



Dave Yost • Auditor of State

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Ayersville Local School District, Defiance County, Ohio (the District), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Ayersville Local School District, Defiance County, Ohio, as of June 30, 2011, and the respective changes in financial position, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during fiscal year 2011, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Dave Yost
Auditor of State

April 26, 2012

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011
UNAUDITED**

The discussion and analysis of Ayersville Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2011 are as follows:

- In total, net assets increased \$423,940 which represents a 8% increase from 2010.
- General revenues accounted for \$6,336,273 or 71.7% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,494,800, or 28.3% of total revenues of \$8,831,073.
- The District had \$8,407,133 in expenses related to governmental activities; only \$2,494,800 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 \$6,336,273 provided for these programs.
- The District's major governmental fund is the General fund. The General fund had \$7,613,225 in revenues and other financing sources and \$7,286,459 in expenditures and other financing uses. The General fund's fund balance increased from \$2,950,235 to \$3,277,511.

Using these Basic Financial Statements

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

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the General fund is by far the most significant funds, 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 2011." The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expense regardless of when cash is received or paid.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Reporting the District's Fiduciary Responsibilities

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

Notes to the Basic Financial Statements

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

The District as a Whole

The Statement of Net Assets provides the perspective of the District as a whole. The table below provides a summary of the District's net assets for 2011 and 2010.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

Net Assets

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Assets		
Current assets	\$6,936,773	\$6,533,052
Capital assets	<u>2,604,465</u>	<u>2,522,606</u>
Total assets	<u>\$9,541,238</u>	<u>\$9,055,658</u>
Liabilities		
Current liabilities	\$3,023,314	\$3,044,783
Long-term liabilities	<u>850,545</u>	<u>767,436</u>
Total liabilities	<u>\$3,873,859</u>	<u>\$3,812,219</u>
Net Assets		
Invested in capital		
Assets, net of debt	\$2,458,247	\$2,437,651
Restricted	634,171	496,272
Unrestricted	<u>2,574,961</u>	<u>2,309,516</u>
Total net assets	<u>\$5,667,379</u>	<u>\$5,243,439</u>

Total net assets increased \$423,940 from 2010 to 2011. Included in this change was an increase in equity in pooled cash, income taxes receivable, and capital assets.

The table below shows the changes in net assets for governmental for fiscal years 2011 and 2010.

Change in Net Assets

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Revenues		
Program revenues:		
Charges for services and sales	\$1,714,964	\$1,557,980
Operating grants and contributions	779,836	633,874
General revenues:		
Property taxes	2,215,962	2,292,298
Income taxes	793,052	712,542
Grants and entitlements	3,304,980	3,339,464
Payment in lieu of taxes	14,343	52,090
Investment earnings	5,302	6,443
Other	<u>2,634</u>	<u>6,365</u>
Total revenues	<u>\$8,831,073</u>	<u>\$8,601,056</u>

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

Expenses

Program expenses:

Instruction:		
Regular	\$3,887,057	\$3,864,787
Special	549,841	451,016
Vocational	60,466	59,725
Other	341,453	464,069
Support services:		
Pupil	351,971	394,309
Instructional staff	333,858	356,254
Board of Education	35,656	33,603
Administration	617,350	636,091
Fiscal	294,626	296,364
Operations and maintenance	621,039	612,471
Pupil transportation	273,033	262,846
Central	52,316	62,654
Operation of non-instructional services	174,077	123,781
Extracurricular activities	457,574	475,007
Interest and fiscal charges	6,580	6,643
Food service	<u>350,236</u>	<u>336,719</u>
 Total expenses	 <u>\$8,407,133</u>	 <u>\$8,436,339</u>
 Changes in net assets	 <u>\$ 423,940</u>	 <u>\$ 164,717</u>

Total revenues increased by \$230,017 (2.67%) due to the increase in charges for services and sales, and in grants and entitlements.

Total expenditures decreased by \$29,206 (.35%). This is mainly due to increases in several line items being offset by decreases in other line items.

Governmental Activities

Net assets of the District's governmental activities increased by \$423,940. Total governmental expenses of \$8,407,133 were offset by program revenues of \$2,494,800 and general revenues of \$6,336,273. Program revenues supported 29.67% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources, in addition to the collection of the District's school district income tax, represent 71.50% of total governmental revenue. Real estate property is reappraised every six years.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2011 compared to 2010. 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 YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

Governmental Activities

	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	<u>2011</u>	<u>2011</u>	<u>2010</u>	<u>2010</u>
Program expenses:				
Instruction:				
Regular	\$3,887,057	\$2,270,737	\$3,864,787	\$2,539,428
Special	549,841	349,253	451,016	234,877
Vocational	60,466	60,466	59,725	58,572
Other	341,453	337,446	464,069	464,069
Support services:				
Pupil	351,971	348,637	394,309	265,533
Instructional staff	333,858	314,545	356,254	346,543
Board of Education	35,656	35,656	33,603	33,603
Administration	617,350	616,192	636,091	636,091
Fiscal	294,626	289,626	296,364	291,364
Operations and maintenance	621,039	568,041	612,471	612,471
Pupil transportation	273,033	228,510	262,846	257,553
Central	52,316	20,174	62,654	62,654
Food service operations	350,236	7,163	336,719	9,308
Operation of non-instructional services	174,077	174,077	123,781	123,781
Extracurricular activities	457,574	285,230	475,007	301,995
Interest and fiscal charges	6,580	6,580	6,643	6,643
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses	<u>\$8,407,133</u>	<u>\$5,912,333</u>	<u>\$8,436,339</u>	<u>\$6,244,485</u>

The dependence upon tax revenues during fiscal year 2011 for governmental activities is apparent, as 62.37% of 2011 instruction activities are supported through taxes and other general revenues. The District's taxpayers, as a whole, contribute much of the support for the District's students.

