



**Auditor of State  
Betty Montgomery**



**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

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**Auditor of State  
Betty Montgomery**

## **INDEPENDENT ACCOUNTANTS' REPORT**

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Ayersville Local School District, Defiance County, (the District) as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Ayersville Local School District, Defiance County, as of June 30, 2003, and the respective changes in financial position and the cash flows, where applicable, thereof and the respective budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2005, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

**Betty Montgomery**  
Auditor of State

January 27, 2005

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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, 2003. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for 2003 are as follows:

- In total, net assets increased \$1,238,933. Net assets of governmental activities increased \$1,255,764, which represents a 43.73 percent increase from 2002. Net assets of business-type activities decreased \$16,831 or 32.75 percent from 2002.
- General revenues accounted for \$6,790,553 in revenue or 86.20 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,086,216 or 13.80 percent of total revenues of \$7,876,769.
- The District had \$6,621,005 in expenses related to governmental activities; only \$1,086,216 of these expenses was offset by program specific charges for services, grants, or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$6,790,553 were adequate to provide for these programs.
- The District's major governmental fund is the general fund. The general fund had \$7,245,755 in revenues and other financing sources and \$6,163,203 in expenditures and other financing uses. The general fund's fund balance increased from \$785,592 to \$1,869,982.
- The District's enterprise fund is the food service fund. The food services had \$273,991 in revenues and other financing sources and \$290,822 in expenditures. The food services fund balance decreased from \$51,387 to \$34,556.

**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.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund is by far the most significant fund, and the only governmental fund reported as a major fund.

**Reporting the District as a Whole**

*Statement of Net Assets and the Statement of Activities*

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2003?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include all assets and liabilities 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 expenses regardless of when cash is received or paid.

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

In the *Statement of Net Assets* and the *Statement of Activities*, the District is divided into two distinct kinds of activities:

Governmental Activities - Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation, and extracurricular activities.

Business-type Activities - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided. The District's food service operations are reported as business activities.



**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

**Reporting the District's Most Significant Funds**

Fund Financial Statements

Fund financial reports provide detailed information 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 fund is the general fund.

Governmental Funds - Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the *Statement of Net Assets* and the *Statement of Activities*) and governmental funds is reconciled in the financial statements.

Proprietary Funds - Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match information provided in the statements for the District as a whole.

**Reporting the District's Fiduciary Responsibilities**

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

**Notes to the Basic Financial Statements**

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

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

**The District as a Whole**

The *Statement of Net Assets* provides the perspective of the District as a whole. The table below provides a summary of the District's net assets for 2003 and 2002.

	Net Assets			
	Governmental Activities		Business-Type Activities	
	2003	2002	2003	2002
<b>Assets</b>				
Current assets	\$ 6,363,208	\$ 5,210,259	\$ 24,807	\$ 50,210
Capital assets	2,663,944	2,349,722	58,327	44,982
<i>Total assets</i>	<u>9,027,152</u>	<u>7,559,981</u>	<u>83,134</u>	<u>95,192</u>
<b>Liabilities</b>				
Current liabilities	4,333,593	4,173,862	39,015	34,565
Long-term liabilities	566,442	514,766	9,563	9,240
<i>Total liabilities</i>	<u>4,900,035</u>	<u>4,688,628</u>	<u>48,578</u>	<u>43,805</u>
<b>Net Assets</b>				
Invested in capital assets, net of debt	2,555,944	2,223,722	58,327	44,982
Restricted	132,981	280,689	-	-
Unrestricted	1,438,192	366,942	(23,771)	6,405
<i>Total net assets</i>	<u>\$ 4,127,117</u>	<u>\$ 2,871,353</u>	<u>\$ 34,556</u>	<u>\$ 51,387</u>

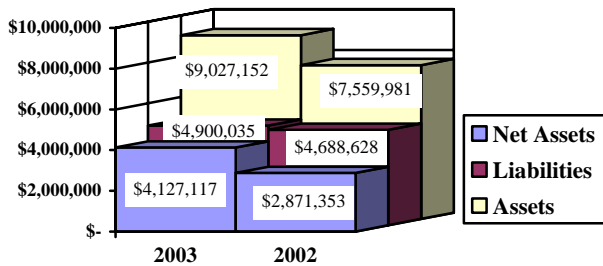
Total assets increased by \$1,455,113 due primarily from an increase in cash and cash equivalents of \$598,559 and accounts receivable of \$531,840. Subsequently, the net assets of the District increased \$1,238,933 and unrestricted assets increased \$1,041,074.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

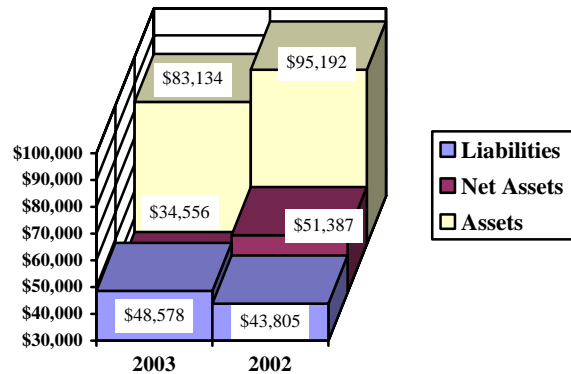
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

(Continued)

**Governmental – Net Assets**



**Business-type – Net Assets**



The table below shows the changes in net assets for governmental activities and business-type activities for fiscal year 2003 and 2002.

	Change in Net Assets			
	Governmental Activities		Business-type Activities	
	2003	2002	2003	2002
<b>Revenues</b>				
Program revenues:				
Charges for services and sales	\$ 895,984	\$ 214,133	\$ 209,417	\$ 217,870
Operating grants and contributions	171,567	447,286	62,207	51,803
Capital grants and contributions	18,665	29,110	-	-
General revenues:				
Property taxes	3,648,634	3,487,286	-	-
Grants and entitlements	2,301,800	2,603,019	-	-
Investment earnings	30,808	33,074	291	1,462
Revenue in lieu of taxes	796,884	-	-	-
Other	12,427	5,507	2,076	2,403
<b>Total revenues</b>	<b>7,876,769</b>	<b>6,819,415</b>	<b>273,991</b>	<b>273,538</b>

(Continued)

