



Dave Yost • Auditor of State



**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Ayersville Local School District, Defiance County, Ohio (the District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Ayersville Local School District, Defiance County, Ohio, as of June 30, 2012, and the respective changes in financial position, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2013, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

**Dave Yost**  
Auditor of State

February 25, 2013

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
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, 2012. 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 2012 are as follows:

- In total, net assets increased \$402,422 which represents a 7% increase from 2011.
- General revenues accounted for \$6,727,446 or 75% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,247,923, or 25% of total revenues of \$8,975,369.
- The District had \$8,572,947 in expenses related to governmental activities; only \$2,247,923 of these expenses was offset by program specific charges for services, grants, or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$6,727,446 provided for these programs.
- The District's major governmental fund is the General Fund. The General Fund had \$7,993,778 in revenues and other financing sources and \$7,358,212 in expenditures and other financing uses. The General Fund's fund balance increased from \$3,277,511 to \$3,923,807.

**Using these Basic Financial Statements (BFS)**

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

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

**Reporting the District as a Whole**

***Statement of Net Assets and the Statement of Activities***

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2012." The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets, liabilities, revenues and

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
UNAUDITED**

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

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

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

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

***Fund Financial Statements***

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

***Governmental Funds***

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

**Reporting the District's Fiduciary Responsibilities**

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

***Notes to the Basic Financial Statements***

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

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
UNAUDITED**

**The District as a Whole**

The Statement of Net Assets provides the perspective of the District as a whole. The table below provides a summary of the District's net assets for 2012 and 2011.

**Net Assets**

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011(Restated)</u>
<b>Assets</b>		
Current assets	\$ 7,407,332	\$ 6,711,680
Capital assets	<u>2,426,442</u>	<u>2,604,465</u>
Total assets	<u>\$ 9,833,774</u>	<u>\$ 9,316,145</u>
<b>Liabilities</b>		
Current liabilities	\$ 3,130,851	\$ 3,023,314
Long-term liabilities	<u>858,215</u>	<u>850,545</u>
Total liabilities	<u>\$ 3,989,066</u>	<u>\$ 3,873,859</u>
<b>Net Assets</b>		
Invested in capital		
Assets, net of debt	\$ 2,253,932	\$ 2,458,247
Restricted	226,764	585,032
Unrestricted	<u>3,364,012</u>	<u>2,399,007</u>
Total net assets	<u>\$ 5,844,708</u>	<u>\$ 5,442,286</u>

Total net assets increased \$402,422 from 2011 to 2012. Included in this change was an increase in equity in pooled cash, and property taxes receivable.

The table below shows the changes in net assets for governmental for fiscal years 2012 and 2011.

**Change in Net Assets**

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011 (Restated)</u>
<b>Revenues</b>		
Program revenues:		
Charges for services and sales	\$ 1,794,939	\$1,714,964
Operating grants and contributions	452,984	777,975
General revenues:		
Property taxes	2,596,068	2,215,962
Income taxes	869,361	793,052
Grants and entitlements	3,232,191	3,304,980
Revenue in lieu of taxes	25,363	14,343
Investment earnings	2,746	5,249
Other	<u>1,717</u>	<u>2,634</u>
Total revenues	<u>\$8,975,369</u>	<u>\$8,829,159</u>

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
UNAUDITED**

**Expenses**

Program expenses:

Instruction:		
Regular	4,014,004	3,887,057
Special	557,787	549,841
Vocational	64,072	60,466
Other	354,712	341,453
Support services:		
Pupil	358,208	351,971
Instructional staff	329,705	333,858
Board of Education	17,502	35,656
Administration	584,976	617,350
Fiscal	322,106	294,626
Operations and maintenance	655,438	621,039
Pupil transportation	296,765	273,033
Central	61,851	52,316
Operation of non-instructional services	139,883	174,077
Extracurricular activities	445,940	455,624
Interest and fiscal charges	7,319	6,580
Food service	<u>362,679</u>	<u>350,236</u>
Total expenses	<u>8,572,947</u>	<u>8,405,183</u>
Changes in net assets	<u>\$ 402,422</u>	<u>\$ 423,976</u>

**Governmental Activities**

Net assets of the District's governmental activities increased by \$402,422. Total governmental expenses of \$8,572,947 were offset by program revenues of \$2,247,923 and general revenues of \$6,727,446. Program revenues supported 26.2% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources, in addition to the collection of the District's school district income tax, represent 74.6% of total governmental revenue. Real estate property is reappraised every six years.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2012 compared to 2011. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
UNAUDITED**

