years. Expenditures exceeding the set-aside requirement may not be carried forward to the next fiscal year.

The following cash-basis information describes the change in the fiscal year-end set-aside amount for capital improvements. Disclosure of this information is required by State statute.

	<u>Capital Improvements</u>
Set-aside balance June 30, 2017	\$ -
Current year set-aside requirement	138,064
Current year qualifying expenditures	(255,973)
Current year offsets	<u>(171,220)</u>
Total	<u>\$ (289,129)</u>
Balance carried forward to fiscal year 2019	<u>\$ -</u>
Set-aside balance June 30, 2018	<u><u>\$ -</u></u>

**NOTE 19 – CONTRACTUAL COMMITMENTS**

As of June 30, 2018, the District has commitments with the following companies for the construction project.

Contractor	Contract Amount	Amount Paid as of June 30, 2018	Amount Remaining on Contract
Brumbaugh-Herrick, Inc.	\$ 88,250	\$ 9,200	\$ 79,050
Garmann Miller Architects	2,759,304	2,262,460	496,844
Shook Touchstone	28,191,865	17,315,718	10,876,147
Stan and Associates, Inc.	<u>82,290</u>	<u>31,864</u>	<u>50,426</u>
Total	<u>\$ 31,121,709</u>	<u>\$ 19,619,242</u>	<u>\$ 11,502,467</u>

In addition to the amounts paid above, the District has recorded contracts payable and retainage payable in the amounts of \$3,513,257 and \$554,704, respectively, for costs incurred prior to fiscal year end on the construction project. Costs incurred by fiscal year end (including contracts and retainage payable) have been recorded as construction-in-progress in the District's capital assets (See Note 9).

**NOTE 20 – OTHER COMMITMENTS**

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

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)

<u>Fund</u>	<u>Year-End Encumbrances</u>
General fund	\$ 287,130
Building	687,819
Classroom facilities	6,763,481
Other governmental	<u>104,085</u>
 Total	 <u>\$ 7,842,515</u>

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF  
THE NET PENSION LIABILITY  
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST FIVE FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.03239560%	0.03015130%	0.02919050%	0.02814900%	0.02814900%
District's proportionate share of the net pension liability	\$ 1,935,566	\$ 2,206,797	\$ 1,665,638	\$ 1,424,605	\$ 1,673,931
District's covered payroll	\$ 1,103,257	\$ 966,364	\$ 878,786	\$ 817,958	\$ 775,217
District's proportionate share of the net pension liability as a percentage of its covered payroll	175.44%	228.36%	189.54%	174.17%	215.93%
Plan fiduciary net position as a percentage of the total pension liability	69.50%	62.98%	69.16%	71.70%	65.52%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the District's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION



**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF  
THE NET PENSION LIABILITY  
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST FIVE FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.03374877%	0.03337650%	0.03466235%	0.03659456%	0.03659456%
District's proportionate share of the net pension liability	\$ 8,017,093	\$ 11,172,121	\$ 9,579,660	\$ 8,901,063	\$ 10,602,889
District's covered payroll	\$ 3,666,121	\$ 3,532,193	\$ 3,616,436	\$ 3,738,954	\$ 3,891,131
District's proportionate share of the net pension liability as a percentage of its covered payroll	218.68%	316.29%	264.89%	238.06%	272.49%
Plan fiduciary net position as a percentage of the total pension liability	75.30%	66.80%	72.10%	74.70%	69.30%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the District's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS  
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 139,778	\$ 154,456	\$ 135,291	\$ 115,824
Contributions in relation to the contractually required contribution	<u>(139,778)</u>	<u>(154,456)</u>	<u>(135,291)</u>	<u>(115,824)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 1,035,393	\$ 1,103,257	\$ 966,364	\$ 878,786
Contributions as a percentage of covered payroll	13.50%	14.00%	14.00%	13.18%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 113,369	\$ 107,290	\$ 106,538	\$ 98,579	\$ 103,598	\$ 74,709
<u>(113,369)</u>	<u>(107,290)</u>	<u>(106,538)</u>	<u>(98,579)</u>	<u>(103,598)</u>	<u>(74,709)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 817,958	\$ 775,217	\$ 792,104	\$ 784,240	\$ 765,126	\$ 759,238
13.86%	13.84%	13.45%	12.57%	13.54%	9.84%

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS  
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 572,573	\$ 513,257	\$ 494,507	\$ 506,301
Contributions in relation to the contractually required contribution	<u>(572,573)</u>	<u>(513,257)</u>	<u>(494,507)</u>	<u>(506,301)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 4,089,807	\$ 3,666,121	\$ 3,532,193	\$ 3,616,436
Contributions as a percentage of covered payroll	14.00%	14.00%	14.00%	14.00%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 486,064	\$ 505,847	\$ 492,081	\$ 477,230	\$ 471,948	\$ 471,512
<u>(486,064)</u>	<u>(505,847)</u>	<u>(492,081)</u>	<u>(477,230)</u>	<u>(471,948)</u>	<u>(471,512)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 3,738,954	\$ 3,891,131	\$ 3,785,238	\$ 3,671,000	\$ 3,630,369	\$ 3,627,015
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF  
THE NET OPEB LIABILITY  
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TWO FISCAL YEARS

	<b>2018</b>	<b>2017</b>
District's proportion of the net OPEB liability	0.03281460%	0.03051413%
District's proportionate share of the net OPEB liability	\$ 880,658	\$ 869,766
District's covered payroll	\$ 1,103,257	\$ 966,364
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	79.82%	90.00%
Plan fiduciary net position as a percentage of the total OPEB liability	12.46%	11.49%