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. The District's major governmental fund is the General Fund. Total governmental funds had revenues and other financing sources of \$8,830,733 and expenditures and other financing uses of \$8,573,744.

General Fund Budgeting Highlights

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

During the course of fiscal year 2011, the District amended its General fund budget to reduce specific line items from the original budget. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the General fund, final budgeted revenues and other financing sources were \$7,358,314, slightly higher than the original budgeted revenues. The actual budget basis revenues and other financing sources for fiscal year 2011 totaled \$7,380,986 due largely in part to receiving more state revenue than projected.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

General fund final appropriations were \$7,281,518. The actual budget basis expenditures and other financing uses for fiscal year 2011 totaled \$7,175,593. This favorability was due to the overall ongoing effort to closely monitor expenditures in the General Fund.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2011, the District had \$2,604,465 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and textbooks. The following table shows fiscal 2011 balances compared to fiscal 2010.

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

	Governmental Activities	
	2011	2010
Land	\$148,406	\$148,406
Land improvements	91,086	105,387
Building and improvements	1,157,997	1,176,353
Furniture and equipment	964,331	898,559
Vehicles	167,532	154,951
Textbooks	75,113	38,950
Total	\$2,604,465	\$2,522,606

Debt Administration

At June 30, 2011, the District had \$146,218 in capital leases outstanding. Of these totals, \$18,062 and \$42,529 is due within one year and due within greater than one year on the District's capital copier leases. \$42,098 is due within one year and \$43,529 is due within greater than one year on the District's capital lease for computers. The following table summarized the debt outstanding.

Outstanding Debt, at Year End

	Governmental Activities	
	2011	2010
Capital lease - copiers	\$60,591	\$47,521
Capital lease - buses		37,434
Capital lease - computers	85,927	
Total	\$146,518	\$84,955

See note 12 to the basic financial statements for additional information on the District's debt administration.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

Current Financial Related Activities

House Bill 66, which was passed in the Ohio State Legislature for implementation effective July 1, 2005, has brought significant challenges to the future revenue stability of the District. The elimination of the personal tangible tax base amounted to nearly 29% of the taxable value in the District. Although the state has guaranteed that districts will be reimbursed for this loss through 2013, failure to "hold harmless" the enterprise zone donations that are based on the personal tangible tax base has caused the District to actually experience a reduction in annual revenue since the implementation of House Bill 66. In order to address this reduction, the Board of Education, along with reducing expenditures, asked District residents for additional tax dollars in the form of a 5-year, 1% traditional-base income tax levy. This levy passed in November 2007 and collection began in January 2008. Due to the timing of the payment and collection of income taxes, collections paid to the District phased in on a quarterly basis, and full collection was realized in July 2009. Operating property tax levies are also in place on a continuing basis to help fund General fund operations. The financial stability of the District continues to be a top priority.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ms. 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, 2011

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents	\$3,925,550
Receivables:	
Property taxes	2,281,550
Income taxes	303,385
Accounts	808
Accrued interest	194
Intergovernmental	180,154
Payment in lieu of taxes	210,623
Prepayments	11,228
Materials and supplies inventory	23,281
Capital assets:	
Land and construction in progress	148,406
Depreciable capital assets, net	2,456,059
Capital assets, net	2,604,465
 Total assets	 9,541,238
 Liabilities:	
Accounts payable	15,438
Accrued wages and benefits	838,150
Pension obligation payable	98,265
Intergovernmental payable	28,511
Deferred revenue	2,042,950
Long-term liabilities:	
Due within one year	172,635
Due in more than one year	677,910
Total liabilities	3,873,859
 Net Assets:	
Invested in capital assets, net of related debt	2,458,247
Restricted for:	
Capital projects	77,832
Federally funded programs	177,421
Public school support	24,220
Student activities	21,318
Other purposes	333,380
Unrestricted	2,574,961
Total net assets	\$5,667,379

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions
Governmental activities:			Governmental Activities
Instruction:			
Regular	\$3,887,057	\$1,336,243	\$280,077
Special	549,841		200,588
Vocational	60,466		4,007
Other	341,453		
Support services:			
Pupil	351,971		3,334
Instructional staff	333,858		19,313
Board of education	35,656		
Administration	617,350		1,158
Fiscal	294,626		5,000
Operations and maintenance	621,039		52,998
Pupil transportation	273,033		44,523
Central	52,316		32,142
Operation of non-instructional services:			
Other non-instructional services	174,077		
Food service operations	350,236	223,637	119,436
Extracurricular activities	457,574	155,084	17,260
Interest and fiscal charges	6,580		
Total governmental activities	\$8,407,133	\$1,714,964	\$779,836