**Governmental Activities**

	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	<u>2012</u>	<u>2012</u>	<u>2011</u>	<u>2011</u>
Program expenses:				
Instruction:				
Regular	\$ 4,014,004	\$ 2,591,445	\$ 3,887,057	\$ 2,270,737
Special	557,787	326,791	549,841	349,253
Vocational	64,072	64,072	60,466	60,466
Other	354,712	354,712	341,453	337,446
Support services:				
Pupil	358,208	356,703	351,971	348,637
Instructional staff	329,705	319,178	333,858	314,545
Board of Education	17,502	17,502	35,656	35,656
Administration	584,976	583,821	617,350	616,192
Fiscal	322,106	322,106	294,626	289,626
Operations and maintenance	655,438	655,438	621,039	568,041
Pupil transportation	296,765	296,765	273,033	228,510
Central	61,851	58,251	52,316	20,174
Food service operations	362,679	(3,963)	350,236	7,163
Operation of non-instructional services	139,883	139,883	174,077	174,077
Extracurricular activities	445,940	235,001	455,624	285,141
Interest and fiscal charges	<u>7,319</u>	<u>7,319</u>	<u>6,580</u>	<u>6,580</u>
Total expenses	<u>\$ 8,572,947</u>	<u>\$ 6,325,024</u>	<u>\$ 8,405,183</u>	<u>\$ 5,912,244</u>

The dependence upon tax revenues during fiscal year 2012 for governmental activities is apparent, as 66.9% of 2012 instruction activities are supported through taxes and other general revenue. The District's taxpayers, as a whole, contribute much of the support for the District's students.

**The District's Funds**

The District's governmental funds are accounted for using the modified accrual basis of accounting. The District's major governmental fund is the General Fund. Total governmental funds had revenues and other financing sources of \$9,215,793 and expenditures and other financing uses of \$8,547,757.

***General Fund Budgeting Highlights***

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

During the course of fiscal year 2012, the District amended its General Fund budget to reduce specific line items from the original budget. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
UNAUDITED**

For the General Fund, final budgeted revenues and other financing sources and uses were \$548,022, higher than the original budgeted revenues due to an increase in public utility personal property tax collections. The actual budget basis revenues and other financing sources for fiscal year 2012 totaled \$7,690,863 due largely in part to receiving more state revenue than projected.

General Fund final appropriations were \$7,497,774. The actual budget basis expenditures and other financing uses for fiscal year 2012 totaled \$7,404,825. This favorability was due to the overall ongoing effort to closely monitor expenditures in the General Fund.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2012, the District had \$2,426,442 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and textbooks. The following table shows fiscal 2012 balances compared to fiscal 2011.

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

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
Land	\$ 148,406	\$ 148,406
Land improvements	75,052	91,086
Building and improvements	1,109,026	1,157,997
Furniture and equipment	933,978	964,331
Vehicles	116,126	167,532
Textbooks	43,854	75,113
 Total	 \$ 2,426,442	 \$ 2,604,465

***Debt Administration***

At June 30, 2012, had \$172,520 in capital leases outstanding. Of these totals, \$22,099 and \$33,566 is due within one year and due within greater than one year on the district's capital copier leases, respectively; \$80,056 is due within one year and \$36,799 due within greater than one year on the district's capital leases for computers, respectively. The following table summarized the debt outstanding.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
UNAUDITED**

**Outstanding Debt, at Year End**

	Governmental Activities <u>2012</u>	Governmental Activities <u>2011</u>
Capital lease - copiers	\$ 55,665	\$ 60,591
Capital lease - computers	<u>116,855</u>	<u>85,627</u>
 Total	 <u><u>\$ 172,520</u></u>	 <u><u>\$ 146,218</u></u>

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

**Current Financial Related Activities**

The District's revenue stream has transitioned over the past several years from reliance on an industrial tax base which made up 29% of the District's valuation, to receiving more revenues from the state. Currently operating in the second year of the state biennial budget, revenue stability remains a concern as the District relies heavily on the state reimbursement of tangible personal property tax, which was a "hold harmless" guarantee as the tax was phased out beginning in 2005 with the passage of House Bill 66.

