



Dave Yost • Auditor of State

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY
JUNE 30, 2016**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ayersville Local School District, Defiance County, Ohio (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Ayersville Local School District, Defiance County, Ohio, as of June 30, 2016, and the respective changes in financial position thereof and the budgetary comparison for the General fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2017, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

June 21, 2017

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(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, 2016. 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 2016 are as follows:

- The District's net position of governmental activities increased \$20,759,265 which represents a 396.24% increase from 2015.
- General revenues accounted for \$28,423,544 or 91.26% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,723,017 or 8.74% of total revenues of \$31,146,561.
- The District had \$10,387,296 in expenses related to governmental activities; only \$2,723,017 of these expenses was offset by program specific charges for services, grants, or contributions. General revenues supporting governmental activities (primarily taxes, unrestricted grants and entitlements and restricted grants and entitlements) of \$28,423,544 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and the classroom facilities fund. The general fund had \$8,942,297 in revenues and other financing sources and \$8,113,843 in expenditures and other financing uses. The general fund's fund balance increased \$826,731 from \$4,467,287 to \$5,294,018.
- The classroom facilities fund had \$11,542,469 in revenues and other financing sources and \$905,182 in expenditures. The classroom facilities fund ended fiscal year 2016 with a fund balance of \$10,637,287.

Using these Basic Financial Statements (BFS)

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

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

Reporting the District as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2016." The statement of net position and the statement of activities answer this question. These statements

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(Continued)

include all assets, deferred outflows, liabilities, deferred inflows, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expense regardless of when cash is received or paid.

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

In the statement of net position and the statement of activities, the District's programs and services are reported as governmental activities, as most include instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Reporting the District's Fiduciary Responsibilities

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

Notes to the Basic Financial Statements

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

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)
(Continued)

Required Supplementary Information

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

The District as a Whole

The statement of net position provides the perspective of the District as a whole. The table below provides a summary of the District's net position for June 30, 2016 and June 30, 2015.

	Net Position	
	Governmental Activities 2016	Governmental Activities 2015
<u>Assets</u>		
Current and other assets	\$ 42,701,806	\$ 8,305,877
Capital assets, net	<u>2,808,326</u>	<u>2,332,291</u>
Total assets	<u>45,510,132</u>	<u>10,638,168</u>
<u>Deferred outflows of resources</u>		
Pensions	<u>1,136,365</u>	<u>719,942</u>
Total deferred outflows of resources	<u>1,136,365</u>	<u>719,942</u>
<u>Liabilities</u>		
Current liabilities	1,252,443	951,626
Long-term liabilities:		
Due within one year	311,430	249,915
Due in more than one year:		
Net pension liability	11,245,298	10,325,668
Other amounts	<u>14,446,071</u>	<u>596,194</u>
Total liabilities	<u>27,255,242</u>	<u>12,123,403</u>
<u>Deferred inflows of resources</u>		
Property taxes levied for next fiscal year	2,626,236	2,595,869
Pensions	<u>1,244,863</u>	<u>1,877,947</u>
Total deferred inflows of resources	<u>3,871,099</u>	<u>4,473,816</u>
<u>Net position</u>		
Net investment in capital assets	1,784,346	2,062,348
Restricted	20,228,096	187,967
Unrestricted (deficit)	<u>(6,492,286)</u>	<u>(7,489,424)</u>
Total net position	<u>\$ 15,520,156</u>	<u>\$ (5,239,109)</u>

During 2015, the District adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the

**AYERSVILLE LOCAL SCHOOL DISTRICT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
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reported net position and subtracting deferred outflows related to pension.

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

Under the new standards required by GASB 68, the net pension liability equals the District's proportionate share of each plan's collective:

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

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

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

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

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2016, the District's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$15,520,156.

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DEFIANCE COUNTY, OHIO**

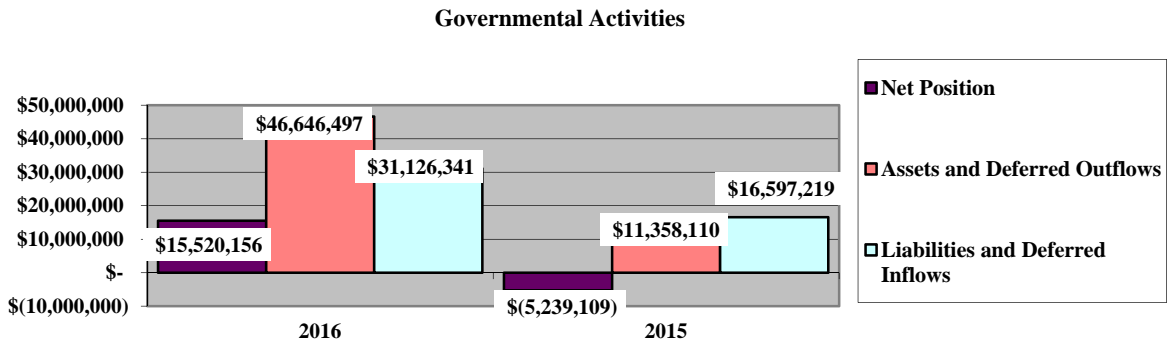
**MANAGEMENT'S DISCUSSION AND ANALYSIS
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(Continued)**

At year-end, capital assets represented 6.17% of total assets. Capital assets include land, construction in progress, land improvements, buildings and improvements, furniture and equipment, vehicles and textbooks. The District's net investment in capital assets at June 30, 2016 was \$1,784,346. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

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

A portion of the District's net position, \$20,228,096 represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position was a deficit of \$6,492,286. The deficit balance in unrestricted net position was the result of reporting the net pension liability required by GASB 68.

The graph below illustrates the District's governmental activities assets plus deferred outflows, liabilities plus deferred inflows and net position at June 30, 2016 and 2015.



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**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)
(Continued)

The table below shows the changes in net position for governmental activities between 2016 and 2015.

	Change in Net Position	
	Governmental Activities <u>2016</u>	Governmental Activities <u>2015</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,979,956	\$ 1,912,731
Operating grants and contributions	743,061	720,310
Capital grants and contributions	-	10,542
General revenues:		
Property taxes	3,425,337	2,506,395
Income taxes	864,484	894,409
Payments in lieu of taxes	15,058	27,967
Unrestricted grants and entitlements	3,584,640	3,135,796
Restricted grants and entitlements	20,291,730	-
Investment earnings	228,943	13,763
Miscellaneous	<u>13,352</u>	<u>1,928</u>
Total revenues	<u>31,146,561</u>	<u>9,223,841</u>

Restricted grants and entitlements revenue relates to the OFCC's share of the building project. Property taxes increased because of a new 6.6 mill levy for debt service and a new 0.5 mill levy for classroom facilities maintenance. Investment earnings increased related to earnings on the bond proceeds related to the construction project.

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**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
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Change in Net Position (Continued)

	<u>Governmental Activities 2016</u>	<u>Governmental Activities 2015</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 4,242,838	\$ 3,957,777
Special	626,859	595,939
Vocational	111,281	100,980
Other	555,780	448,385
Support services:		
Pupil	364,685	286,370
Instructional staff	451,054	438,487
Board of education	58,762	30,528
Administration	722,284	565,623
Fiscal	361,874	322,644
Operations and maintenance	686,448	646,746
Pupil transportation	298,873	308,221
Central	37,364	37,200
Operations of non-instructional services:		
Food service operations	398,178	377,662
Other non-instructional services	177,711	121,763
Extracurricular activities	466,876	499,640
Interest and fiscal charges	<u>826,429</u>	<u>9,825</u>
Total expenses	<u>10,387,296</u>	<u>8,747,790</u>
Change in net position	20,759,265	476,051
Net position at beginning of year	<u>(5,239,109)</u>	<u>(5,715,160)</u>
Net position at end of year	<u>\$ 15,520,156</u>	<u>\$ (5,239,109)</u>

Governmental Activities

Net position of the District's governmental activities increased by \$20,759,265. Total governmental expenses of \$10,387,296 were offset by program revenues of \$2,723,017 and general revenues of \$28,423,544. Program revenues supported 26.21% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements (both restricted and unrestricted). These two revenue sources, in addition to the collection of the District's school district income tax, represent 90.43% of total governmental revenue. Real estate property is reappraised every six years.