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

Change in Net Assets (Continued)				
	Governmental Activities		Business-type Activities	
	2003	2002	2003	2002
<b>Expenses</b>				
Program expenses:				
Instruction:				
Regular	3,177,247	2,852,304	-	-
Special	567,549	497,431	-	-
Vocational	235,382	265,113	-	-
Other	205,357	8,715	-	-
Support services:				
Pupil	286,262	180,786	-	-
Instructional staff	233,671	230,263	-	-
Board of Education	10,231	23,798	-	-
Administration	544,769	520,539	-	-
Fiscal	286,061	184,025	-	-
Operations and maintenance	604,372	477,464	-	-
Pupil transportation	188,354	162,062	-	-
Central	19,001	31,373	-	-
Operation of non-instructional services	89,122	87,161	-	-
Extracurricular activities	167,352	276,907	-	-
Interest and fiscal charges	6,275	8,605	-	-
Food service	-	-	290,822	281,049
<i>Total expenses</i>	6,621,005	5,806,546	290,822	281,049
<i>Changes in net assets</i>	\$ 1,255,764	\$ 1,012,869	\$ (16,831)	\$ (7,511)

**Governmental Activities**

Net assets of the District's governmental activities increased by \$1,255,764. Total governmental expenses of \$6,621,005 were offset by program revenues of \$1,086,216 and general revenues of \$6,790,553. Program revenues supported 16.40 percent of the total governmental expenses.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

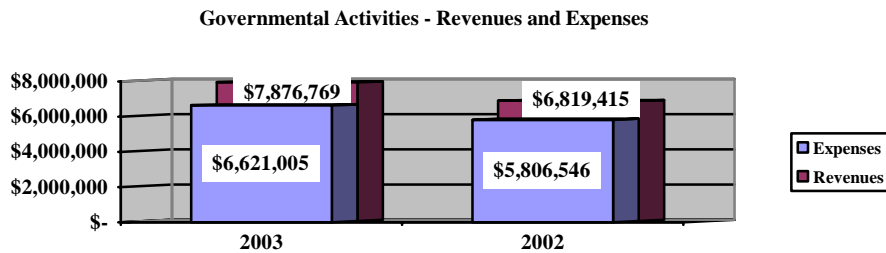
**MANAGEMENT’S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 75.54 percent of total governmental revenue. Real estate property is reappraised every six years.

The change in net assets increased \$242,895 over the prior year. This was primarily attributed to the overall increase in revenue in lieu of taxes received in 2003. In 2003, the Treasurer elected to separately report revenue in lieu of taxes as compared to 2002 where revenue in lieu of taxes was reported as grants and entitlements.

In 2003, the Treasurer posted open enrollment revenues as tuition receipts under charges for services and sales line item as compared to 2002 where open enrollment revenues were posted to grants and entitlements as part of the District’s foundation payments.

The graph below presents the District’s governmental activities revenue and expenses for fiscal years 2003 and 2002.



The *Statement of Activities* shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2003 compared to 2002. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

(Continued)

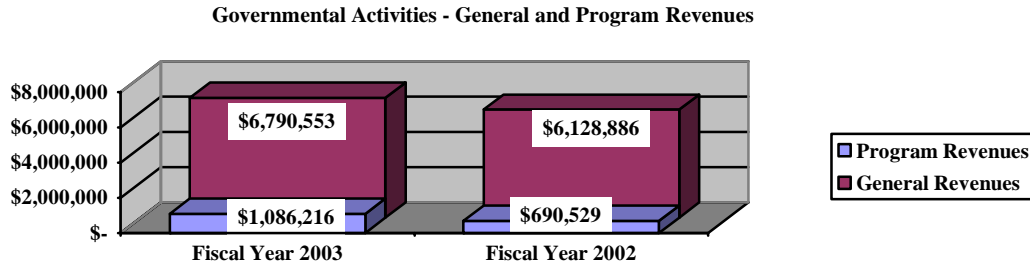
	Governmental Activities			
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2003	2003	2002	2002
<b>Program expenses:</b>				
Instruction:				
Regular	\$ 3,177,247	\$ 2,435,872	\$ 2,852,304	\$ 2,712,190
Special	567,549	475,499	497,431	317,712
Vocational	235,382	235,382	265,113	240,397
Other	205,357	205,357	8,715	8,715
Support services:				
Pupil	286,262	243,888	180,786	174,282
Instructional staff	233,671	205,334	230,263	186,629
Board of Education	10,231	10,231	23,798	23,798
Administration	544,769	537,166	520,539	519,329
Fiscal	286,061	285,803	184,025	181,902
Operations and maintenance	604,372	598,927	477,464	477,464
Pupil transportation	188,354	188,354	162,062	27,480
Central	19,001	19,001	31,373	31,373
Operation of non-instructional services	89,122	81,567	87,161	74,381
Extracurricular activities	167,352	6,133	276,907	131,760
Interest and fiscal charges	6,275	6,275	8,605	8,605
<i>Total expenses</i>	<u>\$ 6,621,005</u>	<u>\$ 5,534,789</u>	<u>\$ 5,806,546</u>	<u>\$ 5,116,017</u>

The dependence upon tax revenues during fiscal year 2003 for governmental activities is apparent, as 80.09 percent of 2003 instruction activities are supported through taxes and other general revenues. All governmental activities, general revenue support are 83.59 percent in 2003 as compared to 88.11% in 2002. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2003.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**



**Business-type Activities**

Business-type activities include the food service operation. This program had revenues of \$273,991 and expenses of \$290,822 for fiscal year 2003. During fiscal year 2003, the net assets for the food service operation decreased from \$51,387 to \$34,556. The District's business activities receive no support from tax revenues. The decrease in net assets was primarily attributed to an increase in wages and benefits while revenues remaining approximately the same.

**The District's Funds**

The District's governmental funds (as presented on the balance sheet) reported a combined fund balance of \$2,104,356, which is above last year's total of \$1,111,365. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2003 and 2002.

	Fund Balance June 30, 2003	Fund Balance June 30, 2002	Increase (Decrease)
General	\$ 1,869,982	\$ 785,592	\$ 1,084,390
Other Governmental	234,374	325,773	(91,399)
<b>Total</b>	<b>\$ 2,104,356</b>	<b>\$ 1,111,365</b>	<b>\$ 992,991</b>

General Fund

The District's general fund balance increased by \$1,084,390, due to an increase in tuition and intergovernmental revenue and a tighter control on spending during 2003. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)

	2003 Amount	2002 Amount	Increase (Decrease)	Percentage Change
<b>Revenues</b>				
Taxes	\$ 3,374,420	\$ 3,250,377	\$ 124,043	3.8 %
Tuition	727,082	37,141	689,941	1,857.6 %
Interest earnings	29,936	33,074	(3,138)	(9.5) %
Intergovernmental	3,081,421	2,869,728	211,693	7.4 %
Other revenues	27,819	24,572	3,247	13.2 %
<i>Total</i>	<u><u>\$ 7,240,678</u></u>	<u><u>\$ 6,214,892</u></u>	<u><u>\$ 1,025,786</u></u>	16.5 %

	2003 Amount	2002 Amount	Increase (Decrease)	Percentage Change
<b>Expenditures</b>				
Instruction	\$ 3,896,539	\$ 3,544,159	\$ 352,380	9.9 %
Support services	2,062,281	1,755,982	306,299	17.4 %
Operation of non-instructional services	1,278	2,885	(1,607)	(55.7) %
Extracurricular activities	166,214	152,000	14,214	9.4 %
Facilities acquisition and construction	33,461	-	33,461	100.0 %
<i>Total</i>	<u><u>\$ 6,159,773</u></u>	<u><u>\$ 5,455,026</u></u>	<u><u>\$ 704,747</u></u>	12.9 %

Intergovernmental revenue increased \$211,693 or 7.38 percent from the prior year. This increase is attributed to an increase in the number of grants the district received in 2003. The increase in tuition revenue is due to the increase in the number of students from outside the District. All other revenue remained comparable to 2002. The increase in Instruction and Support Service expenditures were primarily attributed to the increase salaries and benefits.