General Revenues:

Property taxes levied for	
General purposes	2,055,374
Special Revenue	72,374
Capital outlay	88,214
Income taxes levied for:	
General purposes	793,052
Grants and entitlements not restricted to specific programs	3,304,980
Payment in lieu of taxes	14,343
Investment earnings	5,302
Miscellaneous	2,634
Total general revenues	6,336,273
Change in net assets	423,940
Net assets at beginning of	5,243,439
Net assets at end of year	\$5,667,379

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents	\$3,697,035	\$227,459	\$3,924,494
Receivables:			
Property taxes	2,119,738	161,812	2,281,550
Income taxes	303,385		303,385
Accounts	808		808
Payment in lieu of taxes	193,149	17,474	210,623
Accrued interest	194		194
Interfund loans	13,030		13,030
Intergovernmental		180,154	180,154
Prepayments	10,022	1,206	11,228
Materials and supplies inventory	20,824	2,457	23,281
Restricted assets:			
Equity in pooled cash and cash equivalents	1,056		1,056
Total assets	\$6,359,241	\$590,562	\$6,949,803
Liabilities:			
Accounts payable	\$5,486	\$9,952	\$15,438
Accrued wages and benefits	790,052	48,098	838,150
Compensated absences payable	51,010		51,010
Interfund loans payable		13,030	13,030
Intergovernmental payable	26,892	1,619	28,511
Deferred revenue	2,116,589	335,431	2,452,020
Pension obligation payable	91,701	6,564	98,265
Total liabilities	3,081,730	414,694	3,496,424
Fund Balances:			
Nonspendable:			
Materials and supplies inventory	20,824	2,457	23,281
Prepays	10,022	1,206	11,228
Restricted:			
Capital Improvements		67,368	67,368
Targeted academic assistance		5,105	5,105
Other purposes		111,201	111,201
Discretionary restricted		21,318	21,318
Termination benefits	213,398		213,398
Assigned:			
Student instruction	64,471		64,471
Student and staff support	42,311		42,311
Other purposes			-
Unassigned (Deficit)	2,926,485	(32,787)	2,893,698
Total fund balances	3,277,511	175,868	3,453,379
Total liabilities and fund balances	\$6,359,241	\$590,562	\$6,949,803

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, 2011

Total governmental fund balances		\$3,453,379
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		2,604,465
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$60,800	
Payment in Lieu of Taxes	175,954	
Intergovernmental	<u>172,316</u>	
Total		409,070
Long-term liabilities, including lease purchase agreements, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(653,317)	
Capital lease obligation	<u>(146,218)</u>	
Total		<u>(799,535)</u>
Net assets of governmental activities		<u><u>\$5,667,379</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Property taxes	\$2,038,340	\$159,322	\$2,197,662
Income taxes	793,052		793,052
Tuition	1,300,529		1,300,529
Earnings on investments	5,179	123	5,302
Charges for services		221,895	221,895
Extracurricular		91,173	91,173
Classroom materials and fees	41,990		41,990
Rental income	175	1,040	1,215
Contributions and donations	7,469	10,171	17,640
Other local revenues	50,940	9,476	60,416
Payment in Lieu of Taxes	31,798	2,871	34,669
Intergovernmental - state	3,166,384	137,671	3,304,055
Intergovernmental - federal	15,281	575,904	591,185
Total revenues	<u>7,451,137</u>	<u>1,209,646</u>	<u>8,660,783</u>
Expenditures:			
Current:			
Instruction:			
Regular	3,664,052	136,269	3,800,321
Special	412,567	146,179	558,746
Vocational	55,832		55,832
Other	294,144	63,586	357,730
Support services:			
Pupil	343,584	3,334	346,918
Instructional staff	279,058	46,447	325,505
Board of education	28,123		28,123
Administration	606,621	1,634	608,255
Fiscal	287,971	4,464	292,435
Operations and maintenance	473,572	164,483	638,055
Pupil transportation	228,286	44,523	272,809
Central	7,812	44,504	52,316
Operation of non-instructional	10,606	157,648	168,254
Food service operations	60	346,875	346,935
Extracurricular activities	322,690	127,339	450,029
Capital outlay	159,401		159,401
Debt service:			
Principal retirement	98,138		98,138
Interest and fiscal charges	6,580		6,580
Total expenditures	<u>7,279,097</u>	<u>1,287,285</u>	<u>8,566,382</u>
Excess of revenues over/(under) expenditures	<u>172,040</u>	<u>(77,639)</u>	<u>94,401</u>
Other financing sources (uses):			
Sale/loss of assets	2,687	500	3,187
Transfers in		7,362	7,362
Transfers (out)	(7,362)		(7,362)
Capital lease transaction	159,401		159,401
Total other financing sources (uses)	<u>154,726</u>	<u>7,862</u>	<u>162,588</u>
Net change in fund balances	326,766	(69,777)	256,989
Fund balances at beginning of year	2,950,235	247,760	3,197,995
Increase/(decrease) in reserve for inventory	510	(2,115)	(1,605)
Fund balances at end of year	<u>\$3,277,511</u>	<u>\$175,868</u>	<u>\$3,453,379</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, 2011