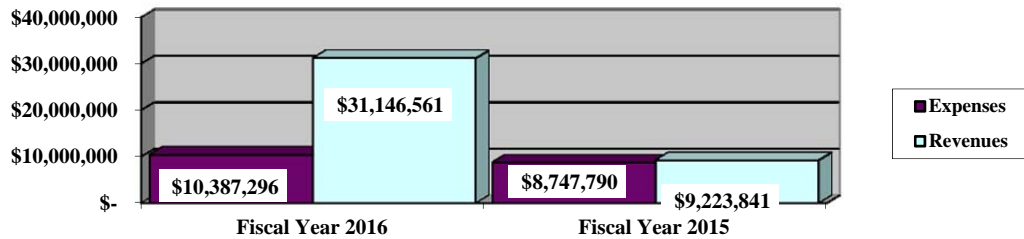
The largest expense of the District is for instructional programs. Instruction expenses totaled \$5,536,758 or 53.30% of total governmental expenses for fiscal 2016.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
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(Continued)

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2016 and 2015.

Governmental Activities - Revenues and Expenses



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

Governmental Activities

	Total Cost of Services <u>2016</u>	Net Cost of Services <u>2016</u>	Total Cost of Services <u>2015</u>	Net Cost of Services <u>2015</u>
Program expenses				
Instruction:				
Regular	\$ 4,242,838	\$ 2,610,744	\$ 3,957,777	\$ 2,385,517
Special	626,859	268,870	595,939	215,860
Vocational	111,281	109,900	100,980	95,782
Other	555,780	475,809	448,385	337,800
Support services:				
Pupil	364,685	363,008	286,370	286,370
Instructional staff	451,054	405,828	438,487	402,768
Board of education	58,762	58,762	30,528	30,528
Administration	722,284	721,104	565,623	564,657
Fiscal	361,874	361,874	322,644	322,644
Operations and maintenance	686,448	686,448	646,746	646,746
Pupil transportation	298,873	286,641	308,221	293,101
Central	37,364	36,044	37,200	35,952
Operations of non-instructional services:				
Food service operations	398,178	23,307	377,662	23,011
Other non-instructional services	177,711	162,938	121,763	108,377
Extracurricular activities	466,876	266,573	499,640	345,269
Interest and fiscal charges	826,429	826,429	9,825	9,825
Total expenses	<u>\$ 10,387,296</u>	<u>\$ 7,664,279</u>	<u>\$ 8,747,790</u>	<u>\$ 6,104,207</u>

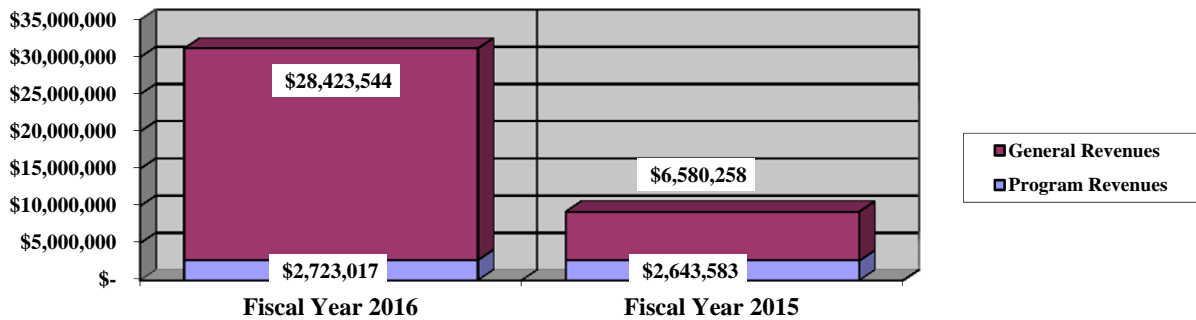
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MANAGEMENT'S DISCUSSION AND ANALYSIS
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The dependence upon tax and other general revenues for governmental activities is apparent as 62.59% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 73.79%. The District's taxpayers and unrestricted grants and entitlements from the State are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2016 and 2015.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$19,945,896, which is greater than last year's total of \$4,606,412. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2016 and 2015.

	<u>Fund Balance</u> <u>June 30, 2016</u>	<u>Fund Balance</u> <u>June 30, 2015</u>	<u>Increase</u>	<u>Percentage</u> <u>Change</u>
Major funds:				
General	\$ 5,294,018	\$ 4,467,287	\$ 826,731	18.51 %
Classroom facilities	10,637,287	-	10,637,287	100.00 %
Other governmental	4,014,591	139,125	3,875,466	2,785.60 %
Total	<u>\$ 19,945,896</u>	<u>\$ 4,606,412</u>	<u>\$ 15,339,484</u>	333.00 %

General Fund

The District's general fund balance increased \$826,731 in fiscal year 2016. Tuition revenue increased approximately \$51,000 due to increased open enrollment revenue during fiscal year 2016. Tax revenue also increased by approximately \$334,000. The most significant reason for the increase in tax revenues is due to an increase of property taxes available as an advance at June 30, 2016 compared to June 30, 2015. Intergovernmental revenue also increased approximately \$437,000 due to changes in the State Foundation funding formula.

Total general fund expenditures increased 3.57% from the prior fiscal year. This was primarily due to customary wage and benefit increases.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)
(Continued)

The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2016</u> <u>Amount</u>	<u>2015</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 3,555,297	\$ 3,221,325	\$ 333,972	10.37 %
Tuition	1,503,019	1,452,169	50,850	3.50 %
Earnings on investments	52,758	13,001	39,757	305.80 %
Intergovernmental	3,652,262	3,215,542	436,720	13.58 %
Other revenues	<u>146,556</u>	<u>180,596</u>	<u>(34,040)</u>	<u>(18.85) %</u>
Total	<u>\$ 8,909,892</u>	<u>\$ 8,082,633</u>	<u>\$ 827,259</u>	<u>10.24 %</u>
<u>Expenditures</u>				
Instruction	\$ 4,872,563	\$ 4,727,214	\$ 145,349	3.07 %
Support services	2,799,006	2,563,546	235,460	9.18 %
Non-instructional services	11,063	14,355	(3,292)	(22.93) %
Extracurricular activities	319,068	402,134	(83,066)	(20.66) %
Debt service	<u>104,643</u>	<u>119,643</u>	<u>(15,000)</u>	<u>(12.54) %</u>
Total	<u>\$ 8,106,343</u>	<u>\$ 7,826,892</u>	<u>\$ 279,451</u>	<u>3.57 %</u>

Classroom Facilities Fund

The classroom facilities fund accounts for the OFCC's portion and the District's required local portion of the building construction project. During fiscal year 2016, the classroom facilities fund had \$11,542,469 in revenues and other financing sources and \$905,182 in expenditures. The classroom facilities fund had a fund balance of \$10,637,287 at June 30, 2016.

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 2016, the District amended its general fund budget several times. For the general fund, original budgeted revenues and financing sources were \$6,507,660 and final budgeted revenues and other financing sources were \$6,428,661. Actual revenues and other financing sources for fiscal 2016 were \$8,765,390. This represents a \$2,336,729 increase from final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$8,579,816 were increased to \$8,601,632 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2016 totaled \$8,069,203 which was \$532,429 less than the final budget appropriations.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)
(Continued)

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2016, the District had \$2,808,326 invested in land, construction on progress, land improvements, buildings and improvements, furniture and equipment, vehicles and textbooks. The following table shows fiscal 2016 balances compared to fiscal 2015.

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

	Governmental Activities	
	2016	2015
Land	\$ 148,406	\$ 148,406
Construction in progress	998,638	-
Land improvements	87,187	101,891
Building and improvements	955,736	1,027,365
Furniture and equipment	468,882	971,747
Vehicles	144,086	75,387
Textbooks	5,391	7,495
Total	\$ 2,808,326	\$ 2,332,291

Total additions to capital assets for 2016 were \$1,194,279 and total disposals were \$527,019 (net of accumulated depreciation). Depreciation recorded for the fiscal year totaled \$191,225. During fiscal year 2016, the District increased its capitalization threshold from \$250 to \$1,500.

See Note 10 to the basic financial statements for further details on the District's capital assets.