In March 2012, the District passed a renewal of a five-year one-percent income tax; this new tax was originally passed in November 2007 in response to the loss of enterprise zone donations tied to the phase out of the tangible personal property tax base. Operating property tax levies are also in place on a continuing basis to help fund the General Fund operations. The District currently manages its resources in spite of a difficult economy; however, future challenges associated with the economy, the State budget, and the long term effects of the reduction in tax base will be challenging. The financial stability of the District continues to be a top priority.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ms. Connie Nicely, CFO/Treasurer, Ayersville Local School District, 28046 Watson Road, Defiance, Ohio, 43512-8756.

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**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**STATEMENT OF NET ASSETS  
JUNE 30, 2012**

		<u>Governmental Activities</u>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents	\$	4,379,576
Receivables:		
Property taxes		2,599,156
Income taxes		296,506
Payment in lieu of taxes		25,363
Accounts		627
Accrued interest		179
Intergovernmental		58,212
Prepayments		14,243
Materials and supplies inventory		33,470
Capital assets:		
Land and construction in progress		148,406
Depreciable capital assets, net		2,278,036
Capital assets, net		<u>2,426,442</u>
 Total Assets		 <u>9,833,774</u>
 <b>Liabilities:</b>		
Accounts payable		491
Accrued wages and benefits		830,401
Pension obligation payable		101,212
Intergovernmental payable		28,591
Deferred revenue		2,170,156
Long-term liabilities:		
Due within one year		210,705
Due in more than one year		647,510
		<u>647,510</u>
 Total Liabilities		 <u>3,989,066</u>
 <b>Net Assets:</b>		
Invested in capital assets, net of related debt		2,253,932
Restricted for:		
Capital projects		130,709
Federally funded programs		6,534
Student activities		16,774
Other purposes		72,747
Unrestricted		3,364,012
		<u>3,364,012</u>
 Total Net Assets	 \$	 <u><u>5,844,708</u></u>

*See accompanying notes to the basic financial statements*

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating Grants</u>	<u>Revenue and</u>
		<u>Services and Sales</u>	<u>and Contributions</u>	<u>Changes in</u>
				<u>Net Assets</u>
				<u>Governmental</u>
				<u>Activities</u>
<b>Governmental activities:</b>				
Instruction:				
Regular	\$ 4,014,004	\$ 1,392,289	\$ 30,270	\$ (2,591,445)
Special	557,787		230,996	(326,791)
Vocational	64,072			(64,072)
Other	354,712			(354,712)
Support services:				
Pupil	358,208		1,505	(356,703)
Instructional staff	329,705		10,527	(319,178)
Board of education	17,502			(17,502)
Administration	584,976		1,155	(583,821)
Fiscal	322,106			(322,106)
Operations and maintenance	655,438			(655,438)
Pupil transportation	296,765			(296,765)
Central	61,851		3,600	(58,251)
Operation of non-instructional services				
Other non-instructional services	139,883			(139,883)
Food service operations	362,679	218,935	147,707	3,963
Extracurricular activities	445,940	183,715	27,224	(235,001)
Interest and fiscal charges	7,319			(7,319)
<b>Total Governmental Activities</b>	<b>\$ 8,572,947</b>	<b>\$ 1,794,939</b>	<b>\$ 452,984</b>	<b>(6,325,024)</b>

**General Revenues:**

Property taxes levied for:	
General purposes	2,406,535
Special Revenue	85,245
Capital outlay	104,288
Income taxes levied for:	
General purposes	869,361
Grants and entitlements not restricted	
to specific programs	3,232,191
Payment in lieu of taxes	25,363
Investment earnings	2,746
Miscellaneous	1,717
<b>Total General Revenues</b>	<b>6,727,446</b>
Change in Net Assets	402,422
<b>Net Assets at Beginning of Year (Restated)</b>	<b>5,442,286</b>
<b>Net Assets at End of Year</b>	<b>\$ 5,844,708</b>