Net change in fund balances - total governmental funds		\$256,989
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeds depreciation expense in the current period.		
Capital Outlay	\$504,161	
Depreciation Expense	(418,188)	
Total		85,973
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.		
Capital Asset Disposals	(161,584)	
Accumulated Depreciation on Disposals	157,470	
Total		(4,114)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	18,300	
Payment in Lieu of Taxes	(20,326)	
Intergovernmental	172,316	
Total		170,290
Repayment of lease-purchase agreement principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
		98,138
Issuance of capital leases are recorded as other financing sources in the funds; however, in the statement of activities, they are not reported as other financing sources as they increase liabilities on the statement of net assets		
		(159,401)
Some expenses reported in the statement of activities, such as compensated absences, future retirement obligations, and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		(22,330)
Governmental funds report expenditures for inventory when purchased; however, in the statement of activities they are reported as an expense when consumed.		
		(1,605)
Change in net assets of governmental activities		\$423,940

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, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$2,802,877	\$2,788,712	\$2,788,712	
Tuition	1,235,700	1,291,069	1,291,069	
Earnings on investments	7,200	5,600	5,337	(\$263)
Classroom materials and fees	31,000	32,000	35,449	3,449
Other local revenues	9,500	9,852	12,017	2,165
Payment in lieu of taxes	62,257	62,257	62,257	
Intergovernmental - state	3,145,383	3,152,750	3,166,384	13,634
Intergovernmental - federal	3,000	11,000	14,550	3,550
Total revenues	<u>7,296,917</u>	<u>7,353,240</u>	<u>7,375,775</u>	<u>22,535</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,760,879	3,687,696	3,661,804	25,892
Special	483,361	473,955	472,393	1,562
Vocational	57,659	56,537	55,832	705
Other	307,099	301,123	300,738	385
Support services:				
Pupil	355,900	348,975	347,785	1,190
Instructional staff	306,225	300,266	296,126	4,140
Board of education	40,828	40,034	28,460	11,574
Administration	602,914	591,182	589,851	1,331
Fiscal	296,733	290,959	288,017	2,942
Operations and maintenance	517,522	507,452	489,704	17,748
Pupil transportation	278,892	273,465	269,659	3,806
Central	31,615	31,000	7,812	23,188
Operation of non-instructional services	13,824	13,555	12,292	1,263
Extracurricular activities	270,359	265,098	264,728	370
Total expenditures	<u>7,323,810</u>	<u>7,181,297</u>	<u>7,085,201</u>	<u>96,096</u>
Excess of revenues over (under) expenditures	<u>(26,893)</u>	<u>171,943</u>	<u>290,574</u>	<u>118,631</u>
Other financing sources (uses):				
Refund of prior year's receipts		2,387	2,524	137
Transfers (out)	(106,500)	(86,800)	(77,362)	9,438
Advances (out)		(13,421)	(13,030)	391
Sale of capital assets	500	2,687	2,687	
Total other financing sources (uses)	<u>(106,000)</u>	<u>(95,147)</u>	<u>(85,181)</u>	<u>9,966</u>
Net change in fund balance	(132,893)	76,796	205,393	128,597
Fund balance at beginning of year	2,982,478	2,982,478	2,982,478	
Prior year encumbrances appropriated	128,115	128,115	128,115	
Fund balance at end of year	<u>\$2,977,700</u>	<u>\$3,187,389</u>	<u>\$3,315,986</u>	<u>\$128,597</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2011

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	<u>\$43,020</u>
Liabilities:	
Due to students	<u>\$43,020</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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, Ohio. The District is the 536th largest in the State of Ohio (out of 918 public and community schools) in terms of enrollment. It is staffed by 31 classified employees and 62 certified employees, including four administrative personnel, who provide services to 811 students and other community members. The District currently operates one instructional building and one bus garage.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the 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. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government’s financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

JOINTLY GOVERNED ORGANIZATIONS

Northwest Ohio Computer Association - The District is a participant in the Northwest Ohio Computer Association (NWOCA). NWOCA is an association of public school districts within the boundaries of Defiance, Fulton, Henry, and Williams Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. NWOCA is governed by the Northern Buckeye Education Council and its participating members. Financial information can be obtained from Robin Pfund, who serves as Treasurer, at 209 Nolan Parkway, Archbold, Ohio 43502.

Northern Buckeye Education Council - Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among various educational entities located in Defiance, Fulton, Henry, and Williams counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the four counties in which the member educational entities are located. The Board is elected from an Assembly consisting of a representative from each participating educational entity. To obtain financial information write to the Northern Buckeye Education Council, Robin Pfund, who serves as Treasurer, at 209 Nolan Parkway, Archbold, Ohio 43502.

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

Northwest Ohio Education Council - Northwest Ohio Education Council (NWOEC) was established to foster cooperation among various school districts within Ohio that participate in the Northwest Ohio Educational Council Self-Insurance Pool Program (NOEC Program). NWOEC is organized under Chapter 167.01 of the Ohio Revised Code as a regional council of governments pursuant to a written agreement entered into by its members and by policies adopted by the member school districts. NWOEC members consist of the school districts' superintendents. To obtain financial information write to Ryan Isaacs, Arthur J. Gallagher Risk Management Services, Inc., The Waters Building, 161 Ottawa N.W., Suite 112, Grand Rapids, Michigan 49503.