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 2003, the District amended its general fund budget numerous times, none significant. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.



**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

For the general fund, final budgeted revenues and other financing sources were \$6,547,840, above original budget estimates of \$6,419,820. The actual budget basis revenues and other financing sources for fiscal year 2003 totaled \$6,799,088, of this \$251,248 difference, most was due to conservative intergovernmental estimates in the original and final budget.

General fund original appropriations of \$6,189,366 were increased to \$6,426,592 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2003 totaled \$6,096,865, which was \$329,727 less than the final budget appropriations, primarily because salary costs proved to be lower than anticipated in the original and final budget.

**Capital Assets and Debt Administration**

Capital Assets

At the end of fiscal 2003, the District had \$2,722,271 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and textbooks. Of this total, \$2,663,944 was reported in governmental activities and \$58,327 was reported in business-type activities. The following table shows fiscal 2003 balances compared to 2002:

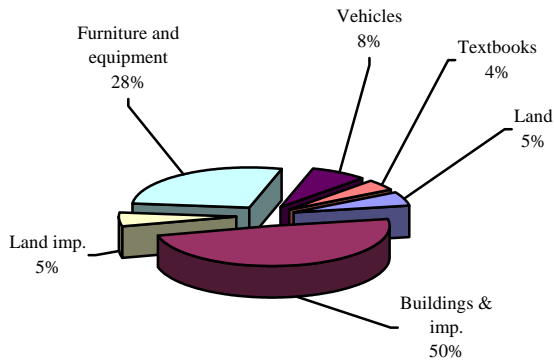
Capital Assets at June 30 (Net of Depreciation)						
	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Land	\$ 148,406	\$ 148,406	\$ -	\$ -	\$ 148,406	\$ 148,406
Land improvements	148,082	102,471	-	-	148,082	102,471
Building and improvements	1,337,091	1,329,991	-	-	1,337,091	1,329,991
Furniture and equipment	698,170	536,815	58,327	44,982	756,497	581,797
Vehicles	210,324	158,441	-	-	210,324	158,441
Textbooks	121,871	73,598	-	-	121,871	73,598
<i>Total</i>	<u>\$ 2,663,944</u>	<u>\$ 2,349,722</u>	<u>\$ 58,327</u>	<u>\$ 44,982</u>	<u>\$ 2,722,271</u>	<u>\$ 2,394,704</u>

The following graphs show the breakdown of total capital assets by category for 2003 and 2002.

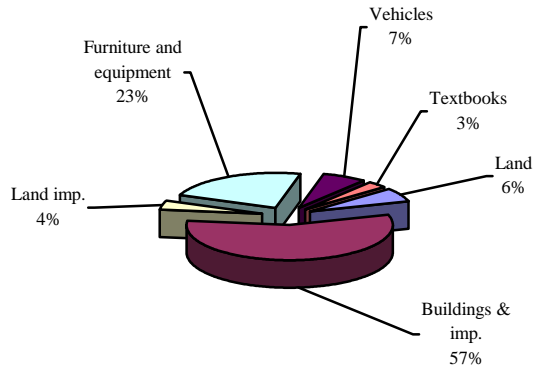
**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT’S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

**Capital Assets - 2003**



**Capital Assets - 2002**



**Debt Administration**

At June 30, 2003 the District had \$108,000 in energy conservation bonds outstanding. Of this total, \$18,000 is due within one year and \$90,000 is due within greater than one year. The following table summarizes the bonds and notes outstanding.

	Outstanding Debt, at Year End	
	Governmental Activities 2003	Governmental Activities 2002
	Energy conservation bonds	<u>\$ 108,000</u>

**Current Financial Related Activities**

As the preceding information shows, the District relies heavily upon grants and entitlements and property taxes. However, the future financial stability of the District is not without challenges.

- **Operating in the Black:** As of June 30, 2003, the District expects revenues to exceed expenditures through the end of fiscal year 2004. Carry over balances are expected to help us maintain the recommended 20 percent carry over balance through 2005. The carry over is a minimum recommended by the District treasurer to cover operating expenses for at least two months of the new fiscal year and reduce financial volatility. The District

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

(Continued)

currently anticipates renewal of all existing levies in order to maintain positive cash balances at the end of 2006 and 2007.

- State Funding: The State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable". Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional. At this time, the District is unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

The District anticipates the renewal of the 7.9 mill operating levy from November 2000 to maintain the necessary revenues required to cover anticipated expenditures.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizen's, 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 Mrs. Connie Nicely, Treasurer, Ayersville Local School District, 28046 Watson Road, Defiance, Ohio, 43512-8756.

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**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**STATEMENT OF NET ASSETS  
JUNE 30, 2003**