*See accompanying notes to the basic financial statements*

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2012**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents	\$ 4,178,319	\$ 200,201	\$ 4,378,520
Receivables:			
Property taxes	2,410,409	188,747	2,599,156
Income taxes	296,506		296,506
Payment in lieu of taxes	23,263	2,100	25,363
Accounts	627		627
Accrued interest	179		179
Intergovernmental		58,212	58,212
Prepayments	12,887	1,356	14,243
Materials and supplies inventory	31,554	1,916	33,470
Restricted assets:			
Equity in pooled cash and cash equivalents	1,056		1,056
<b>Total Assets</b>	<u>\$ 6,954,800</u>	<u>\$ 452,532</u>	<u>\$ 7,407,332</u>
<b>Liabilities:</b>			
Accounts payable	\$ 491		\$ 491
Accrued wages and benefits	748,524	\$ 81,877	830,401
Compensated absences payable	46,085		46,085
Intergovernmental payable	26,602	1,989	28,591
Deferred revenue	2,119,393	198,694	2,318,087
Pension obligation payable	89,898	11,314	101,212
<b>Total Liabilities</b>	<u>3,030,993</u>	<u>293,874</u>	<u>3,324,867</u>
<b>Fund Balances:</b>			
Nonspendable:			
Materials and supplies inventory	31,554	1,916	33,470
Prepays	12,887	1,356	14,243
Restricted:			
Capital improvements		126,045	126,045
Other purposes		68,406	68,406
Discretionary restricted		16,774	16,774
Committed:			
Student and staff support	82,254		82,254
Termination benefits	217,888		217,888
Assigned:			
Student instruction	71,676		71,676
Student and staff support	65,891		65,891
Discretionary assigned	4,933		4,933
Unassigned (Deficit)	3,436,724	(55,839)	3,380,885
<b>Total Fund Balances.</b>	<u>3,923,807</u>	<u>158,658</u>	<u>4,082,465</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 6,954,800</u>	<u>\$ 452,532</u>	<u>\$ 7,407,332</u>

*See accompanying notes to the basic financial statements*

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2012**

<b>Total Governmental Fund Balances</b>		\$	4,082,465
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			2,426,442
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	88,800	
Payment in Lieu of Taxes		25,059	
Intergovernmental		34,072	
Total			147,931
Long-term liabilities, including lease purchase agreements, are not due and payable in the current period and therefore are not reported in the funds.			
Capital lease obligations		172,520	
Compensated absences		639,610	
Total			(812,130)
<b>Net Assets of Governmental Activities</b>		\$	5,844,708

*See accompanying notes to the basic financial statements*

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
From local sources:			
Property taxes	\$ 2,380,620	\$ 187,448	\$ 2,568,068
Income taxes	869,361		869,361
Payment in lieu of taxes	279	25	304
Tuition	1,358,874		1,358,874
Earnings on investments	2,711	35	2,746
Charges for services		217,913	217,913
Extracurricular		99,831	99,831
Classroom materials and fees	45,966		45,966
Rental income		620	620
Contributions and donations	9,806	17,906	27,712
Other local revenues	60,716	14,198	74,914
Intergovernmental - state	3,124,213	104,593	3,228,806
Intergovernmental - federal	9,515	555,924	565,439
<b>Total Revenues</b>	<u>7,862,061</u>	<u>1,198,493</u>	<u>9,060,554</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular	3,670,531	202,681	3,873,212
Special	406,049	149,737	555,786
Vocational	59,445		59,445
Other	283,186	79,352	362,538
Support services:			
Pupil	355,312	290	355,602
Instructional staff	273,658	20,605	294,263
Board of education	16,098	1,404	17,502
Administration	574,469	1,155	575,624
Fiscal	310,745	5,535	316,280
Operations and maintenance	527,335	105,537	632,872
Pupil transportation	251,012		251,012
Central	34,273	27,578	61,851
Operation of non-instructional	13,772	120,276	134,048
Food service operations		361,464	361,464
Extracurricular activities	327,142	113,931	441,073
Capital outlay	125,873		125,873
Debt service:			
Principal retirement	99,571		99,571
Interest and fiscal charges	7,319		7,319
<b>Total Expenditures</b>	<u>7,335,790</u>	<u>1,189,545</u>	<u>8,525,335</u>
Excess of Revenues over Expenditures	<u>526,271</u>	<u>8,948</u>	<u>535,219</u>
<b>Other Financing Sources (Uses):</b>			
Sale of assets	5,844	1,100	6,944
Transfers in		22,422	22,422
Transfers (out)	(22,422)		(22,422)
Capital lease transaction	125,873		125,873
<b>Total Other Financing Sources (Uses)</b>	<u>109,295</u>	<u>23,522</u>	<u>132,817</u>
Net Change in Fund Balances	635,566	32,470	668,036
<b>Fund Balances at Beginning of Year (Restated)</b>	3,277,511	126,729	3,404,240
<b>Increase/(Decrease) in Reserve for Inventory</b>	10,730	(541)	10,189
<b>Fund Balances at End of Year</b>	<u>\$ 3,923,807</u>	<u>\$ 158,658</u>	<u>\$ 4,082,465</u>

*See accompanying notes to the basic financial statements*

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**Net Change in Fund Balances - Total Governmental Funds** \$ 668,036

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeds depreciation expense in the current period.