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., 414 East Market Street, Celina, Ohio 45822.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Educational Regional Service System – The Educational Regional Services System (the System) is a jointly governed organization among the school districts in Defiance, Fulton, Hancock, Henry, Lucas, Ottawa, Paulding, Putnam, Sandusky, Seneca, Van Wert, Williams, and Wood counties. House Bill 115 established the System and required the creation of a coordinated, integrated, and aligned system to support state and school district efforts to improve school effectiveness and student achievement.

The System is a 16-region system consisting of a State Regional Alliance Advisory Board, an advisory council and five specialized subcommittees for each of the 16 regions, a fiscal agent for each region, educational service centers, special education regional resources centers, data acquisition sites, and other regional service providers. The 34-member State Regional Alliance Advisory Board is not a policymaking body. Members are to receive no compensation. The board's duties are to promote communication and coordination among the State Board of Education, the Department of Education, fiscal agents, advisory councils, and customers of the System. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from the Lucas County Educational Service Center, 2275 Collingwood, Toledo, Ohio, 43620.

GROUP PURCHASING POOLS

Northern Buckeye Education Council's Employee Insurance Benefits Program - Northern Buckeye Education Council's Employee Insurance Benefits Program (the Pool) is a public entity shared risk pool consisting of educational entities located in Defiance, Fulton, Henry, and Williams counties. The Pool is governed by Northern Buckeye Education Council and its participating members. Total disbursements made by the District to NBEC for employee insurance benefits during fiscal year ending June 30, 2011 were \$662,411. Financial information can be obtained from Northern Buckeye Education Council, Robin Pfund, who serves as Treasurer, at 209 Nolan Parkway, 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 Section 4123.29 of the Ohio Revised Code. Northern Buckeye Education Council's Workers' Compensation Group Rating Plan (WCGRP) was established through the Northern Buckeye Education Council (NBEC) as a group purchasing pool.

The WCGRP's business and affairs are conducted by a three member board of directors consisting of two Assembly representatives for each of the counties of Defiance, Fulton, Henry, and Williams and the representative of the member serving as fiscal agent for NBEC. The Executive Director of the Council shall coordinate the management and administration of the program. Each year, the participating members pay an enrollment fee to WCGRP to cover the costs of administering the program. The District paid \$846 for these services to NBEC in fiscal year 2011

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Northwest Ohio Educational Council Self-Insurance Pool Program

The District participates in the Northwest Ohio Educational Council Self-Insurance Pool Program (NOEC Program) which is an insurance purchasing pool. The NOEC Program is created and organized pursuant to and as authorized by 2744.081 of the Ohio Revised Code. The Northwest Ohio Education Council (NWOEC) is a Council of Governments created pursuant to Chapter 167.01 of the Ohio Revised Code. The NOEC Program is a non-profit organization to its members and an instrumentality for each member for the purpose of enabling members of the NOEC Program to provide for a formalized, joint insurance program to maintain adequate insurance protection, risk management programs, and other administrative services. The NOEC Program's business and affairs are conducted by a nine member Insurance Committee created by the governing board of the NWOEC. The NOEC Program has an agreement with Arthur J. Gallagher Risk Management Services, Inc. for administrative services and Specialty Claims Service, Inc. for claims processing. The District paid \$34,509 for these services to NOEC in fiscal year 2011.

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) financial resources to be used for the acquisition, construction, or improvement of capital facilities; and (b) for grants and other resources whose used is restricted to a particular purpose.

FIDUCIARY FUNDS

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

C. Basis of Presentation

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

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

D. Basis of Accounting

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

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

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

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, payment in lieu of taxes, interest, tuition, grants, student fees and rentals.

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

Property taxes for which there is an enforceable legal claim as of June 30, 2011, but which were levied to finance fiscal year 2012 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2011 is as follows.

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education 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.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the original and final Amended Certificates issued for fiscal year 2011.

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

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

5. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions within a fund must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All departments/functions and funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated, increased or decreased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal 2011. The amounts reported in the budgetary statement reflect the amounts set forth in the original and final budgeted appropriations for fiscal year 2011.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Cash disbursements plus encumbrances may not legally exceed budgeted appropriations at the object level.

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

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Investments

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

During fiscal year 2011, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for non-participating investment contracts, investments are reported at fair value, which is based on quoted market prices. Non-participating investment contracts, such as non-negotiable certificates of deposits, are valued at cost.

The District has invested funds in STAR Ohio during fiscal year 2011. 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, 2011.

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 2011 amounted to \$5,179 which includes \$667 assigned from other District funds.

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

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

G. Inventory

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

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

H. Capital Assets

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

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

I. Compensated Absences

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

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

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

J. Accrued Liabilities and Long-Term Obligations

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

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.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Fund Balance

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

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

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

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

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

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

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

L. Net 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.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Prepayments

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

N. Estimates

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

O. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount set aside for the purchase of school buses.