Debt Administration

At June 30, 2016, the District had \$13,666,693 in general obligation bonds and \$147,323 in capital leases outstanding. Of these totals, \$245,553 is due within one year and \$13,568,463 is due in greater than one year. The following table summarized the debt outstanding.

Outstanding Debt, at Year End

	Governmental Activities <u>2016</u>	Governmental Activities <u>2015</u>
	Capital lease - copiers	\$ 40,262
Capital lease - computers	107,061	212,606
General obligation bonds	13,666,693	-
Total	\$ 13,814,016	\$ 269,943

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)
(Continued)

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

Current Financial Related Activities

Property tax levies on a continuing basis and a five-year, one-percent income tax are in place to help fund the general fund operations of the District. Residential and agricultural property tax revenue and public utility taxes remain stable, and income tax receipts have rebounded as the economy has improved. Incoming open enrollment made up sixteen percent and reimbursement from the State for tangible personal property tax losses due to House Bill 66 made up seven percent of general fund revenue in fiscal year 2016. Overall, revenue for the District is higher than last fiscal year due to an increase in unrestricted state aid.

State funding estimates for the District show an increase as the second year of the state biennial budget begins in fiscal year 2017. The state reimbursement of tangible personal property tax is projected to continue its phase-out during this current biennial budget. The phase-out of these funds will remain a concern in the future as the District relies heavily on this reimbursement to fund operations.

The District continues to manage its resources in spite of a difficult economy. Expenditures increased by 4.1% compared to the prior fiscal year due mainly to increased open enrollment out and one-time capital outlay purchases. The uncertainty associated with the long term effects of the elimination of the tangible personal property tax base and state funding revisions will create future challenges; however, the financial stability of the District continues to be a top priority.

Contacting the District's Financial Management

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

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities
Assets:	
Equity in pooled cash and investments.	\$ 7,085,003
Investments.	13,286,763
Receivables:	
Property taxes	2,981,736
Income taxes.	278,921
Payment in lieu of taxes	15,058
Accounts.	4,567
Accrued interest	30,037
Intergovernmental	18,996,842
Prepayments	11,341
Materials and supplies inventory.	8,943
Inventory held for resale.	2,595
Capital assets:	
Nondepreciable capital assets	1,147,044
Depreciable capital assets, net.	1,661,282
Capital assets, net	2,808,326
Total assets.	45,510,132
 Deferred outflows of resources:	
Pension - STRS	934,612
Pension - SERS	201,753
Total deferred outflows of resources	1,136,365
 Liabilities:	
Accounts payable.	8,218
Contracts payable.	147,447
Accrued wages and benefits	795,692
Intergovernmental payable	86,918
Pension and postemployment benefits payable.	120,251
Accrued interest payable	93,917
Long-term liabilities:	
Due within one year.	311,430
Due in more than one year:	
Net pension liability	11,245,298
Other amounts due in more than one year	14,446,071
Total liabilities	27,255,242
 Deferred inflows of resources:	
Property taxes levied for the next fiscal year.	2,626,236
Pension - STRS.	1,196,091
Pension - SERS.	48,772
Total deferred inflows of resources	3,871,099
 Net position:	
Net investment in capital assets	1,784,346
Restricted for:	
Capital projects	19,975,726
Classroom facilities maintenance	37,364
Debt service.	116,246
Federally funded programs	23,215
Student activities	32,316
Natatorium operations.	43,229
Unrestricted (deficit)	(6,492,286)
Total net position.	\$ 15,520,156

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position Governmental Activities
		Charges for Services and Sales	Operating Grants and Contributions	
Governmental activities:				
Instruction:				
Regular	\$ 4,242,838	\$ 1,473,573	\$ 158,521	\$ (2,610,744)
Special	626,859	81,120	276,869	(268,870)
Vocational	111,281	-	1,381	(109,900)
Other	555,780	2,680	77,291	(475,809)
Support services:				
Pupil	364,685	-	1,677	(363,008)
Instructional staff	451,054	-	45,226	(405,828)
Board of education	58,762	-	-	(58,762)
Administration.	722,284	-	1,180	(721,104)
Fiscal.	361,874	-	-	(361,874)
Operations and maintenance	686,448	-	-	(686,448)
Pupil transportation.	298,873	2,100	10,132	(286,641)
Central	37,364	-	1,320	(36,044)
Operation of non-instructional services:				
Food service operations	398,178	223,120	151,751	(23,307)
Other non-instructional services	177,711	9,637	5,136	(162,938)
Extracurricular activities.	466,876	187,726	12,577	(266,573)
Interest and fiscal charges	826,429	-	-	(826,429)
Total governmental activities	<u>\$ 10,387,296</u>	<u>\$ 1,979,956</u>	<u>\$ 743,061</u>	<u>(7,664,279)</u>

General revenues:

Property taxes levied for:	
General purposes	2,689,973
Debt service.	488,779
Capital outlay.	115,393
Natatorium operations.	94,481
Classroom facilities maintenance.	36,711
Payments in lieu of taxes.	15,058
Income taxes levied for:	
General purposes	864,484
Grants and entitlements not restricted	
to specific programs	3,584,640
Grants and entitlements restricted for	
Ohio Facilities Construction Commission.	20,291,730
Investment earnings	228,943
Miscellaneous.	13,352
Total general revenues.	<u>28,423,544</u>

Change in net position 20,759,265

Net position at beginning of year (5,239,109)

Net position at end of year \$ 15,520,156

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

	General	Classroom Facilities	Nonmajor Governmental Funds	Total Governmental Funds
Assets:				
Equity in pooled cash and investments	\$ 5,650,818	\$ 992,933	\$ 441,252	\$ 7,085,003
Investments.	-	9,763,520	3,523,243	13,286,763
Receivables:				
Property taxes.	2,048,131	-	933,605	2,981,736
Income taxes	278,921	-	-	278,921
Payment in lieu of taxes	13,811	-	1,247	15,058
Accounts	4,331	-	236	4,567
Accrued interest	5,718	16,702	7,617	30,037
Intergovernmental.	59,795	18,864,452	72,595	18,996,842
Prepayments.	10,614	-	727	11,341
Materials and supplies inventory.	6,780	-	2,163	8,943
Inventory held for resale.	-	-	2,595	2,595
Total assets	<u>\$ 8,078,919</u>	<u>\$ 29,637,607</u>	<u>\$ 4,985,280</u>	<u>\$ 42,701,806</u>
Liabilities:				
Accounts payable	\$ 6,410	\$ -	\$ 1,808	\$ 8,218
Contracts payable.	-	132,728	14,719	147,447
Accrued wages and benefits	733,295	-	62,397	795,692
Compensated absences payable	23,106	-	-	23,106
Intergovernmental payable	67,391	-	19,527	86,918
Pension and postemployment benefits payable.	108,298	-	11,953	120,251
Total liabilities.	<u>938,500</u>	<u>132,728</u>	<u>110,404</u>	<u>1,181,632</u>
Deferred inflows of resources:				
Property taxes levied for the next fiscal year.	1,804,828	-	821,408	2,626,236
Delinquent property tax revenue not available.	10,303	-	4,697	15,000
Intergovernmental revenue not available.	28,546	18,864,452	32,542	18,925,540
Accrued interest not available.	2,724	3,140	1,638	7,502
Total deferred inflows of resources	<u>1,846,401</u>	<u>18,867,592</u>	<u>860,285</u>	<u>21,574,278</u>
Fund balances:				
Nonspendable:				
Materials and supplies inventory.	6,780	-	2,163	8,943
Prepays.	10,614	-	727	11,341
Restricted:				
Debt service	-	-	212,220	212,220
Capital improvements	-	10,637,287	3,731,829	14,369,116
Classroom facilities maintenance	-	-	37,105	37,105
Targeted academic assistance	-	-	4,072	4,072
Extracurricular.	-	-	32,316	32,316
Natorium operations.	-	-	42,780	42,780
Committed:				
Termination benefits.	132,055	-	-	132,055
Assigned:				
Student instruction	33,613	-	-	33,613
Student and staff support.	67,377	-	-	67,377
Other purposes.	5,762	-	-	5,762
Unassigned (deficit)	5,037,817	-	(48,621)	4,989,196
Total fund balances	<u>5,294,018</u>	<u>10,637,287</u>	<u>4,014,591</u>	<u>19,945,896</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 8,078,919</u>	<u>\$ 29,637,607</u>	<u>\$ 4,985,280</u>	<u>\$ 42,701,806</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2016