	Governmental Activities	Business-type Activities	Total
<b>Assets:</b>			
Equity in pooled cash and cash equivalents	\$ 2,108,693	\$ 15,255	\$ 2,123,948
Receivables:			
Taxes	3,690,919	-	3,690,919
Accounts	531,840	-	531,840
Intergovernmental	6,886	3,830	10,716
Prepayments	14,629	-	14,629
Materials and supplies inventory	10,241	5,722	15,963
Capital assets:			
Land	148,406	-	148,406
Depreciable capital assets, net	2,515,538	58,327	2,573,865
<i>Total capital assets</i>	<u>2,663,944</u>	<u>58,327</u>	<u>2,722,271</u>
<i>Total assets</i>	<u>9,027,152</u>	<u>83,134</u>	<u>9,110,286</u>
<b>Liabilities:</b>			
Accounts payable	6,920	513	7,433
Accrued wages and benefits	687,766	23,480	711,246
Pension obligation payable	136,560	14,470	151,030
Intergovernmental payable	18,520	552	19,072
Deferred revenue	3,395,684	-	3,395,684
Accrued interest payable	490	-	490
Long-term liabilities:			
Due within one year	87,653	5,000	92,653
Due within more than one year	566,442	4,563	571,005
<i>Total liabilities</i>	<u>4,900,035</u>	<u>48,578</u>	<u>4,948,613</u>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	2,555,944	58,327	2,614,271
Restricted for:			
Capital projects	86,821	-	86,821
Other purposes	46,160	-	46,160
Unrestricted	1,438,192	(23,771)	1,414,421
<i>Total net assets</i>	<u>\$ 4,127,117</u>	<u>\$ 34,556</u>	<u>\$ 4,161,673</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	Expenses
<b>Governmental activities:</b>	
Instruction:	
Regular	\$ 3,177,247
Special	567,549
Vocational	235,382
Other	205,357
Support services:	
Pupil	286,262
Instructional staff	233,671
Board of education	10,231
Administration	544,769
Fiscal	286,061
Operations and maintenance	604,372
Pupil transportation	188,354
Central	19,001
Operation of non-instructional services	89,122
Extracurricular activities	167,352
Interest and fiscal charges	6,275
<i>Total governmental activities</i>	6,621,005
<b>Business-type activities:</b>	
Food service	290,822
<i>Total business-type activities</i>	290,822
<i>Totals</i>	\$ 6,911,827

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Program Revenues			Net Revenue (Expense) and Changes in Net Assets		
Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
\$ 729,727	\$ 11,648	\$ -	\$ (2,435,872)	\$ -	\$ (2,435,872)
-	92,050	-	(475,499)	-	(475,499)
-	-	-	(235,382)	-	(235,382)
-	-	-	(205,357)	-	(205,357)
-	42,374	-	(243,888)	-	(243,888)
-	15,117	13,220	(205,334)	-	(205,334)
-	-	-	(10,231)	-	(10,231)
-	7,603	-	(537,166)	-	(537,166)
156	102	-	(285,803)	-	(285,803)
-	-	5,445	(598,927)	-	(598,927)
-	-	-	(188,354)	-	(188,354)
-	-	-	(19,001)	-	(19,001)
4,882	2,673	-	(81,567)	-	(81,567)
161,219	-	-	(6,133)	-	(6,133)
-	-	-	(6,275)	-	(6,275)
<u>895,984</u>	<u>171,567</u>	<u>18,665</u>	<u>(5,534,789)</u>	<u>-</u>	<u>(5,534,789)</u>
<u>209,417</u>	<u>62,207</u>	<u>-</u>	<u>-</u>	<u>(19,198)</u>	<u>(19,198)</u>
<u>209,417</u>	<u>62,207</u>	<u>-</u>	<u>-</u>	<u>(19,198)</u>	<u>(19,198)</u>
<u>\$ 1,105,401</u>	<u>\$ 233,774</u>	<u>\$ 18,665</u>	<u>(5,534,789)</u>	<u>(19,198)</u>	<u>(5,553,987)</u>

**General Revenues:**

Property taxes levied for:

General purposes	3,366,783	-	3,366,783
Debt service	2,927	-	2,927
Capital outlay	152,514	-	152,514
Other purposes	126,410	-	126,410
Grants and entitlements not restricted to specific programs	2,301,800	-	2,301,800
Revenue in lieu of taxes	796,884	-	796,884
Investment earnings	30,808	291	31,099
Miscellaneous	12,427	2,076	14,503
<i>Total general revenues</i>	<u>6,790,553</u>	<u>2,367</u>	<u>6,792,920</u>
<i>Change in net assets</i>	<u>1,255,764</u>	<u>(16,831)</u>	<u>1,238,933</u>
<i>Net assets at beginning of year</i>	<u>2,871,353</u>	<u>51,387</u>	<u>2,922,740</u>
<i>Net assets at end of year</i>	<u>\$ 4,127,117</u>	<u>\$ 34,556</u>	<u>\$ 4,161,673</u>

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2003**

	General	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>			
Equity in pooled cash and cash equivalents	\$ 1,880,721	\$ 215,398	\$ 2,096,119
Receivables:			
Taxes	3,400,230	290,689	3,690,919
Accounts	512,954	18,886	531,840
Intergovernmental	-	6,886	6,886
Prepayments	14,469	160	14,629
Materials and supplies inventory	10,241	-	10,241
Restricted assets:			
Equity in pooled cash and cash equivalents	12,574	-	12,574
<i>Total assets</i>	5,831,189	532,019	6,363,208
<b>Liabilities:</b>			
Accounts payable	6,776	144	6,920
Accrued wages and benefits	667,243	20,523	687,766
Compensated absences payable	45,000	-	45,000
Pension obligation payable	90,481	3,312	93,793
Intergovernmental payable	17,739	781	18,520
Deferred revenue	3,133,968	272,885	3,406,853
<i>Total liabilities</i>	3,961,207	297,645	4,258,852
<b>Fund Balances:</b>			
Reserved for encumbrances	13,113	17,278	30,391
Reserved for materials and supplies inventory	10,241	-	10,241
Reserved for prepayments	14,469	160	14,629
Reserved for tax revenue unavailable for appropriation	266,262	21,690	287,952
Reserved for school bus purchases	12,574	-	12,574
Unreserved, undesignated, reported in:			
General fund	1,553,323	-	1,553,323
Special revenue funds	-	136,489	136,489
Capital projects funds	-	58,757	58,757
<i>Total fund balances</i>	1,869,982	234,374	2,104,356
<i>Total liabilities and fund balances</i>	\$ 5,831,189	\$ 532,019	\$ 6,363,208

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES  
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2003**

**Total governmental fund balances** \$ 2,104,356

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 2,663,944

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.