Capital Outlay	\$ 229,946	
Depreciation Expense	(406,378)	
<b>Total</b>	<b>(176,432)</b>	<b>(176,432)</b>

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

Capital asset disposals	(16,596)	
Accumulated depreciation on disposals	15,005	
<b>Total</b>	<b>(1,591)</b>	<b>(1,591)</b>

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

10,189

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

Taxes	28,000	
Payment in Lieu of Taxes	25,059	
Intergovernmental	(138,244)	
<b>Total</b>	<b>(85,185)</b>	<b>(85,185)</b>

Repayment of lease-purchase agreement principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

99,571

Issuance of capital leases are recorded as other financing sources in the funds; however, in the statement of activities, they are not reported as other financing sources as they increase liabilities on the statement of net assets

(125,873)

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

13,707

**Change in Net Assets of Governmental Activities** **\$ 402,422**

*See accompanying notes to the basic financial statements*

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
From local sources:				
Property taxes	\$ 1,991,897	\$ 2,231,123	\$ 2,231,120	\$ (3)
Income taxes	750,000	876,240	876,240	
Tuition	1,223,089	1,347,953	1,358,874	10,921
Earnings on investments	5,600	1,835	2,722	887
Charges for services	8,000	8,600	8,660	60
Classroom materials and fees	20,000	23,535	24,382	847
Contributions and donations			488	488
Other local revenues	1,500	1,500	1,111	(389)
Payment in lieu of taxes		31,798	31,798	
Intergovernmental - state	3,080,483	3,098,482	3,124,213	25,731
Intergovernmental - federal	5,000	9,838	9,838	
<b>Total Revenues</b>	<u>7,085,569</u>	<u>7,630,904</u>	<u>7,669,446</u>	<u>38,542</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	3,656,564	3,785,975	3,766,589	19,386
Special	449,754	465,671	463,566	2,105
Vocational	59,448	61,552	59,445	2,107
Other	295,216	305,664	296,074	9,590
Support services:				
Pupil	340,747	352,806	352,104	702
Instructional staff	282,228	292,216	274,615	17,601
Board of education	24,423	25,287	18,843	6,444
Administration	558,476	578,241	571,995	6,246
Fiscal	306,361	317,204	313,504	3,700
Operations and maintenance	528,884	547,602	541,303	6,299
Pupil transportation	333,695	345,505	340,545	4,960
Central	46,221	47,857	34,273	13,584
Operation of non-instructional services	12,891	13,347	13,294	53
Extracurricular activities	257,318	266,425	266,253	172
<b>Total Expenditures</b>	<u>7,152,226</u>	<u>7,405,352</u>	<u>7,312,403</u>	<u>92,949</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	<u>(66,657)</u>	<u>225,552</u>	<u>357,043</u>	<u>131,491</u>
<b>Other Financing Sources (Uses):</b>				
Refund of prior year's expenditures		2,543	2,543	
Transfers (out)	(87,000)	(92,422)	(92,422)	
Advances in	13,030	13,030	13,030	
Sale of capital assets		144	5,844	5,700
<b>Total Other Financing Sources (Uses)</b>	<u>(73,970)</u>	<u>(76,705)</u>	<u>(71,005)</u>	<u>5,700</u>
<b>Net Change in Fund Balance</b>	(140,627)	148,847	286,038	137,191
<b>Fund Balance at Beginning of Year</b>	3,315,986	3,315,986	3,315,986	
<b>Prior Year Encumbrances Appropriated</b>	88,048	88,048	88,048	
<b>Fund Balance at End of Year</b>	<u>\$ 3,263,407</u>	<u>\$ 3,552,881</u>	<u>\$ 3,690,072</u>	<u>\$ 137,191</u>

*See accompanying notes to the basic financial statements*

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2012**

	<b>Private Purpose Trust</b>	
	<b>Scholarship</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents	\$ 44,145	\$ 46,585
<b>Liabilities:</b>		
Due to students		\$ 46,585
<b>Net Assets:</b>		
Held in trust for scholarships	\$ 44,145	

*See accompanying notes to the basic financial statements*

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<b>Private Purpose Trust</b>
	<b>Scholarship</b>
<b>Additions:</b>	
Interest	\$ 20
Gifts and contributions	1,180
Total Additions	1,200
<b>Deductions:</b>	
Other	461
Legal fees	2,233
Scholarships awarded	3,500
Total Deductions	6,194
Change in Net Assets	(4,994)
<b>Net Assets at Beginning of Year (Restated)</b>	49,139
<b>Net Assets at End of Year</b>	\$ 44,145

*See accompanying notes to the basic financial statements*

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**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

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 31 classified employees and 63 certified employees, which includes three administrative personnel, who provide services to 817 students and other community members. The District currently operates one instructional building and one bus garage.