Note: Information prior to 2017 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the District's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF  
THE NET OPEB LIABILITY  
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TWO FISCAL YEARS

	<b>2018</b>	<b>2017</b>
District's proportion of the net OPEB liability	0.03374877%	0.03337650%
District's proportionate share of the net OPEB liability	\$ 1,316,752	\$ 1,784,984
District's covered payroll	\$ 3,666,121	\$ 3,532,193
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	35.92%	50.53%
Plan fiduciary net position as a percentage of the total OPEB liability	47.10%	37.30%

Note: Information prior to 2017 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the District's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT OPEB CONTRIBUTIONS  
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 22,678	\$ 17,610	\$ 15,265	\$ 21,410
Contributions in relation to the contractually required contribution	<u>(22,678)</u>	<u>(17,610)</u>	<u>(15,265)</u>	<u>(21,410)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 1,035,393	\$ 1,103,257	\$ 966,364	\$ 878,786
Contributions as a percentage of covered payroll	2.19%	1.60%	1.58%	2.44%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION



<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 15,329	\$ 13,248	\$ 10,323	\$ 16,952	\$ 9,332	\$ 37,646
<u>(15,329)</u>	<u>(13,248)</u>	<u>(10,323)</u>	<u>(16,952)</u>	<u>(9,332)</u>	<u>(37,646)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 817,958	\$ 775,217	\$ 792,104	\$ 784,240	\$ 765,126	\$ 759,238
1.87%	1.71%	1.30%	2.16%	1.22%	4.96%

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT OPEB CONTRIBUTIONS  
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 4,089,807	\$ 3,666,121	\$ 3,532,193	\$ 3,616,436
Contributions as a percentage of covered payroll	0.00%	0.00%	0.00%	0.00%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 38,799	\$ 38,911	\$ 37,852	\$ 31,380	\$ 36,304	\$ 36,270
<u>(38,799)</u>	<u>(38,911)</u>	<u>(37,852)</u>	<u>(31,380)</u>	<u>(36,304)</u>	<u>(36,270)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 3,738,954	\$ 3,891,131	\$ 3,785,238	\$ 3,671,000	\$ 3,630,369	\$ 3,627,015
1.00%	1.00%	1.00%	1.00%	1.00%	1.00%

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

---

PENSION

---

*SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO*

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017. For fiscal year 2018, SERS changed from a fixed 3% annual increase to a Cost of Living Adjustment (COLA) based on the change in the Consumer Price Index (CPI-W), with a cap of 2.5% and a floor of 0%.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. For fiscal year 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates, (g) mortality among disabled members was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement and (h) the discount rate was reduced from 7.75% to 7.50%. There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2018.

*STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO*

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017. For fiscal year 2018, STRS decreased the Cost of Living Adjustment (COLA) to zero.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2017. For fiscal year 2018, the following changes of assumption affected the total pension liability since the prior measurement date: (a) the long term expected rate of return was reduced from 7.75% to 7.45%, (b) the inflation assumption was lowered from 2.75% to 2.50%, (c) the payroll growth assumption was lowered to 3.00%, (d) total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25% due to lower inflation (e) the healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016 and (f) rates of retirement, termination and disability were modified to better reflect anticipated future experience.

(Continued)

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

---

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

---

*SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO*

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2017-2018.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2017. For fiscal year 2018, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) rates of withdrawal, retirement, and disability were updated to reflect recent experience, (e) mortality among active members was updated to the following: RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following: RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates, (g) mortality among disabled members was updated to the following: RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

*STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO*

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal year 2017. For fiscal year 2018, STRS reduced the subsidy multiplier for non-Medicare benefit recipients from 2.1% to 1.9% per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2017. For fiscal year 2018, the following changes of assumption affected the total OPEB liability since the prior measurement date: (a) the discount rate was increased from 3.26% to 4.13% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB), (b) the long term expected rate of return was reduced from 7.75% to 7.45%, (c) valuation year per capita health care costs were updated, and the salary scale was modified, (d) the percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased and (e) the assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

**This page intentionally left blank.**



**INDEPENDENT AUDITOR'S 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, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, 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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 5, 2019, wherein we noted the District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

***Internal Control Over Financial Reporting***

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2018-001 to be a material weakness.

***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, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***District's Response to Finding***

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

***Purpose of this Report***

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



Keith Faber  
Auditor of State

Columbus, Ohio

March 5, 2019



**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2018**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
--

**FINDING NUMBER 2018-001**

**Material Weakness**

**Financial Reporting**

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16. Governmental Accounting Standards Board (GASB) Cod. 1100 paragraph .101 states a governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

The District's payroll clearing account activity was incorrectly recorded in the General Fund instead of an Agency Fund. This resulted in assets and liabilities to be understated on the Statement of Fiduciary Net Position in the Agency Fund by \$128,504. The Statement of Net Position, Statement of Activities, and Statement of Revenues, Expenditures and Changes in Fund Balances were also adjusted by the same amount to remove the activity from the General Fund.

This error was the result of inadequate policies and procedures in reviewing the financial statements. As a result, the District's financial statements did not correctly reflect the financial activity of the District. The accompanying financial statements have been adjusted to correct this error. Additional errors were noted in smaller relative amounts.

To help ensure the District's financial statements are complete and accurate, the District should adopt policies and procedures, including a final review of the statements by the Treasurer and the audit committee, to identify and correct errors and omissions.

**Officials' Response:**

The Treasurer will review the statements more carefully in the future to ensure their accuracy.

**This page intentionally left blank.**

# OHIO AUDITOR OF STATE KEITH FABER



**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  
MARCH 21, 2019**