Taxes	7,283	
Intergovernmental revenue	3,886	
Total	11,169	11,169

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Energy conservation bonds	108,000	
Compensated absences	501,095	
Pension obligation payable	42,767	
Accrued interest payable	490	
Total	(652,352)	(652,352)

*Net assets of governmental activities* \$ 4,127,117

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, 2003

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>			
From local sources:			
Taxes	\$ 3,374,420	\$ 282,608	\$ 3,657,028
Tuition	727,082	-	727,082
Earnings on investments	29,936	872	30,808
Extracurricular	-	89,772	89,772
Other local revenues	27,819	63,738	91,557
Revenue in lieu of taxes	779,621		779,621
Other revenue		17,263	17,263
Intergovernmental - state	2,301,800	41,885	2,343,685
Intergovernmental - federal	-	196,193	196,193
<i>Total revenue</i>	<u>7,240,678</u>	<u>692,331</u>	<u>7,933,009</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular	3,004,324	96,149	3,100,473
Special	441,335	121,654	562,989
Vocational	245,523	-	245,523
Other	205,357	-	205,357
Support Services:			
Pupil	227,209	49,107	276,316
Instructional staff	228,862	58,273	287,135
Board of education	10,231	-	10,231
Administration	535,075	2,441	537,516
Fiscal	273,670	8,289	281,959
Operations and maintenance	530,376	191,480	721,856
Pupil transportation	237,857	-	237,857
Central	19,001	-	19,001
Operation of non-instructional services	1,278	87,050	88,328
Extracurricular activities	166,214	148,226	314,440
Facilities acquisition and construction	33,461	-	33,461

(Continued)

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)

	General	Other Governmental Funds	Total Governmental Funds
Debt service:			
Principal retirement	-	18,000	18,000
Interest and fiscal charges	-	6,357	6,357
<i>Total expenditures</i>	<u>6,159,773</u>	<u>787,026</u>	<u>6,946,799</u>
<i>Excess of revenues over (under) expenditures</i>	<u>1,080,905</u>	<u>(94,695)</u>	<u>986,210</u>
<b>Other financing sources (uses):</b>			
Transfers in	-	21,430	21,430
Transfers (out)	(3,430)	(18,000)	(21,430)
Proceeds from sale of capital assets	5,077	-	5,077
<i>Total other financing sources</i>	<u>1,647</u>	<u>3,430</u>	<u>5,077</u>
<i>Net change in fund balances</i>	1,082,552	(91,265)	991,287
<i>Fund balances at beginning of year</i>	785,592	325,773	1,111,365
Increase (decrease) in reserve for inventory	1,838	(134)	1,704
<i>Fund balances at end of year</i>	<u>\$ 1,869,982</u>	<u>\$ 234,374</u>	<u>\$ 2,104,356</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**Net change in fund balances - total governmental funds** \$ 991,287

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. This is the amount by which capital outlays (\$589,105) exceeds depreciation expense (\$239,465) in the current period. 349,640

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. (35,418)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (56,240)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 18,000

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 82

Some expenses reported in the statement of activities, such as compensated absences and pension obligations do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (13,291)

Governmental funds report expenditures for inventory when purchased, however; in the statement of activities they are reported as an expense when consumed. 1,704

*Change in net assets of governmental activities* \$ 1,255,764

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	<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:				
Taxes	\$ 3,239,531	\$ 3,297,454	\$ 3,423,981	\$ 126,527
Tuition	687,914	700,214	727,082	26,868
Earnings on investments	28,323	28,830	29,936	1,106
Other local revenues	24,972	25,419	26,394	975
Other revenue	252,677	257,195	267,064	9,869
Intergovernmental - State	2,168,476	2,207,248	2,291,943	84,695
<i>Total revenue</i>	<u>6,401,893</u>	<u>6,516,360</u>	<u>6,766,400</u>	<u>250,040</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	2,961,303	2,961,203	2,918,423	42,780
Special	465,873	465,873	438,608	27,265
Vocational	267,393	265,393	248,692	16,701
Other	210,000	210,000	205,687	4,313
Support Services:				
Pupil	192,565	226,565	217,855	8,710
Instructional staff	258,255	253,155	227,912	25,243
Board of education	28,804	28,804	10,900	17,904
Administration	549,164	539,372	524,978	14,394
Fiscal	254,405	292,782	273,628	19,154
Operations and maintenance	490,342	583,815	541,654	42,161
Pupil transportation	226,644	273,857	240,560	33,297
Central	31,000	31,000	19,167	11,833
Operation of non-instructional services	1,000	1,300	1,278	22
Extracurricular activities	155,806	177,078	164,049	13,029
Facilities acquisition and construction	40,000	40,000	33,461	6,539
<i>Total expenditures</i>	<u>6,132,554</u>	<u>6,350,197</u>	<u>6,066,852</u>	<u>283,345</u>
<i>Excess of revenues over expenditures</i>	<u>269,339</u>	<u>166,163</u>	<u>699,548</u>	<u>533,385</u>

(Continued)

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)**

**GENERAL FUND**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

(Continued)

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<b>Other financing sources (uses):</b>				
Proceeds from sale of capital assets	4,804	4,889	5,077	188
Transfers in	18,528	18,860	19,583	723
Transfers (out)	(22,670)	(42,253)	(23,013)	19,240
Advances in	6,623	6,741	7,000	259
Advances (out)	(34,142)	(34,142)	(7,000)	27,142
Refund of prior year expenditures	972	990	1,028	38
<i>Total other financing sources (uses)</i>	<u>(25,885)</u>	<u>(44,915)</u>	<u>2,675</u>	<u>47,590</u>
<i>Net change in fund balance</i>	243,454	121,248	702,223	580,975
Fund balance at beginning of year	1,140,161	1,140,161	1,140,161	-
Prior year encumbrances appropriated	<u>34,392</u>	<u>34,392</u>	<u>34,392</u>	-
<i>Fund balance at end of year</i>	<u>\$ 1,418,007</u>	<u>\$ 1,295,801</u>	<u>\$ 1,876,776</u>	<u>\$ 580,975</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2003**

	Business-type Activities
	Enterprise Fund
	Food Service
<b>Assets:</b>	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 15,255
Receivables:	
Intergovernmental	3,830
Materials and supplies inventory	5,722
<i>Total current assets</i>	24,807
Noncurrent assets:	
Depreciable Capital assets, net	58,327
<i>Total assets</i>	83,134
<b>Liabilities:</b>	
Current liabilities:	
Accounts payable	513
Accrued wages and benefits	23,480
Pension obligation payable	14,470
Intergovernmental payable	552
<i>Total current liabilities</i>	39,015
Noncurrent liabilities:	
Compensated absences payable	9,563
<i>Total liabilities</i>	48,578
<b>Net assets:</b>	
Invested in capital assets	58,327
Unrestricted	(23,771)
<i>Total net assets</i>	\$ 34,556

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Business-type Activities
	Enterprise Fund
	Food Service
<b>Operating revenues:</b>	
Sales and charges for services	\$ 209,417
Other	2,076
	211,493
<i>Total operating revenues</i>	
<b>Operating expenses:</b>	
Personal services	154,911
Purchased services	2,480
Materials and supplies	10,191
Cost of sales	118,627
Depreciation	4,613
	290,822
<i>Total operating expenses</i>	
<i>Operating loss</i>	(79,329)
<b>Nonoperating revenues:</b>	
Operating grants	39,108
Federal donated commodities	23,099
Interest revenue	291
	62,498
<i>Total nonoperating revenues</i>	
<i>Change in net assets</i>	(16,831)
<i>Net assets at beginning of year</i>	51,387
<i>Net assets at end of year</i>	\$ 34,556