Total governmental fund balances		\$	19,945,896
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			2,808,326
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.			
Property taxes receivable	\$	15,000	
Accrued interest receivable		7,502	
Intergovernmental receivable		18,925,540	
Total		18,925,540	18,948,042
Unamortized premiums on bonds issued are not recognized in the funds.			(438,244)
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(93,917)
The net pension liability is not due and payable in the current period; therefore, liability and related deferred inflows are not reported in governmental funds.			
Deferred outflows - pension		1,136,365	
Deferred inflows - pension		(1,244,863)	
Net pension liability		(11,245,298)	
Total		(11,245,298)	(11,353,796)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
General obligation bonds		(13,666,693)	
Capital lease obligations		(147,323)	
Compensated absences		(482,135)	
Total		(14,296,151)	(14,296,151)
Net position of governmental activities		\$	15,520,156

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	General	Classroom Facilities	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
From local sources:				
Property taxes	\$ 2,690,813	\$ -	\$ 731,524	\$ 3,422,337
Income taxes	864,484	-	-	864,484
Payment in lieu of taxes	13,811	-	1,247	15,058
Tuition	1,503,019	-	-	1,503,019
Transportation fees	2,100	-	-	2,100
Earnings on investments	52,758	120,757	49,105	222,620
Charges for services	-	-	221,971	221,971
Extracurricular	2,420	-	135,147	137,567
Classroom materials and fees	51,674	-	-	51,674
Other local revenues	76,551	-	20,144	96,695
Intergovernmental - state	3,587,293	1,427,278	77,824	5,092,395
Intergovernmental - federal	64,969	-	556,671	621,640
Total revenues	8,909,892	1,548,035	1,793,633	12,251,560
Expenditures:				
Current:				
Instruction:				
Regular	3,797,449	-	174,739	3,972,188
Special	492,541	-	136,629	629,170
Vocational	99,552	-	649	100,201
Other	483,021	-	75,411	558,432
Support services:				
Pupil	362,440	-	5,158	367,598
Instructional staff	315,123	-	53,308	368,431
Board of education	58,762	-	-	58,762
Administration	724,035	-	1,151	725,186
Fiscal	336,124	8,749	9,569	354,442
Operations and maintenance	600,566	-	42,732	643,298
Pupil transportation	365,845	-	6,534	372,379
Central	36,111	-	1,320	37,431
Operation of non-instructional services				
Food service operations	-	-	384,844	384,844
Other non-instructional services	11,063	-	167,326	178,389
Extracurricular activities	319,068	-	126,240	445,308
Facilities acquisition and construction	-	896,433	102,205	998,638
Debt service:				
Principal retirement	97,620	-	25,000	122,620
Interest and fiscal charges	7,023	-	436,713	443,736
Bond issuance costs	-	-	294,338	294,338
Total expenditures	8,106,343	905,182	2,043,866	11,055,391
Excess (deficiency) of revenues over (under) expenditures	803,549	642,853	(250,233)	1,196,169
Other financing sources (uses):				
Premium on bonds	-	-	449,301	449,301
Sale of bonds	-	9,994,434	3,666,764	13,661,198
Sale of capital assets	32,405	-	-	32,405
Transfers in	-	-	7,500	7,500
Transfers (out)	(7,500)	-	-	(7,500)
Total other financing sources (uses)	24,905	9,994,434	4,123,565	14,142,904
Net change in fund balances	828,454	10,637,287	3,873,332	15,339,073
Fund balances at beginning of year	4,467,287	-	139,125	4,606,412
Increase (decrease) in reserve for inventory	(1,723)	-	2,134	411
Fund balances at end of year	\$ 5,294,018	\$ 10,637,287	\$ 4,014,591	\$ 19,945,896

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

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, 2016

Net change in fund balances - total governmental funds	\$	15,339,073
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures		
However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital asset additions	\$ 1,194,279	
Current year depreciation	<u>(191,225)</u>	
Total		1,003,054
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net position.		
		(527,019)
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.		
		411
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes	3,000	
Earnings on investments	6,327	
Intergovernmental	<u>18,885,674</u>	
Total		18,895,001
Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liability on the statement of net position.		
		122,620
Issuance of bonds are recorded as other financing sources in the funds; however, in the statement of activities, they are not reported as other financing sources as they increase liabilities on the statement of net position		
		(13,661,198)
Premiums on bonds are amortized over the life of the issuance in the statement of activities.		
		(449,301)
In the statement of activities, interest is accrued on outstanding bonds whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in additional interest being reported in the statement of activities		
Increase in accrued interest payable	(93,917)	
Accreted interest on capital appreciation bonds	(5,495)	
Amortization of bond premiums	<u>11,057</u>	
Total		(88,355)
Contractually required pension contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amount as deferred outflows.		
		629,798
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities		
		(499,921)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditure in governmental funds.		
		<u>(4,898)</u>
Change in net position of governmental activities	\$	<u>20,759,265</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>Actual</u>
Revenues:				
From local sources:				
Property taxes	\$ 2,575,360	\$ 2,544,096	\$ 2,592,814	\$ 48,718
Income taxes.	885,753	875,000	889,686	14,686
Payment in lieu of taxes.	-	-	26,555	26,555
Tuition.	1,504,858	1,486,590	1,503,019	16,429
Transportation fees.	-	-	2,100	2,100
Earnings on investments	12,688	12,534	31,220	18,686
Classroom materials and fees	33,795	33,385	32,469	(916)
Other local revenues	40,213	39,725	16,020	(23,705)
Intergovernmental - state	1,399,614	1,382,623	3,587,468	2,204,845
Intergovernmental - federal	43,615	43,086	61,879	18,793
Total revenues	<u>6,495,896</u>	<u>6,417,039</u>	<u>8,743,230</u>	<u>2,326,191</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,974,407	3,984,513	3,789,296	195,217
Special.	451,824	452,973	511,240	(58,267)
Vocational.	124,683	125,000	125,787	(787)
Other.	602,152	603,683	483,059	120,624
Support services:				
Pupil.	341,611	342,480	331,462	11,018
Instructional staff	448,819	449,960	335,618	114,342
Board of education	49,622	49,748	66,158	(16,410)
Administration.	732,652	734,515	715,306	19,209
Fiscal	355,315	356,218	319,226	36,992
Operations and maintenance.	663,804	665,492	609,430	56,062
Pupil transportation	408,605	409,644	371,243	38,401
Central.	36,373	36,465	35,160	1,305
Other non-instructional services	11,775	11,805	10,757	1,048
Extracurricular activities.	268,453	269,136	274,416	(5,280)
Total expenditures	<u>8,470,095</u>	<u>8,491,632</u>	<u>7,978,158</u>	<u>513,474</u>
Excess (deficiency) of revenues over (under) expenditures.	<u>(1,974,199)</u>	<u>(2,074,593)</u>	<u>765,072</u>	<u>2,839,665</u>
Other financing sources (uses):				
Refund of prior year's expenditures	5,061	5,000	15,818	10,818
Transfers in	-	-	1,381	1,381
Transfers (out).	(109,721)	(110,000)	(91,045)	18,955
Advances in.	4,641	4,585	4,585	-
Sale of capital assets	2,062	2,037	376	(1,661)
Total other financing sources (uses)	<u>(97,957)</u>	<u>(98,378)</u>	<u>(68,885)</u>	<u>29,493</u>
Net change in fund balance	(2,072,156)	(2,172,971)	696,187	2,869,158
Fund balance at beginning of year	4,621,831	4,621,831	4,621,831	-
Prior year encumbrances appropriated	34,916	34,916	34,916	-
Fund balance at end of year	<u>\$ 2,584,591</u>	<u>\$ 2,483,776</u>	<u>\$ 5,352,934</u>	<u>\$ 2,869,158</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2016