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

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

**A. Reporting Entity**

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

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

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

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

*JOINTLY GOVERNED ORGANIZATIONS*

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

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

Northern Buckeye Health Plan - The Northern Buckeye Health Plan (NBHP) was established January 1, 2012 foster cooperation among school districts located in Defiance, Fulton, Henry, and Williams Counties. NBHP is a member of Ohio Health Initiatives (OHI) and provides insurance services to its members. NBHP is governed by an elected Board consisting of two representatives from each of the four counties in which the member educational entities are located. The Board is elected from an Assembly consisting of a representative from each participating educational entity. To obtain financial information write to the Northern Buckeye Health Plan/OHI, Jenny Jostworth, Treasurer, at 10999 Reed Hartman Highway, Suite 304E, Cincinnati, Ohio 45242

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

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

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

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

Risk Management Services, Inc., The Waters Building, 161 Ottawa N.W., Suite 112, Grand Rapids, Michigan 49503.

Northwestern Ohio Education Research Council, Inc. - Northwestern Ohio Education Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials, and provide opportunities for training. The NOERC serves a twenty-five county area in Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., 414 East Market Street, Celina, Ohio 45822.

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*

Northern Buckeye Education Council's Employee Insurance Benefits Program - Northern Buckeye Education Council's Employee Insurance Benefits Program (the Pool) is a public entity shared risk pool consisting of educational entities located in Defiance, Fulton, Henry, and Williams counties. The Pool is governed by the Northern Buckeye Education Council and its participating members.

For the period July 1, 2011 to December 31, 2011, the District contributed a total of \$332,512 to Northern Buckeye Education Council for all employee insurance plans. Financial information for the period July 1, 2011 through December 31, 2011 can be obtained from Robin Pfund, Treasurer, at 209 Nolan Parkway, Archbold, Ohio 43502.

Effective January 1, 2012, the Employee Insurance Benefits Consortium was removed from Northern Buckeye Education Council (NBEC) and merged with Optimal Health Initiative Consortium (OHI). The new name of the District's local insurance group consortium is Northern Buckeye Health Plan, Northwest Division of OHI. Northern Buckeye Education Council no longer acts as fiscal agent for the insurance consortium.

For the period January 1, 2012 through June 30, 2012, the District contributed a total of \$369,787 to Northern Buckeye Health Plan, Northwest Division of OHI for all employee insurance plans. Financial information for the period January 1, 2012 through June 30, 2012 can be obtained from Jenny Jostworth, Treasurer, at 10999 Reed Hartman Highway, Suite 304E, Cincinnati, Ohio 45242.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

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

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

The WCGRP's business and affairs are conducted by a three member board of directors consisting of two Assembly representatives for each of the counties of Defiance, Fulton, Henry, and Williams and the representative of the member serving as fiscal agent for NBEC. The Executive Director of the Council shall coordinate the management and administration of the program. Each year, the participating members pay an enrollment fee to WCGRP to cover the costs of administering the program. The District paid \$840 for these services to NBEC in fiscal year 2012.

Effective January 1, 2012 the WCGRP was transferred to Northern Buckeye Health Plan, Northern Division of OHI (NBHP). The NBHP WCGRP is an insurance purchasing pool. The WCGRP is governed by the Northern Buckeye Health Plan and the participating members of the WCGRP. The Executive Director of the NBHP coordinates the management and administration of the program.

Northwest Ohio Educational Council Self-Insurance Pool Program

The District participates in the Northwest Ohio Educational Council Self-Insurance Pool Program (NOEC Program) which is an insurance purchasing pool. The NOEC Program is created and organized pursuant to and as authorized by 2744.081 of the Ohio Revised Code. The Northwest Ohio Education Council (NWOEC) is a Council of Governments created pursuant to Chapter 167.01 of the Ohio Revised Code. The NOEC Program is a non-profit organization to its members and an instrumentality for each member for the purpose of enabling members of the NOEC Program to provide for a formalized, joint insurance program to maintain adequate insurance protection, risk management programs, and other administrative services. The NOEC Program's business and affairs are conducted by a nine member Insurance Committee created by the governing board of the NWOEC. The NOEC Program has an agreement with Arthur J. Gallagher Risk Management Services, Inc. for administrative services and Specialty Claims Service, Inc. for claims processing. The District paid \$34,477 for these services to NOEC in fiscal year 2012.