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	Business-type Activities
	Enterprise Fund
	Food Service
<b>Cash flows from operating activities:</b>	
Cash received from sales and charges for services	\$ 209,417
Cash received from other operations	2,076
Cash payments for personal services	(150,348)
Cash payments for contractual services	(2,270)
Cash payments for materials and supplies	(104,653)
<i>Net cash used in operating activities</i>	<i>(45,778)</i>
<b>Cash flows from noncapital financing activities:</b>	
Cash received from operating grants	35,278
<i>Net cash provided by noncapital financing activities</i>	<i>35,278</i>
<b>Cash flows from capital financing activities:</b>	
Cash payments for the acquisition of capital assets	(17,958)
<i>Net cash used in capital financing activities</i>	<i>(17,958)</i>
<b>Cash flows from investing activities:</b>	
Cash received from interest earned	291
<i>Net cash provided by investing activities</i>	<i>291</i>
<i>Net decrease in cash and cash equivalents</i>	(28,167)
<i>Cash and cash equivalents at beginning of year</i>	43,422
<i>Cash and cash equivalents at end of year</i>	\$ 15,255

(Continued)

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)

	Business-type Activities
	Enterprise Fund
	Food Service
<b>Reconciliation of operating loss to net cash used in operating activities:</b>	
Operating loss	\$ (79,329)
Adjustments:	
Federal donated commodities	23,099
Depreciation	4,613
Changes in assets and liabilities:	
Decrease in materials and supplies inventory	1,066
Increase in accounts payable	210
Increase in accrued wages and benefits	1,039
Increase in compensated absences payable	323
Increase in pension obligation payable	2,927
Increase in intergovernmental payable	274
<i>Net cash used in operating activities</i>	<b>\$ (45,778)</b>

The Food Service fund consumed donated commodities with a value of \$23,099.  
Use of these commodities are reflected as an operating expense.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2003**

	Private-Purpose Trust	
	Scholarship	Agency
<b>Assets:</b>		
Equity in pooled cash and cash equivalents	\$ 39,264	\$ 39,509
Accounts Receivable	-	269
Prepayments	-	100
	<u>39,264</u>	<u>39,878</u>
<i>Total assets</i>		
<b>Liabilities:</b>		
Intergovernmental payable	-	175
Due to students	-	39,703
	<u>-</u>	<u>39,878</u>
<i>Total liabilities</i>		<u>\$ 39,878</u>
<b>Net Assets:</b>		
Held in trust for scholarships	<u>39,264</u>	
<i>Total net assets</i>	<u>\$ 39,264</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Private-Purpose Trust
	Scholarship
<b>Additions:</b>	
Interest	\$ 491
Gifts and contributions	7,910
<i>Total additions</i>	8,401
<b>Deductions:</b>	
Scholarships awarded	3,541
<i>Change in net assets</i>	4,860
<i>Net assets at beginning of year</i>	34,404
<i>Net assets at end of year</i>	\$ 39,264

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, 2003**

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

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

The District was established in 1938 through the consolidation of existing land areas and school districts. The District serves an area of approximately fifty-five square miles. It is located in Defiance County. The District is the 526<sup>th</sup> largest in the State of Ohio (among the 740 public and community school districts) in terms of enrollment. It is staffed by 34 classified employees and 64 certified employees, including four administrative personnel, who provide services to 900 students and other community members. The District currently operates two instructional buildings and one bus garage.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The District also has the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitations. The District has elected not to follow subsequent private-sector guidance. 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*". The reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

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

JOINTLY GOVERNED ORGANIZATIONS

Northwest Ohio Computer Association - The District is a participant in the Northwest Ohio Computer Association (NWOCA). NWOCA is an association of public school districts within the boundaries of Defiance, Fulton, Henry, and Williams Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. NWOCA is governed by the Northern Buckeye Education Council and its participating members. Financial information can be obtained from Robin Pfund, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

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

Four County Career Center - The Four County Career Center is a district 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,

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Fulton, Henry, and Williams; one representative from each of the city school districts; one representative from each of the exempted village school districts; and one additional representative from Fulton County educational service center. The Four County Career Center possesses its own budgeting and taxing authority. To obtain financial information write to Four County Career Center, Lois Knuth who serves as Treasurer, at Route 1, Box 245A, 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. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., Box 456, Ashland, Ohio 44805.

GROUP PURCHASING POOLS

Northern Buckeye Education Council's Employee Insurance Benefits Program - Northern Buckeye Education Council Employee Insurance Benefits Program (the Pool) is a public entity shared risk pool consisting of educational entities located in Defiance, Fulton, Henry, and Williams counties. The Pool is governed by the Northern Buckeye Education Council and its participating members. Total disbursements made by the District to NBEC for employee insurance benefits during fiscal years ending June 30, 2003 were \$487,700. Financial information can be obtained from Northern Buckeye Education Council, Crystal Meyer, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

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

The WCGRP's business and affairs are conducted by a three member board of directors consisting of two Assembly representatives for each of the counties of Defiance, Fulton, Henry, and Williams and the representative of the member serving as fiscal agent for

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NBEC. The Executive Director of the Council shall coordinate the management and administration of the program. Each year, the participating members pay an enrollment fee to WCGRP to cover the costs of administering the program. The District paid \$747 for these services to NBEC in fiscal year 2003.

**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 and liabilities is reported as fund balance. The following is the District's major governmental fund:

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

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

PROPRIETARY FUND

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. The following is the District's major proprietary fund:



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Enterprise Fund - The enterprise fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The following is the District's major enterprise fund:

Food Service Fund - This fund accounts for the financial transactions related to the food service operations of the District.

**FIDUCIARY FUNDS**

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into two classifications: 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 trust funds are private purpose trusts which account for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**C. Basis of Presentation**

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the

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District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

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

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the District's enterprise fund is charges for sales and services. Operating expenses for the enterprise fund includes the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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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 on the fund financial statements. Proprietary and fiduciary funds also use the accrual basis of accounting.

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

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

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

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

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

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Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as donated commodities 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 2003 is as follows.

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

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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 as the final budgeted amount in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2003.

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

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

5. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions within a fund must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All departments/functions and funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated, increased, or decreased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal 2003.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Cash disbursements plus encumbrances may not legally exceed budgeted appropriations at the fund, function and/or object level.

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

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reservation of fund balance for subsequent-year expenditures for governmental funds. A reserve for encumbrances is not reported on government-wide financial statements.

**F. Cash and Investments**

To improve cash management, cash received by the District is pooled. Monies for all funds, 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 Cash Equivalents" on the financial statements.

During fiscal year 2003, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio).

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

The District has invested funds in STAR Ohio during fiscal 2003. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2003.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$29,936, which includes \$4,286 assigned from other District funds.