P. Interfund Activity

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2011.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2011, the District has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the District.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE (Continued)

B. Fund Reclassifications

Fund reclassifications are required in order to report funds in accordance with GASB Statement No 54. These fund reclassifications had the following effect on the District's governmental fund balances as previously reported:

	<u>General</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental</u>
Fund balance as previously reported	\$2,727,419	\$470,576	\$3,197,995
Fund Reclassifications:			
Public School Support Fund	21,042	(21,042)	
Special Trust Fund	6,977	(6,977)	
Termination Benefits Fund	194,797	(194,797)	
Total Fund Reclassifications	222,816	(222,816)	
Restated Fund Balance at July 1, 2010	\$2,950,235	\$247,760	\$3,197,995

The fund reclassifications did not have an effect on net assets as previously reported.

C. Deficit Fund Balances

Fund balances at June 30, 2011 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Food Service	\$25,579
IDEA-B	4,065

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

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

A. Cash on Hand

At year-end, the District had \$770 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

B. Deposits with Financial Institutions

At June 30, 2011, the carrying amount of all District deposits was \$493,723. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2011, \$366,236 of the District's bank balance of \$626,118 was exposed to custodial risk as discussed below, while \$259,882 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be able to recover deposits or collateral securities that are in the possession of an outside party. The District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or protected by eligible securities pledged to and deposited either with the District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

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

C. Investments

As of June 30, 2011, the District had the following investments and maturities:

<u>Investment type</u>	<u>Investment Maturities</u>	
<u>Fair Value</u>	<u>Balance at</u>	<u>6 months or</u>
<u>Fair Value</u>	<u>less</u>	<u>less</u>
STAR Ohio	\$3,474,077	\$3,474,077

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2011:

Cash and investments per footnote:	
Carrying amount of deposits	\$ 493,723
Investments	3,474,077
Cash on hand	<u>770</u>
Total	<u>\$3,968,570</u>
Cash and investments per Statement of Net Assets	
Governmental activities	\$3,925,550
Agency funds	<u>43,020</u>
Total	<u>\$3,968,570</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transfers for the year ended June 30, 2011, consisted of the following, as reported on the government-wide and fund financial statements:

Transfer from General Fund to:	
Non-Major EMIS Fund	\$7,362

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

Advance from General Fund to:	
Non Major IDEA-B ARRA Fund	\$13,030

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 5 - INTERFUND TRANSACTIONS (Continued)

This advance will be paid back to the General Fund upon receipt of funds for IDEA-B ARRA during the next fiscal year.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2011 represent the collection of calendar year 2010 taxes. Real property taxes received in calendar year 2011 were levied after April 1, 2010, on the assessed values as of January 1, 2010, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2011 represent the collection of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien on December 31, 2009, were levied after April 1, 2010, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2011 (other than public utility property) represent the collection of calendar year 2011 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. Tangible personal property taxes received from telephone companies in calendar year 2011 were levied after October 1, 2010, on the value as of December 31, 2010. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Defiance County, Ohio. 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, 2011, are available to finance fiscal year 2011 operations. The amount available as an advance at June 30, 2011 was \$164,500 in the General fund, \$5,950 in the Special Levy special revenue fund, and \$7,350 in the Permanent Improvement capital projects fund. This amount is recorded as revenue. The amount available for advance at June 30, 2010 was \$161,875 in the General fund, \$5,250 in the Special Levy special revenue fund, and \$6,563 in the Permanent Improvement capital projects fund. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2011 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 unearned revenue.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 6 - PROPERTY TAXES (Continued)

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

The assessed values upon which the fiscal year 2011 taxes were collected are:

	2010 First Half Collections		2011 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$77,458,520	97.06	\$76,881,420	96.95
Public utility personal	2,348,510	2.94	2,416,570	3.05
Total	<u>\$79,807,030</u>	<u>100.00</u>	<u>\$79,297,990</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation:				
Operations	\$41.48		\$41.48	
Permanent improvement	2.00		2.00	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2011 consisted of taxes, accounts, payment in lieu of taxes, interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the items of receivables reported on the Statement of Net Assets follows:

Governmental Activities:

Property Taxes	\$2,281,550
Income Taxes	303,385
Accounts	808
Accrued interest	194
Payment in lieu of taxes	210,623
Intergovernmental	<u>180,154</u>
Total	<u>\$2,976,714</u>

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

NOTE 8 – INCOME TAXES

The District levies a voted income tax of one percent on the income of residents and on estates for general operations of the District. The income tax became effective on January 1, 2008 and is in effect for a period of five years, until December 31, 2012. Employers of residents are required to withhold income tax on employee compensation and then remit that income tax to the State, and taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General fund and amounted to \$793,052 for fiscal year 2011. Taxes receivable reported in the basic financial statements includes \$303,385 of income tax receivable.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 9 – PAYMENT IN LIEU OF TAXES