	Private Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and investments. . . .	\$ 39,991	\$ 42,677
Receivables:		
Accounts	-	127
Total assets.	39,991	\$ 42,804
Liabilities:		
Intergovernmental payable	-	\$ 1
Due to students.	-	42,803
Total liabilities	-	\$ 42,804
Net position:		
Held in trust for scholarships	\$ 39,991	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Private Purpose Trust
	Scholarship
Additions:	
Interest	\$ 222
Gifts and contributions.	1,600
Total additions.	1,822
 Deductions:	
Scholarships awarded	1,700
 Change in net position	122
 Net position at beginning of year.	39,869
 Net position at end of year	\$ 39,991

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

The District was established in 1938 through the consolidation of existing land areas and school districts. The District serves an area of approximately fifty-five square miles. It is located in Defiance County. The District is staffed by 30 classified employees and 59 certified employees, which includes 4 administrative personnel, who provide services to approximately 775 students and other community members. The District currently operates one instructional building and one bus garage.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, “The Financial Reporting Entity” as amended by GASB Statement No. 39, “Determining Whether Certain Organizations Are Component Units” and GASB Statement No. 61, “The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34”. The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's Governing Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

The following organizations are described due to their relationship to the District:

JOINTLY GOVERNED ORGANIZATIONS

Northwest Ohio Computer Association - The District is a participant in the Northwest Ohio Computer Association (NWOCA). NWOCA is an association of educational entities within the boundaries of Defiance, Fulton, Henry, Lucas, Williams, and Wood 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 educational entities. The NWOCA Assembly consists of a superintendent from each participating educational entity and a representative from the fiscal agent. The Assembly elects the Council. NWOCA is governed by a Council chosen from two representatives from each of the six counties in which the member educational entities are located and the representative from the member educational entity serving as fiscal agent for NWOCA. The degree of control exercised by any participating educational entity is limited to its representation on the Board. All payments made by the District for services received are made to the Northern Buckeye Education Council. NWOCA is governed by the Northern Buckeye Education Council and its participating members. Total disbursements made by the District to NWOCA during this fiscal year were \$59,865 for various services. Financial information can be obtained from Robin Pfund, who serves as Treasurer, at 209 Nolan Parkway, Archbold, Ohio 43502.

Northern Buckeye Education Council - The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among various educational entities located in Defiance, Fulton, Henry, Lucas, Williams, and Wood Counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the six counties in which the member educational entities are located. The Board is elected from an Assembly consisting of a representative from each participating educational entity. Total disbursements made by the District to NBEC this fiscal year were \$250. 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 - The Four County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of five representatives from the Northwest Ohio Educational Service Center and one representative from the participating school districts elected boards. The Four County Career Center possesses its own budgeting and taxing authority. Total disbursements made by the District to the Four County Career Center during this fiscal year were \$99,065. To obtain financial information write to Four County Career Center, Connie Nicely, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

Northwestern Ohio Education Research Council, Inc. - Northwestern Ohio Education Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials, and provide opportunities for training. The NOERC serves a twenty-five county area in Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Total disbursements made by the District to NOERC during this fiscal year were \$200. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., Box 456, Ashland, Ohio 44805.

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

GROUP PURCHASING POOLS

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

The District contributed a total of \$844,301 to Northern Buckeye Health Plan, Northwest Division of OHI for all four employee insurance plans. Financial information for the period can be obtained from Jenny Jostworth, Treasurer at 10999 Reed Hartman Highway, Suite 304E, Cincinnati, Ohio 45242.

Optimal Health Initiative Consortium (OHI) Workers' Compensation Group Rating Plan - The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Northern Buckeye Health Plan (NBHP), Northern Division of OHI Workers' Compensation Group Rating Pool (WCGRP) was established as an insurance purchasing pool. The group was formed to create a workers' compensation group rating plan which would allow employers to group together to achieve a potentially lower premium rate than they may otherwise be able to acquire as individual employers. NBHP has created a workers' compensation group rating and risk management program which will potentially reduce the workers' compensation premiums for the District.

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

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

Southwestern Ohio Educational Purchasing Council Liability, Fleet, and Property Program - The District participates in the Southwestern Ohio Educational Purchasing Council Liability, Fleet and Property Program (LFP). The LFP's business and affairs are conducted by a six member committee consisting of various LFP representatives that are elected by the general assembly. The purpose of the LFP is to jointly provide or obtain casualty, property, employer liability, general liability, risk management, professional liability, group coverage and other protections for participants. The District paid \$40,130 for those services to Southwestern Ohio Educational Purchasing Council during fiscal year 2016.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

General Fund - The General Fund is used to account for and report all financial resources not accounted for and reported in another fund. The General Fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

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

PROPRIETARY FUNDS

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

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

FIDUCIARY FUNDS

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

C. Basis of Presentation

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

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

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

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

Private-purpose trust funds are reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

D. Basis of Accounting

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

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

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

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

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

Deferred Outflows of Resources and Deferred Inflows of Resources - In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the District, see Note 15 for deferred outflows of resources related the District's net pension liability.

In addition to liabilities, both the government-wide statement of net position and the governmental fund financial statements report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the District, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2016, but which were levied to finance fiscal year 2016 operations. These amounts have been recorded as a deferred inflow of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the District unavailable

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

revenue includes, but is not limited to, delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement value of donated commodities received during the year is reported in the statement of revenues, expenditures and changes in fund balances as an expenditure with a like amount reported as intergovernmental revenue. Unused donated commodities are reported as intergovernmental revenue.

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

E. Budgets

The District is required by State statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2016 is as follows.

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the original and final Amended Certificates issued for fiscal year 2016.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund and object level of expenditures within the General Fund and the fund level for all other funds, 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.)

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

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 2016. The amounts reported in the budgetary statement reflect the amounts set forth in the original and final budgeted appropriations for fiscal year 2016.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be re-appropriated. Cash disbursements plus encumbrances may not legally exceed budgeted appropriations at the object level.

F. Cash and Investments

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

During fiscal year 2016, investments were limited to federal agency securities, negotiable certificates of deposit, U.S. government money market mutual funds, and commercial paper. Investments are reported at fair value, which is based on quoted market prices.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenues credited to the General Fund during fiscal year 2016 amounted to \$52,758, which includes \$2,977 assigned from other District funds.

For presentation on the financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are reported as "equity in pooled cash and investments." Investments with an original maturity of more than three months that are not made from the pool are reported as "investments."

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

**AYERSVILLE LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and deletions during the year. Donated capital assets are recorded at their fair market values as of the date received. During fiscal year 2016, the District increased its capitalization threshold from \$250 to \$1,500. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is not capitalized for governmental activities.

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

<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

**AYERSVILLE LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

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. Bonds and capital leases are recognized as a liability in the fund financial statements when due.

K. Fund

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

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

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

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

Assigned - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the General Fund, assigned fund balance represents

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

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

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

L. Net Position

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

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

M. Prepayments

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

N. Estimates

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

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

O. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. The District reports no restricted assets.

P. Interfund Activity

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

Q. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans between governmental funds are classified as "interfund receivable/payable". These amounts are eliminated in the governmental activities column on the statement of net position. The District reports no interfund loans at fiscal year-end.

R. Pensions

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

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2016.

T. Bond Premium

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

**AYERSVILLE LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

On the governmental fund financial statements, bond premiums and discounts are recognized in the current period. A reconciliation between the bonds face value and the amount reported on the statement of net position is presented in Note 12.A.

U. Fair Market Value

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2016, the District has implemented GASB Statement No. 72, "Fair Value Measurement and Application", GASB Statement No. 73 "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68", GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", and GASB Statement No. 79, "Certain External Investment Pools and Pool Participants".

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurement. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the District.

GASB Statement No. 73 improves the usefulness of information about pensions included in the general purposes external financial reports of state and local governments for making decisions and assessing accountability. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the District.

GASB Statement No. 76 identifies - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the District.

GASB Statement No. 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the District.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

B. Deficit Fund Balances

Fund balances at June 30, 2016 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Food Service Fund	\$ 34,656
Title IV-B Fund	11,074
Miscellaneous Federal Grants Fund	1

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.