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

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

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**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 proprietary fund and government-wide financial statements.

On fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Inventories of proprietary funds consist of donated food, purchased food, and school supplies held for resale and are expensed when used.

**H. Capital Assets**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

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

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

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Description	Estimated Lives	
	Governmental Activities	Business-Type Activities
Land improvements	20 years	N/A
Buildings/improvements	25 - 50 years	N/A
Furniture/equipment	5 - 20 years	5 - 20 years
Vehicles	6 - 10 years	N/A
Textbooks	5 years	N/A

**I. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

**J. 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.



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**K. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund 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. Bonds and long-term loans are recognized as a liability in the fund financial statements when due.

**L. Fund Balance Reserves**

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

**M. Net Assets**

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

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

**N. Prepayments**

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A

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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.

**O. 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.

**P. 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. See Note 16 for details.

**Q. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are sales of food service. Operating expenses are necessary costs incurred to provide the good and service that is the primary activity of the fund.

**R. Contributions of Capital**

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

**S. Interfund Activity**

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

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

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**T. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred in 2003.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**Deficit Fund Balances**

Fund balances at June 30, 2003 included the following individual fund deficit:

<u>Nonmajor Fund:</u>	
Title I Disadvantaged Children	\$ 4,821

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

**NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS**

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of 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 the Board of Education has identified as not required for use within the current five-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of

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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 accounts, including passbook accounts.

Protection of the 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 may 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 or 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 2 percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25 percent of the interim monies available for investment at any one time; and

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8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Cash on Hand: At fiscal year-end, the District had \$570 in undeposited cash on hand which is included on the basic financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

The following information classifies deposits and investments by categories of custodial credit risk as defined in GASB Statement No. 3, "*Deposits with Financial Institutions, Investments, and Reverse Repurchase Agreements*".

Deposits: At year-end, the carrying amount of the District's deposits was \$567,229, and the bank balance was \$648,586. Of the bank balance:

1. \$165,595 was covered by federal depository insurance; and
2. \$482,991 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to § 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

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Investments: The District's investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at fiscal year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name.

The District had investments of \$1,634,922 in STAR Ohio at June 30, 2003, which represents its fair value. STAR Ohio is not categorized because it is not evidenced by securities that exist in physical or book entry form.

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

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$ 2,202,721	\$ -
Investments of the cash management pool:		
Investment in STAR Ohio	(1,634,922)	1,634,922
Cash on hand	(570)	-
	\$ 567,229	\$ 1,634,922
GASB Statement No. 3		

**NOTE 5 - INTERFUND TRANSACTIONS**

Interfund transfers for the year ended June 30, 2003, consisted of the following, as reported on the fund statements:

Transfer to nonmajor governmental fund from:	
General fund	\$ 3,430
Other nonmajor governmental fund	18,000
	\$ 21,430
<i>Total</i>	

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

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collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**NOTE 6 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real and public utility property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Real property taxes for year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue for 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002, and are collected in 2003 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Defiance County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available as an advance at June 30, 2003 was \$266,262 in the general fund, \$9,725 in the Special Levy special revenue fund (a nonmajor governmental fund) and \$11,965 in the Permanent Improvement capital projects fund (a nonmajor governmental fund). The amount

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available for advance at June 30, 2002 was \$325,680 in the general fund, \$14,803 in the Special Levy special revenue fund (a nonmajor governmental fund) and \$16,218 in the Permanent Improvement capital projects fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary depending upon when the tax bills are sent by the County Auditor.

Accrued property taxes receivable includes delinquent taxes outstanding, real property, public utility property, and tangible personal property taxes which are measurable as of June 30, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

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

The assessed values upon which the fiscal year 2003 taxes were collected are:

	2002 Second Half Collections		2003 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/residential and other real estate	\$ 64,885,510	67.19%	\$ 66,821,480	64.72
Public utility personal property	4,248,640	4.40%	4,107,840	3.98
Tangible personal property	27,437,390	28.41%	32,316,090	31.30
<i>Total</i>	<u>\$ 96,571,540</u>	<u>100.00%</u>	<u>\$ 103,245,410</u>	<u>100.00</u>

Tax rate per \$1,000 of assessed valuation:

Operations	\$ 45.20	\$ 49.85
Permanent improvement	\$ 2.00	\$ 2.00

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2003 consisted of taxes, 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 Assets follows:



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Receivables	Governmental Activities:	Business-type Activities:
Taxes	\$ 3,690,919	
Accounts	531,840	
Intergovernmental	6,886	\$ 3,830
<i>Total</i>	\$ 4,229,645	\$ 3,830

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year.

**NOTE 8 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Balance 06/30/02	Additions	Deductions	Balance 06/30/03
<b>Governmental Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 148,406	\$ -	\$ -	\$ 148,406
Capital assets, being depreciated:				
Land improvements	151,244	62,506	-	213,750
Building/improvements	2,762,044	64,291	-	2,826,335
Furniture/equipment	1,613,382	312,977	(165,183)	1,761,176
Vehicles	402,605	81,251	(29,446)	454,410
Textbooks	433,156	68,080	-	501,236
<i>Total capital assets, being depreciated</i>	5,362,431	589,105	(194,629)	5,756,907
Less: accumulated depreciation				
Land improvements	(48,773)	(16,895)	-	(65,668)
Building/improvements	(1,432,053)	(57,191)	-	(1,489,244)
Furniture/equipment	(1,076,567)	(116,204)	129,765	(1,063,006)
Vehicles	(244,164)	(29,368)	29,446	(244,086)
Textbooks	(359,558)	(19,807)	-	(379,365)
<i>Total accumulated depreciation</i>	(3,161,115)	(239,465)	159,211	(3,241,369)
<i>Governmental activities capital assets, net</i>	\$ 2,349,722	\$ 349,640	\$ (35,418)	\$ 2,663,944

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	Balance 06/30/02	Additions	Deductions	Balance 06/30/03
<b>Business-Type Activities</b>				
Capital assets, being depreciated:				
Furniture/equipment	\$ 104,747	\$ 17,958	\$ (1,194)	\$ 121,511
Less: accumulated depreciation	(59,765)	(4,613)	1,194	(63,184)
<i>Business-type activities capital assets, net</i>	\$ 44,982	\$ 13,345	\$ -	\$ 58,327

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 90,754
Special	4,916
Vocational	18,172
Support Services:	
Pupil	1,888
Instructional staff	18,911
Administration	7,470
Fiscal	3,109
Operations and maintenance	48,703
Pupil transportation	28,659
Operation of non-instructional services	1,430
Extracurricular activities	15,453
Total depreciation expense	\$ 239,465

**NOTE 9 - LONG-TERM OBLIGATIONS**

- A. All current obligation bonds outstanding, issued to provide funds for the acquisition and construction of equipment and facilities, are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Payments of principal and interest relating to these liabilities are recorded as expenditures in the debt service fund. The source of payment is derived from a current .2027 mill bonded debt tax levy.