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

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance			Balance
	<u>June 30, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2011</u>
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$148,406			\$148,406
Capital assets, being depreciated:				
Land improvements	312,723	\$1,600		314,323
Building/improvements	3,085,169	44,277		3,129,446
Furniture/equipment	2,777,498	307,905	(\$140,757)	2,944,646
Vehicles	745,315	65,370	(20,827)	789,858
Textbooks	656,666	85,009		741,675
Total capital assets, being depreciated	<u>7,577,371</u>	<u>504,161</u>	<u>(161,584)</u>	<u>7,919,948</u>
Less: accumulated depreciation				
Land improvements	(207,336)	(15,901)		(223,237)
Building/improvements	(1,908,816)	(62,633)		(1,971,449)
Furniture/equipment	(1,878,939)	(241,542)	140,166	(1,980,315)
Vehicles	(590,364)	(49,266)	17,304	(622,326)
Textbooks	(617,716)	(48,846)		(666,562)
Total accumulated depreciation	<u>(5,203,171)</u>	<u>(418,188)</u>	<u>157,470</u>	<u>(5,463,889)</u>
Governmental activities capital assets, net	<u>\$2,522,606</u>	<u>\$85,973</u>	<u>(\$4,114)</u>	<u>\$2,604,465</u>

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 10 - CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 204,622
Special	6,956
Vocational	4,634
Support Services:	
Pupil	2,057
Instructional staff	43,208
Administration	8,350
Fiscal	2,715
Operations and maintenance	70,114
Pupil transportation	44,400
Operation of non-instructional services	5,823
Extracurricular activities	<u>25,309</u>
Total depreciation expense	<u><u>\$ 418,188</u></u>

NOTE 11 – CAPITAL LEASES – LESSEE DISCLOSURE

The District entered into a capital lease for the acquisition of two school buses in fiscal year 2008. This lease was subsequently paid off in fiscal year 2011. Also, the District entered into capital leases for the acquisition of copiers in fiscal year 2009 and 2011. Additionally, in fiscal year 2011, the District entered into a capital lease for the acquisition of laptop computers for the first phase of the one-to-one laptop initiative for high school students. All leases meet the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers the benefits and risks of ownership to the lessee at the conclusion of the lease term. At inception, both leases were accounted for as an other financing source and a capital outlay expenditure in the General fund. Capital lease payments have been reclassified and shown as debt service expenditures in the General fund. These expenditures will be reflected as function expenditures on a budgetary basis. The general capital assets acquired by these capital leases have been capitalized in the governmental activities on the statement of net assets in the amount of \$147,490 for the buses, \$95,172 for the copiers and \$130,001 for the computers, which is equal to the present value of the future minimum lease payments as of the date of their inception. A corresponding liability has been recorded in the governmental activities on the statement of net assets. Principal payments made during fiscal year 2011 totaled \$37,434 for the buses, \$16,330 of the copiers, and \$44,374 for the computers.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 11 – CAPITAL LEASES – LESSEE DISCLOSURE (Continued)

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2011.

<u>Fiscal year ending June 30,</u>	<u>Copiers</u>	<u>Buses</u>	<u>Total</u>
2012	\$22,073	\$44,578	\$66,651
2013	22,072	44,578	66,650
2014	15,700		15,700
2015	6,776		6,776
2016	2,259		2,259
Total minimum lease payment	68,880	89,156	158,036
Less amount representing interest	(8,289)	(3,529)	(11,818)
Total	<u>\$60,591</u>	<u>\$85,627</u>	<u>\$146,218</u>

NOTE 12 – LONG TERM OBLIGATIONS

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

	<u>Balance</u>			<u>Balance</u>	<u>Amounts</u>
	<u>June 30, 2010</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2011</u>	<u>Due in</u>
					<u>One Year</u>
Governmental Activities					
Compensated absences payable	\$682,481	\$73,567	(\$51,721)	\$704,327	\$112,475
Capital Lease - copiers	47,521	29,400	(16,330)	60,591	18,062
Capital Lease - computers		130,001	(44,374)	85,627	42,098
Capital Lease - busses	37,434		(37,434)	-	
Total governmental activities long-term liabilities	<u>\$767,436</u>	<u>\$232,968</u>	<u>(\$149,859)</u>	<u>\$850,545</u>	<u>\$172,635</u>

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

B. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation use in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2011, are a voted debt margin of \$7,136,819 and an unvoted debt margin of \$79,298

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 13 - COMPENSATED ABSENCES

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

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred days for both classified and certified employees with less than 25 years of service, and up to a maximum of two hundred and ten days once 25 years of service is achieved. Upon retirement, payment is made for twenty-five percent of accrued, plus five days if the accumulation is greater than 200 days, plus three days if notice of retirement is received by the Superintendent prior to March 1, to a maximum of fifty-eight days.

NOTE 14 - 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's Employee Insurance Benefits Program (the Program), a public entity shared risk pool consisting of school districts within Defiance, Fulton, Henry, and Williams Counties and other governmental entities. The District pays monthly premiums to the Northern Buckeye Education Council (NBEC) for the benefits offered to its employees including health, dental, vision, and life insurance. NBEC is responsible for the management and operations of the Program. The agreement for the Program provides for additional assessments to participants if the premiums are insufficient to pay the program costs for the fiscal year. Upon withdrawal from the Program, a participant is responsible for any claims not processed and paid and any related administrative costs.