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

Interim monies 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;

**AYERSVILLE LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

A. Cash on Hand

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

B. Deposits with Financial Institutions

At June 30, 2016, the carrying amount of all District deposits was \$3,959,695. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2016, \$55,779 of the District's bank balance of \$4,259,528 was exposed to custodial risk as discussed below, while \$4,203,749 was covered by the FDIC.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. 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. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

C. Investments

As of June 30, 2016, the District had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities				
		6 months or less	7 to 12 months	13 to 18 months	19 to 24 months	Greater than 24 months
FHLB	\$ 687,292	\$ -	\$ 235,109	\$ -	\$ 452,183	\$ -
FHLMC	496,067	-	-	-	-	496,067
FFCB	510,370	-	-	510,370	-	-
FNMA	2,204,117	-	-	-	2,003,522	200,595
Negotiable CDs	8,782,842	569,255	2,657,572	2,827,849	646,198	2,081,968
Commercial paper	3,581,071	1,867,772	1,713,299	-	-	-
U.S. Government money market funds	232,780	232,780	-	-	-	-
	<u>\$ 16,494,539</u>	<u>\$ 2,669,807</u>	<u>\$ 4,605,980</u>	<u>\$ 3,338,219</u>	<u>\$ 3,101,903</u>	<u>\$ 2,778,630</u>

The weighted average maturity of investments is 1.27 years.

The District's investments in federal agency securities, commercial paper and negotiable certificates of deposit are valued using quoted market prices (Level 1 inputs).

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the District's investment policy limits investment portfolio maturities to five years or less. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the District and that an investment must be purchased with the expectation that it will be held to maturity. State statute limits investments in commercial paper to a maximum of 270 days from the date of purchase.

**AYERSVILLE LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Credit Risk: U.S. Government money market mutual funds carry a rating of AAAm by Standard & Poor's. The District's investments in federal agency securities were rated AA+ and Aaa by Standard & Poor's and Moody's Investor Services, respectively. The District's investments in commercial paper were rated A-1+ or A-1 by Standard & Poor's and P-1 by Moody's Investor Services. The District had no investment policy dealing with investment credit risk beyond the requirements in State statute.

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

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2016:

<u>Investment Type</u>	<u>Fair Value</u>	<u>% of Total</u>
FHLB	\$ 687,292	4.17
FFCB	510,370	3.09
FHLMC	496,067	3.01
FNMA	2,204,117	13.36
Negotiable CDs	8,782,842	53.25
Commercial paper	3,581,071	21.71
U.S. Government money market funds	232,780	1.41
	<u>\$ 16,494,539</u>	<u>100.00</u>

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2016:

<u>Cash and Investments per Note</u>	
Carrying amount of deposits	\$ 3,959,695
Investments	16,494,539
Cash on hand	<u>200</u>
Total	<u>\$ 20,454,434</u>

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

<u>Cash and Investments per Statement of Net Position</u>	
Governmental Activities	\$ 20,371,766
Private-Purpose Trust Fund	39,991
Agency Funds	<u>42,677</u>
Total	<u>\$ 20,454,434</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transfers for the year ended June 30, 2016, consisted of the following, as reported on the fund financial statements:

<u>Transfers from General Fund to:</u>	<u>Amount</u>
Nonmajor governmental funds	\$ 7,500

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

All transfers made in fiscal year 2016 were in accordance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16. Transfers between governmental funds are eliminated for reporting on the government-wide financial statements.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property and public utility property. Real property tax revenues received in calendar year 2016 represent the collection of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed values as of January 1, 2015, 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 2016 represent the collection of calendar year 2015 taxes. Public utility real and personal property taxes received in calendar year 2016 became a lien on December 31, 2014, were levied after April 1, 2015, 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.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 6 - PROPERTY TAXES – (Continued)

The District receives property taxes from Defiance County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2016, are available to finance fiscal year 2016 operations. The amount available as an advance at June 30, 2016 was \$233,000 in the General Fund, \$83,000 in the Bond Retirement Fund, a nonmajor governmental fund, \$10,000 in the Permanent Improvement Fund, a nonmajor governmental fund, \$6,000 in the Classroom Facilities Maintenance Fund, a nonmajor governmental fund, and \$8,500 in the Natatorium Special Levy Fund, a nonmajor governmental fund. This amount is recorded as revenue. The amount available for advance at June 30, 2015 was \$135,000 in the General Fund, \$5,500 in the Permanent Improvement Fund, a nonmajor governmental fund and \$4,500 in the Natatorium Special Levy Fund, a nonmajor governmental fund. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2016 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows.

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

The assessed values upon which the fiscal year 2016 taxes were collected are:

	2015 Second Half Collections		2016 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 95,450,830	89.92	\$ 95,793,600	89.69
Public utility personal	<u>10,702,970</u>	<u>10.08</u>	<u>11,008,360</u>	<u>10.31</u>
Total	<u>\$ 106,153,800</u>	<u>100.00</u>	<u>\$ 106,801,960</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 43.48		\$ 50.58	

NOTE 7 – RECEIVABLES

Receivables at June 30, 2016 consisted of property taxes, income taxes, payments in lieu of taxes, accounts, accrued 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 principal items of receivables reported on the statement of net position follows:

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 7 – RECEIVABLES – (Continued)

Governmental Activities:

Property taxes	\$ 2,981,736
Income taxes	278,921
Payments in lieu of taxes	15,058
Accounts	4,567
Intergovernmental	18,996,842
Accrued interest	<u>30,037</u>
Total	<u>\$ 22,307,161</u>

Receivables have been disaggregated on the face of the basic financial statements. An intergovernmental receivable in the amount of \$18,864,452 reported in the Classroom Facilities Fund is expected to be collected over the life of the OFCC project. All other receivables are expected to be collected within the subsequent year; however, the status of any delinquent tax collections is unknown.

NOTE 8 - INCOME TAXES

The District levies a voted income tax of one percent on the income of residents and on estates for general operations of the District. The income tax became effective on January 1, 2008 and was in effect for a period of five years, until December 31, 2012. In March 2012, voters renewed this levy for an additional five years, effective January 1, 2013 through December 31, 2017. 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 \$864,484 for fiscal year 2016.

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 continues until the agreement expires.

**AYERSVILLE LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	Balance			Balance
	<u>June 30, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2016</u>
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 148,406	\$ -	\$ -	\$ 148,406
Construction in progress	-	998,638	-	998,638
Total capital assets, not being depreciated	<u>148,406</u>	<u>998,638</u>	<u>-</u>	<u>1,147,044</u>
Capital assets, being depreciated:				
Land improvements	396,574	2,595	(7,177)	391,992
Building/improvements	3,255,910	12,324	(26,580)	3,241,654
Furniture/equipment	3,383,160	73,863	(1,390,217)	2,066,806
Vehicles	886,602	103,284	(49,816)	940,070
Textbooks	747,687	3,575	(76,519)	674,743
Total capital assets, being depreciated	<u>8,669,933</u>	<u>195,641</u>	<u>(1,550,309)</u>	<u>7,315,265</u>
Less: accumulated depreciation				
Land improvements	(294,683)	(14,953)	4,831	(304,805)
Building/improvements	(2,228,545)	(65,492)	8,119	(2,285,918)
Furniture/equipment	(2,411,413)	(75,290)	888,779	(1,597,924)
Vehicles	(811,215)	(34,585)	49,816	(795,984)
Textbooks	(740,192)	(905)	71,745	(669,352)
Total accumulated depreciation	<u>(6,486,048)</u>	<u>(191,225)</u>	<u>1,023,290</u>	<u>(5,653,983)</u>
Governmental activities capital assets, net	<u>\$ 2,332,291</u>	<u>\$ 1,003,054</u>	<u>\$ (527,019)</u>	<u>\$ 2,808,326</u>

**AYERSVILLE LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 10 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 57,148
Special	6,429
Vocational	3,078
Other	1,831
<u>Support services:</u>	
Pupil	2,030
Instructional staff	11,252
Administration	6,906
Fiscal	3,241
Operations and maintenance	49,908
Pupil transportation	33,292
Food service operations	3,883
Extracurricular activities	<u>12,227</u>
Total depreciation expense	<u>\$ 191,225</u>

NOTE 11 - CAPITAL LEASES - LESSEE DISCLOSURE

The District entered into capital leases for the acquisition of copiers and laptop computers for the one-to-one laptop initiative for high school students. All leases meet the criteria of a capital lease as defined by generally accepted accounting principles, which defines a capital lease generally as one which transfers the benefits and risks of ownership to the lessee at the conclusion of the lease term. At inception, all leases were accounted for as an other financing source and a capital outlay expenditure in the General Fund. Capital lease payments have been reclassified and shown as debt service expenditures in the General Fund and the Permanent Improvement Fund, a nonmajor governmental fund. These expenditures will be reflected as function expenditures on a budgetary basis. The general capital assets acquired by the copier capital lease have been capitalized in the governmental activities on the statement of net position in an amount equal to the present value of the future minimum lease payments as of the date of their inception. The equipment acquired by the computer capital lease is under the District's capitalization threshold of \$1,500 per item. A corresponding liability has been recorded in the governmental activities on the statement of net position. Principal payments made during fiscal year 2016 totaled \$105,545 for the computers and \$17,075 for the copiers.