The following is a description of the District's bonds outstanding as of June 30, 2003:

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Purpose	Interest Rate	Issue Date	Maturity Date	Bonds		Bonds
				Outstanding June 30, 2002	Retired in 2003	Outstanding June 30, 2003
Energy conservation bonds	5.43%	02/01/99	12/01/08	\$ 126,000	\$ (18,000)	\$ 108,000

The following is a summary of the District's future annual debt service requirements to maturity for the Energy Conservation Bonds:

Year Ending June 30	Principal	Interest	Total
2004	\$ 18,000	\$ 5,384	\$ 23,384
2005	18,000	4,398	22,398
2006	18,000	3,421	21,421
2007	18,000	2,444	20,444
2008	18,000	1,466	19,466
2009	18,000	489	18,489
<i>Total</i>	<u>\$ 108,000</u>	<u>\$ 17,602</u>	<u>\$ 125,602</u>

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

	Balance 06/30/02	Increase	Decrease	Balance 06/30/03	Amounts Due in One Year
<b>Governmental Activities</b>					
Compensated absences payable	\$ 520,524	\$ 25,571	\$ -	\$ 546,095	\$ 69,653
General obligation bonds payable	126,000	-	(18,000)	108,000	18,000
<i>Total governmental activities long-term liabilities</i>	<u>\$ 646,524</u>	<u>\$ 25,571</u>	<u>\$ (18,000)</u>	<u>\$ 654,095</u>	<u>\$ 87,653</u>

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	Balance 06/30/02	Increase	Decrease	Balance 06/30/03	Amounts Due in One Year
<b>Business-Type Activities</b>					
Compensated absences payable	\$ 9,240	\$ 323	\$ -	\$ 9,563	\$ 5,000
<i>Total business-type activities</i>					
<i>long-term liabilities</i>	\$ 9,240	\$ 323	\$ -	\$ 9,563	\$ 5,000

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

**C. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9 percent of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1 percent of the property valuation of the District, and that energy conservation indebtedness shall not exceed 9/10 of 1 percent of the property valuation of the District.

The effects of these debt limitations at June 30, 2003 are a voted debt margin of \$9,184,087, an unvoted debt margin of \$103,245, and an energy conservation debt margin of \$821,209.

**NOTE 10 - 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. Upon retirement, payment is made for twenty-five percent of accrued plus three days if notice of retirement is received by the Superintendent prior to April 1, to a maximum of fifty-three days.

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**NOTE 11 - 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 Northern Buckeye Education Council Employee Insurance Benefits Program (the Program), a public entity shared risk pool consisting of school districts within Defiance, Fulton, Henry, and Williams Counties and other governmental entities. The District pays monthly premiums to the Northern Buckeye Education Council (NBEC) for the benefits offered to its employees including health, dental, vision, and life insurance. NBEC is responsible for the management and operations of the Program. The agreement for the Program provides for additional assessments to participants if the premiums are insufficient to pay the program costs for the fiscal year. Upon withdrawal from the Program, a participant is responsible for any claims not processed and paid and any related administrative costs.

**C. Workers' Compensation Group Program**

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

Participation in the Plan is limited to educational entities that can meet the Plan's selection criteria. Each participant must apply annually. The Plan provides the participants with a centralized program for the processing, analysis, and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment, or other fees, and perform its obligations in accordance with the terms of the agreement.

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**NOTE 12 - DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$57,699, \$34,948, and \$28,784, respectively; 75.36 percent has been contributed for fiscal year 2003 and 100 percent for the fiscal years 2002 and 2001. \$24,358 represents the unpaid contribution for fiscal year 2003.

**B. State Teachers Retirement System**

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual

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retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001.

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

Plan members are required to contribute 9.3 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2003, 13 percent of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$426,217, \$282,960, and \$268,243, respectively; 83.00 percent has been contributed for fiscal year 2003 and 100 percent for the fiscal years 2002 and 2001. \$78,015 represents the unpaid contribution for fiscal year 2003.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose

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Social Security or the School Employees Retirement Systems/State Teachers Retirement System. As of June 30, 2003, certain members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**NOTE 13 - POSTEMPLOYMENT BENEFITS**

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$32,786 during fiscal 2003.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$2.8 billion at June 30, 2003. For the fiscal year ended June 30, 2003, net health care costs paid by STRS were \$354.697 million and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$14,500. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2003 were \$204.931 million and the target level was \$307.4



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million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$51,817 during the 2003 fiscal year.

**NOTE 14 - 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 (Non-GAAP) and Actual 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 are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

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:

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Net Change in Fund Balance	General Fund
Budget basis	\$ 702,223
Net adjustment for revenue accruals	474,278
Net adjustment for expenditure accruals	(109,440)
Net adjustment for other sources/uses	(1,028)
Adjustment for encumbrances	16,519
GAAP basis	\$ 1,082,552

**NOTE 15 - 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

**B. State School Funding Decision**

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

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

**NOTE 16 - STATUTORY RESERVES**

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2003, the reserve activity was as follows:

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)

	Instructional Materials	Capital Maintenance	Budget Stabilization
Set-aside cash balance as of June 30, 2002	\$ (50,950)	\$ 61,432	\$ 19,583
Current year set-aside requirement	122,396	122,396	-
Qualifying disbursements	(82,200)	(270,849)	(19,583)
Total	<u>\$ (10,754)</u>	<u>\$ (87,021)</u>	<u>\$ -</u>
Balance carried forward to FY 2004	<u>\$ (10,754)</u>	<u>\$ -</u>	<u>\$ -</u>

The District had offsets and qualifying disbursements during the year that reduced the textbooks/instructional materials set-aside amount below zero; this extra amount is being carried forward to reduce the set-aside requirements of future years.

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

In addition to the above statutory reserves, the District also received monies restricted for school bus purchases.

A schedule of the governmental fund restricted assets at June 30, 2003 follows:

Amount restricted for school bus purchases	<u>\$ 12,574</u>
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**Auditor of State  
Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Ayersville Local School District, Defiance County, (the District) as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 27, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the District's management in a separate letter dated January 27, 2005.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters that we have reported to the District's management in a separate letter dated January 27, 2005.

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



**Betty Montgomery**  
Auditor of State

January 27, 2005



**Auditor of State  
Betty Montgomery**

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Columbus, Ohio 43216-1140

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**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
FEBRUARY 15, 2005**