**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.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

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

*GOVERNMENTAL FUNDS*

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

General fund -The General fund is used to account for 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.

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

*FIDUCIARY FUNDS*

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: private-purpose trust funds, investment trust funds, pension 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 accounts for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student managed activities.

**C. Basis of Presentation**

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

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

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

of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

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

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

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

**D. Basis of Accounting**

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

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

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

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

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

a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2012, but which were levied to finance fiscal year 2013 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

**E. Budgets**

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2012 is as follows.

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

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

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

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 2012.

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

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

5. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions within a fund must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All departments/functions and funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated, increased or decreased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal 2012. The amounts reported in the budgetary statement reflect the amounts set forth in the original and final budgeted appropriations for fiscal year 2012.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Cash disbursements plus encumbrances may not legally exceed budgeted appropriations at the object level.

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

**AYERSVILLE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

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

**F. Cash and Investments**

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

During fiscal year 2012, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for non-participating investment contracts, investments are reported at fair value, which is based on quoted market prices. Non-participating investment contracts, such as non-negotiable certificates of deposits, are valued at cost.

The District has invested funds in STAR Ohio during fiscal 2012. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2012.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2012 amounted to \$2,711 which includes \$342 assigned from other District funds.

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

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

**G. Inventory**

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

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

**H. Capital Assets**

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

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

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

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

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

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

**I. Compensated Absences**

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

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

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

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

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

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

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

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

**K. Fund Balance**

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

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

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

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

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

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

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

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

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

**L. Net Assets**

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

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

**M. Prepayments**

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

**N. Estimates**

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

**O. Restricted Assets**

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

**P. Interfund Activity**

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

**Q. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2012.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2012, the District has implemented GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an Amendment of GASB Statement No. 53".

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The implementation of GASB Statement No. 57 did not have an effect on the financial statements of the District.

GASB Statement No. 64 clarifies the circumstances in which a hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of GASB Statement No. 64 did not have an effect on the financial statements of the District.

**B. Restatement Fund Balances**

A fund reclassification is required in order to better reflect a private-purpose trust fund, which was previously reported as a special revenue fund. This fund reclassification had the following effect on the District's governmental fund balances as previously reported:

	General	Nonmajor Governmental	Total Governmental
Fund balance as previously reported	\$ 3,277,511	\$ 175,868	\$ 3,453,379
Fund reclassifications:			
Scholarships		(49,139)	(49,139)
Restated fund balance at July 1, 2011	\$ 3,277,511	\$ 126,729	\$ 3,404,240

**C. Restatement Net Assets**

Net assets at July 1, 2011 are restated in order to better reflect a private-purpose trust fund and to report a change in the valuation of payment in lieu of taxes receivables. This restatement had the following effect on the District's governmental activities and fiduciary net asset balances as previously reported:

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

	Governmental Activities	Private-Purpose Trust
Net assets as previously reported	\$ 5,667,379	
Reclassifications:		
Change in Valuation	(175,954)	
Fund Reclassification - Scholarships	(49,139)	\$ 49,139
Total reclassifications	(225,093)	49,139
Restated net asset balances at July 1, 2011	\$ 5,442,286	\$ 49,139

**D. Deficit Fund Balances**

Fund balances at June 30, 2012 included the following individual fund deficits:

Nonmajor funds	Deficit
Food Service	\$ 24,332
Education Jobs	16,815
Title I	8,445
Title II-A	3,508

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

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

**AYERSVILLE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)**

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

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

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

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

**AYERSVILLE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)**

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

**A. Cash on Hand**

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

**B. Deposits with Financial Institutions**

At June 30, 2012, the carrying amount of all District deposits was \$675,768. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2012, \$487,121 of the District's bank balance of \$745,503 was exposed to custodial risk as discussed below, while \$258,382 was covered by Federal Deposit Insurance Corporation.