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, 2016.

<u>Fiscal year ending June 30,</u>	<u>Copiers</u>	<u>Computers</u>	<u>Total</u>
2017	\$ 21,045	\$ 108,598	\$ 129,643
2018	21,045	-	21,045
2019	<u>1,754</u>	<u>-</u>	<u>1,754</u>
Total minimum lease payment	43,844	108,598	152,442
Less amount representing interest	<u>(3,582)</u>	<u>(1,537)</u>	<u>(5,119)</u>
Total	<u>\$ 40,262</u>	<u>\$ 107,061</u>	<u>\$ 147,323</u>

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 12 - LONG-TERM OBLIGATIONS

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

	Balance <u>June 30, 2015</u>	<u>Increase</u>	<u>Decrease</u>	Balance <u>June 30, 2016</u>	Amounts Due in <u>One Year</u>
Governmental Activities:					
Compensated absences payable	\$ 576,166	\$ 67,924	\$ (138,849)	\$ 505,241	\$ 65,877
Net pension liability	10,325,668	919,630	-	11,245,298	-
General obligation bonds - series 2015	-	13,666,693	-	13,666,693	120,000
Capital lease - copiers	57,337	-	(17,075)	40,262	18,492
Capital lease - computers	<u>212,606</u>	<u>-</u>	<u>(105,545)</u>	<u>107,061</u>	<u>107,061</u>
Total governmental activities long-term liabilities	<u>\$ 11,171,777</u>	<u>\$ 14,654,247</u>	<u>\$ (261,469)</u>	25,564,555	<u>\$ 311,430</u>
Add: unamortized premium on bond issue				<u>438,244</u>	
Total on statement of net position				<u>\$ 26,002,799</u>	

Compensated absences will be paid from the General Fund.

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

The District's capital leases are discussed in Note 11.

School Facilities Construction and Improvement Bonds - Series 2015:

On July 22, 2015, the District issued \$13,661,198 in general obligation bonds to provide funds for the District's building project. These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Payments of principal and interest relating to this bond are recorded as expenditures in the Bond Retirement Fund, a nonmajor governmental fund.

This issue is comprised of both current interest bonds, par value \$13,655,000, and capital appreciation bonds, par value \$6,198. The interest rates on the current interest bonds range from 1.00% to 5.00%. The capital appreciation bonds mature on November 1, 2019 (approximate initial offering yield to maturity 1.92%), November 1, 2020 (approximate initial offering yield to maturity 2.16%), and November 1, 2021 (approximate initial offering yield to maturity 2.46%), at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$380,000. A total of \$5,495 in accreted interest on the capital appreciation bonds has been included on the statement of net position at June 30, 2016.

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

At June 30, 2016, \$13,263,171 of the proceeds of the Series 2015 general obligations are unspent.

The following is a schedule of activity for fiscal year 2016 on the Series 2015 general obligation bonds:

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

Series 2015	Balance 6/30/15	Additions	Reductions	Balance 6/30/16
Current interest bonds	\$ -	\$ 13,655,000	\$ -	\$ 13,655,000
Capital appreciation bonds	-	6,198	-	6,198
Accreted interest	-	5,495	-	5,495
Total series 2015	\$ -	\$ 13,666,693	\$ -	\$ 13,666,693

The following is a summary of the future debt service requirements to maturity for the Series 2015 general obligation bonds:

Fiscal Year Ended	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 120,000	\$ 562,900	\$ 682,900	\$ -	\$ -	\$ -
2018	125,000	561,050	686,050	-	-	-
2019	125,000	558,550	683,550	-	-	-
2020	30,000	557,000	587,000	3,178	91,822	95,000
2021	-	556,700	556,700	1,963	128,037	130,000
2022 - 2026	700,000	2,742,750	3,442,750	1,057	153,943	155,000
2027 - 2031	1,135,000	2,566,962	3,701,962	-	-	-
2032 - 2036	1,525,000	2,283,375	3,808,375	-	-	-
2037 - 2041	2,075,000	1,835,875	3,910,875	-	-	-
2042 - 2046	2,730,000	1,301,400	4,031,400	-	-	-
2047 - 2051	3,465,000	684,500	4,149,500	-	-	-
2052 - 2053	1,625,000	65,700	1,690,700	-	-	-
Total	\$ 13,655,000	\$ 14,276,762	\$ 27,931,762	\$ 6,198	\$ 373,802	\$ 380,000

B. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The Code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The Code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications 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, 2016, are a voted debt margin of \$(3,845,134), including available funds of \$212,220, and an unvoted debt margin of \$106,709. The District is allowed to exceed its debt margin under Ohio Revised Code Section 133.06(I).

**AYERSVILLE LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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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 Health Plan, Northwest Division Optimal Health Initiative (OHI) Insurance Benefits Program (the Program), a public entity risk pool consisting of school districts within Defiance, Fulton, Henry and Williams Counties and other eligible governmental entities. The District pays monthly premiums to the OHI for the benefits offered to its employees, which includes health, dental, vision, and life insurance plans. Northern Buckeye Health Plan is responsible for the management and operations of the Program. The agreement for the Program provides for additional assessments to participants if the premiums are insufficient to pay the program costs for the fiscal year. Upon withdrawal of the Program, a participant is responsible for any claims not processed and paid and any related administrative costs.

C. Workers' Compensation Group Program

The District participates in the Northern Buckeye Health Plan, Northern Division of OHI (NBHP) Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool. The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. The Plan is governed by NBHP and the participating members of the Plan. The Executive Director of NBHP coordinates the management and administration of the program.

**AYERSVILLE LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 15 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 15 - DEFINED BENEFIT PENSION PLANS - (Continued)

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the entire 14 percent was allocated to pension, death benefits, and Medicare B and no portion of the employer contribution rate was allocated to the Health Care Fund.

The District’s contractually required contribution to SERS was \$135,291 for fiscal year 2016. Of this amount, \$18,215 is reported as pension and postemployment benefits payable.

Plan Description - State Teachers Retirement System (STRS)

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

**AYERSVILLE LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 15 - DEFINED BENEFIT PENSION PLANS - (Continued)

New members have a choice of three retirement plans: a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

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

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

**AYERSVILLE LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 15 - DEFINED BENEFIT PENSION PLANS - (Continued)

The District's contractually required contribution to STRS was \$494,507 for fiscal year 2016. Of this amount, \$86,772 is reported as pension and postemployment benefits payable.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate share of the net pension liability	\$ 1,665,638	\$ 9,579,660	\$ 11,245,298
Proportion of the net pension liability	0.02919050%	0.03466235%	
Pension expense	\$ 120,075	\$ 379,846	\$ 499,921

At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 26,515	\$ 440,105	\$ 466,620
Changes in proportionate share District contributions subsequent to the measurement date	39,947	-	39,947
	<u>135,291</u>	<u>494,507</u>	<u>629,798</u>
Total deferred outflows of resources	<u>\$ 201,753</u>	<u>\$ 934,612</u>	<u>\$ 1,136,365</u>
Deferred inflows of resources			
Net difference between projected and actual earnings on pension plan investments	\$ 48,772	\$ 754,169	\$ 802,941
Changes in proportionate share	<u>-</u>	<u>441,922</u>	<u>441,922</u>
Total deferred inflows of resources	<u>\$ 48,772</u>	<u>\$ 1,196,091</u>	<u>\$ 1,244,863</u>

\$629,798 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

**AYERSVILLE LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 15 - DEFINED BENEFIT PENSION PLANS - (Continued)

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2017	\$ (5,284)	\$ (286,562)	\$ (291,846)
2018	(5,284)	(286,562)	(291,846)
2019	(5,284)	(286,560)	(291,844)
2020	<u>33,542</u>	<u>103,698</u>	<u>137,240</u>
Total	<u>\$ 17,690</u>	<u>\$ (755,986)</u>	<u>\$ (738,296)</u>

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22.00 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 15 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
Total	<u>100.00 %</u>	

Discount Rate - The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
District's proportionate share of the net pension liability	\$ 2,309,642	\$ 1,665,638	\$ 1,123,334

**AYERSVILLE LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 15 - DEFINED BENEFIT PENSION PLANS - (Continued)

Changes Between Measurement Date and Report Date

In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in the discount rate from 7.75 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the District's net pension liability is expected to be significant.