C. Workers' Compensation Group Program

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

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

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 15 - PENSION PLANS

A. School Teachers Retirement System

Plan Description - The District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to the State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org, under "Publications".

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DCP 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 fifty and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The CP offers features of both the DBP and the DCP. In the CP, 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 DBP. The DBP portion of the CP payment is payable to a member on or after age sixty; the DCP portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age fifty. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DBP or CP 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 DCP who become disabled are entitled only to their account balance. If a member of the DCP dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For the fiscal year ended June 30, 2011, plan members were required to contribute 10 percent of their annual covered salary. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the STRS Ohio Board upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contribution for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010, and 2009 was \$407,934, \$471,948, and \$471,512 respectively; 80.53 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009. No contributions to the DC and Combined Plans for fiscal year 2011 were made by the District or the plan members.

B. School Employee Retirement System

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer public employee retirement plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a stand-alone financial report that may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted to the SERS' Ohio website, www.ohsers.org, under "Media/Financial Reports".

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 15 - PENSION PLANS (Continued)

Funding Policy - For the fiscal year ended June 30, 2011, plan members were required to contribute 10 percent of their annual covered salary and the District was 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 2011, 11.77 percent and 0.04 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2011, 2010, and 2009 was \$91,854, \$97,783, \$69,015, respectively; 100 percent has been contributed for fiscal year 2011, 2010 and 2009.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2011, certain members of the Board of Education have elected Social Security. The contribution rate is 6.2 percent of wages.

NOTE 16 - POSTEMPLOYMENT BENEFITS

A. School Teachers Retirement System

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Health Care Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For fiscal year 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contribution for health care for the fiscal years ended June 30, 2011, 2010, and 2009 was \$31,380, \$36,304, and \$36,270 respectively; 80.53 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 16 - POSTEMPLOYMENT BENEFITS (Continued)

B. School Employees Retirement System

Plan Description - The District contributes to two cost-sharing multiple-employer defined benefit OPEB plans administered by the School Employees Retirement System (SERS) for classified retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians fees through several types of plans including HMO's, PPO's, and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each fiscal year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For fiscal year 2011, 1.43 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount. For fiscal year 2011, the surcharge amount was \$35,800.

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

The District's contribution for health care for the fiscal years ended June 30, 2011, 2010, and 2009 was \$16,952, \$9,332, and \$37,646 respectively; 100 percent has been contributed for fiscal year 2011, 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare Part B Fund. For fiscal year 2011, this actuarially required allocation was .76 percent of covered payroll. The District's contribution for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 was \$5,911, \$5,815, and \$5,694 respectively; 100 percent has been contributed for fiscal year 2011, 2010 and 2009.

NOTE 17 - BUDGETARY BASIS OF ACCOUNTING

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

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

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 17 - BUDGETARY BASIS OF ACCOUNTING (Continued)

- (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:

Net Change in Fund Balance	
	<u>General Fund</u>
Budget basis	\$205,393
Net adjustment for revenue accruals	12,658
Net adjustment for expenditure accruals	(169,132)
Net adjustment for other sources/uses	169,903
Adjustment for encumbrances	88,048
Perspective Differences for Cash Reporting Purposes:	
Activity of funds reclassified	<u>19,896</u>
GAAP basis	<u><u>\$326,766</u></u>

NOTE 18 - CONTINGENCIES

A. Grants

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

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 19 - STATUTORY RESERVES

The District is required by state law to annually set aside, in the General fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year end. These amounts must be carried forward and used for the same purposes in future years. In addition, the District received and has available state funds in the amount of \$1,056 that are required to be used for the purchase of a school bus. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2011, the reserve activity was as follows:

	<u>Instructional Materials</u>	<u>Capital Maintenance</u>
Set-aside cash balance as of June 30, 2010		
Current year set-aside requirement	\$125,172	\$125,172
Current Year Qualifying Expenditures	(136,770)	
Excess Qualified Expenditures from Prior Years	(370,925)	
Current Year Offsets		<u>(125,172)</u>
Total	<u>(\$382,523)</u>	<u> </u>
Balance carried forward to FY 2012	<u>(\$382,523)</u>	<u> </u>

The District had qualifying expenditures during the fiscal year that reduced the textbook set aside amount below zero. This amount may be used to reduce the set aside requirement in future fiscal years. The District also had current year offsets during the fiscal year that reduced the capital improvements set aside amount to below zero. However, this amount cannot be carried forward to reduce future set aside requirements, and therefore is not reflected in this schedule.



Dave Yost • Auditor of State

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

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 major fund, and the aggregate remaining fund information of Ayersville Local School District, Defiance County, Ohio (the District), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 26, 2012 and wherein we noted the District adopted the provisions of Governmental Accounting Standards Board Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standard*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note a certain matter not requiring inclusion in this report that we reported to the District's management in a separate letter dated April 26, 2012.

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

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

Dave Yost
Auditor of State

April 26, 2012



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURE

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

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Ayersville Local School District, Defiance County, Ohio (the District) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

We noted the Board amended its anti-harassment policy at its meeting on September 19, 2011 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

April 26, 2012

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Dave Yost • Auditor of State

AYERSVILLE LOCAL SCHOOL DISTRICT

DEFIANCE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 10, 2012**