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	<u>100.00 %</u>	

**AYERSVILLE LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 15 - DEFINED BENEFIT PENSION PLANS - (Continued)

Discount Rate - The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 13,306,870	\$ 9,579,660	\$ 6,427,748

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, 2016, two 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 Employees Retirement System

Health Care Plan Description - The District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

**AYERSVILLE LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 16 - POSTEMPLOYMENT BENEFITS – (Continued)

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. 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, number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, none of the employer contribution was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the District's surcharge obligation was \$15,265.

The District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$15,265, \$21,410, and \$15,329, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

B. State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal years 2016 and 2015, STRS did not allocate any employer contributions to post-employment health care. The District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$6,111, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

**AYERSVILLE LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Investments are reported at fair value (GAAP basis) rather than cost (budget basis); and,
- (e) Some funds are included in the General Fund (GAAP basis), but have separate legally adopted budgets (budget basis).

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

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ 696,187
Net adjustment for revenue accruals	84,451
Net adjustment for expenditure accruals	8,812
Net adjustment for other sources/uses	(20,403)
Funds budgeted elsewhere	(9,443)
Adjustment for encumbrances	68,850
GAAP basis	\$ 828,454

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

**AYERSVILLE LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 18 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous Federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds; however, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District at June 30, 2016.

B. Litigation

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

C. Foundation Funding

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2015-2016 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the District, which can extend past the fiscal year-end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 Foundation funding for the District; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the District.

NOTE 19 - SET-ASIDES

The District is required by State law to annually set-aside certain General Fund revenue amounts, as defined by statutory formula, for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year-end. This amount must be carried forward to be used for the same purpose in future years. Expenditures exceeding the set-aside requirement may not be carried forward to the next fiscal year.

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

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 19 - SET-ASIDES – (Continued)

	Capital <u>Improvements</u>
Set-aside balance June 30, 2015	\$ -
Current year set-aside requirement	136,877
Current year qualifying expenditures	(92,818)
Current year offsets	<u>(137,419)</u>
Total	<u>\$ (93,360)</u>
Balance carried forward to fiscal year 2017	<u>\$ -</u>
Set-aside balance June 30, 2016	<u>\$ -</u>

NOTE 20 - CONTRACTUAL COMMITMENTS

As of June 30, 2016, the District has commitments with the following companies for the construction project.

<u>Contractor</u>	<u>Contract Amount</u>	<u>Amount Paid as of June 30, 2016</u>	<u>Amount Remaining on Contract</u>
Garmann Miller Architects	\$ 2,759,304	\$ 811,457	\$ 1,947,847
Shook Touchstone	102,552	27,402	75,150
Stan and Associates, Inc.	<u>82,290</u>	<u>7,342</u>	<u>74,948</u>
Total	<u>\$ 2,944,146</u>	<u>\$ 846,201</u>	<u>\$ 2,097,945</u>

In addition to the amounts paid above, the District has recorded contracts payable in the amount of \$147,447 for costs incurred prior to fiscal year end on the construction project. Costs incurred by fiscal year end (including contracts payable) have been recorded as construction-in-progress in the District's capital assets (See Note 10).

NOTE 21 - OTHER COMMITMENTS

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

<u>Fund</u>	<u>Year-End Encumbrances</u>
General Fund	\$ 52,499
Classroom Facilities Fund	1,756,051
Other Governmental Funds	<u>224,559</u>
Total	<u>\$ 2,033,109</u>

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 22 – SUBSEQUENT EVENTS

On October 24, 2016, the District issued general obligation bonds in the amount of \$3,599,923 to advance refund a portion of the Series 2015 school construction and improvement bonds for the purpose of constructing and renovating school facilities and locally funded initiatives under the Classroom Facilities Assistance Program of the Ohio Facilities Construction Commission (OFCC); furnishing and equipping the same; improving the sites thereof; and acquiring land and interests in land for the project. These bonds are general obligations of the District, for which its full faith and credit is pledged for the payment of the principal of and interest on the bonds when due. The source of payment is derived from proceed of a 6.6 mil bonded debt tax levy.

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**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST THREE FISCAL YEARS (1)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
District's proportion of the net pension liability	0.02919050%	0.02814900%	0.02814900%
District's proportionate share of the net pension liability	\$ 1,665,638	\$ 1,424,605	\$ 1,673,931
District's covered-employee payroll	\$ 878,786	\$ 817,958	\$ 775,217
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	189.54%	174.17%	215.93%
Plan fiduciary net position as a percentage of the total pension liability	69.16%	71.70%	65.52%

(1) Information prior to fiscal year 2013 was unavailable.

Note: Amounts presented as of the District's measurement date which is the prior fiscal year end.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST THREE FISCAL YEARS (1)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
District's proportion of the net pension liability	0.03466235%	0.03659456%	0.03659456%
District's proportionate share of the net pension liability	\$ 9,579,660	\$ 8,901,063	\$ 10,602,889
District's covered-employee payroll	\$ 3,616,436	\$ 3,738,954	\$ 3,891,131
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	264.89%	238.06%	272.49%
Plan fiduciary net position as a percentage of the total pension liability	72.10%	74.70%	69.30%

(1) Information prior to fiscal year 2013 was unavailable.

Note: Amounts presented as of the District's measurement date which is the prior fiscal year end.

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**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 135,291	\$ 115,824	\$ 113,369	\$ 107,290
Contributions in relation to the contractually required contribution	<u>(135,291)</u>	<u>(115,824)</u>	<u>(113,369)</u>	<u>(107,290)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 966,364	\$ 878,786	\$ 817,958	\$ 775,217
Contributions as a percentage of covered-employee payroll	14.00%	13.18%	13.86%	13.84%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 106,538	\$ 98,579	\$ 103,598	\$ 74,709	\$ 94,546	\$ 99,659
<u>(106,538)</u>	<u>(98,579)</u>	<u>(103,598)</u>	<u>(74,709)</u>	<u>(94,546)</u>	<u>(99,659)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 792,104	\$ 784,240	\$ 765,126	\$ 759,238	\$ 962,790	\$ 933,137
13.45%	12.57%	13.54%	9.84%	9.82%	10.68%

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	2016	2015	2014	2013
Contractually required contribution	\$ 494,507	\$ 506,301	\$ 486,064	\$ 505,847
Contributions in relation to the contractually required contribution	(494,507)	(506,301)	(486,064)	(505,847)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 3,532,193	\$ 3,616,436	\$ 3,738,954	\$ 3,891,131
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.00%	13.00%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 492,081	\$ 477,230	\$ 471,948	\$ 471,512	\$ 512,594	\$ 548,803
<u>(492,081)</u>	<u>(477,230)</u>	<u>(471,948)</u>	<u>(471,512)</u>	<u>(512,594)</u>	<u>(548,803)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 3,785,238	\$ 3,671,000	\$ 3,630,369	\$ 3,627,015	\$ 3,943,031	\$ 4,221,562
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Information about factors that significantly affect trends in the amounts reported in the schedules should be presented as notes to the schedule.

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for fiscal years 2014-2016.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. See the notes to the basic financial statements for the methods and assumptions in this calculation.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for fiscal years 2014-2016.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. See the notes to the basic financial statements for the methods and assumptions in this calculation.



Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ayersville Local School District, Defiance County, Ohio (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 21, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our

audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

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

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

Columbus, Ohio

June 21, 2017



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
JULY 6, 2017**