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

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

**C. Investments**

As of June 30, 2012, the District had the following investments and maturities:

<u>Investment type</u>	<u>Balance at Fair Value</u>	<u>6 months or less</u>
STAR Ohio	\$ 3,793,768	\$ 3,793,768

**AYERSVILLE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)**

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

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

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

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2012:

Cash and investments per footnote:	
Carrying amount of deposits	\$ 675,768
Investments	3,793,768
Cash on hand	<u>770</u>
Total	<u>\$ 4,470,306</u>
Cash and investments per Statement of Net Assets	
Governmental activities	\$ 4,379,576
Agency funds	46,585
Private-purpose trust funds	<u>44,145</u>
Total	<u>\$ 4,470,306</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

Interfund transfers and advances for the year ended June 30, 2012, consisted of the following, as reported on the government-wide and fund financial statements:

Transfer from General Fund to:

Non-Major EMIS Fund	\$22,422
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**AYERSVILLE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 5 - INTERFUND TRANSACTIONS - (Continued)**

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.

**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 2012 represent the collection of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed values as of January 1, 2011, 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 2012 represent the collection of calendar year 2011 taxes. Public utility real and personal property taxes received in calendar year 2012 became a lien on December 31, 2010, were levied after April 1, 2011, 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.

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, 2012, are available to finance fiscal year 2012 operations. The amount available as an advance at June 30, 2012 was \$314,000 in the General fund, \$11,700 in the Special Levy special revenue fund, and \$14,500 in the Permanent Improvement capital projects fund. This amount is recorded as revenue. The amount available for advance at June 30, 2011 was \$164,500 in the General fund, \$5,950 in the Special Levy special revenue fund, and \$7,350 in the Permanent Improvement capital projects fund. 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, 2012 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

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

**AYERSVILLE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 6 - PROPERTY TAXES – (Continued)**

The assessed values upon which the fiscal year 2012 taxes were collected are:

	2011 Second- Half Collections		2012 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/residential and other real estate	\$ 76,881,420	96.95	\$ 79,468,150	89.91
Public utility personal	2,416,570	3.05	8,920,260	10.09
Total	\$ 79,297,990	100.00	\$ 88,388,410	100.00
Tax rate per \$1,000 of assessed valuation:				
Operations	41.48		41.48	
Permanent improvement	2.00		2.00	

**NOTE 7 – RECEIVABLES**

Receivables at June 30, 2012 consisted of taxes, accounts, payment in lieu of taxes, interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the items of receivables reported on the Statement of Net Assets follows:

**Governmental Activities:**

Property Taxes	\$	2,599,156
Income Taxes		296,506
Accounts		627
Accrued interest		179
Payment in lieu of taxes		25,363
Intergovernmental		58,212
Total	\$	2,980,043

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

**NOTE 8 – INCOME TAXES**

The District levies a voted income tax of one percent on the income of residents and on estates for general operations of the District. The income tax became effective on January 1, 2008 and is in effect for a period of five years, until December 31, 2012. 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

**AYERSVILLE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 8 – INCOME TAXES – (Continued)**

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 \$869,361 for fiscal year 2012. Taxes receivable reported in the basic financial statements includes \$296,506 of income tax receivable.

**NOTE 9 – PAYMENT IN LIEU OF TAXES**

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

**NOTE 10 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012
<b>Governmental Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 148,406			\$ 148,406
Capital assets, being depreciated:				
Land improvements	314,323			314,323
Building/improvements	3,129,446	\$ 14,184		3,143,630
Furniture/equipment	2,944,646	212,091	\$ (16,596)	3,140,141
Vehicles	789,858			789,858
Textbooks	741,675	3,671		745,346
Total capital assets, being depreciated	<u>7,919,948</u>	<u>229,946</u>	<u>(16,596)</u>	<u>8,133,298</u>
Less: accumulated depreciation				
Land improvements	(223,237)	(16,034)		(239,271)
Building/improvements	(1,971,449)	(63,155)		(2,034,604)
Furniture/equipment	(1,980,315)	(240,853)	15,005	(2,206,163)
Vehicles	(622,326)	(51,406)		(673,732)
Textbooks	(666,562)	(34,930)		(701,492)
Total accumulated depreciation	<u>(5,463,889)</u>	<u>(406,378)</u>	<u>15,005</u>	<u>(5,855,262)</u>
Governmental activities capital assets, net	<u>\$ 2,604,465</u>	<u>\$ (176,432)</u>	<u>\$ (1,591)</u>	<u>\$ 2,426,442</u>

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 10 - CAPITAL ASSETS – (Continued)**

Depreciation expense was charged to governmental functions as follows:

Instruction:		
Regular	\$	182,361
Special		7,697
Vocational		4,627
Other		2,212
Support Services:		
Pupil		1,958
Instructional staff		44,559
Administration		8,322
Fiscal		2,636
Operations and maintenance		70,335
Pupil transportation		47,510
Operation of non-instructional services		5,835
Extracurricular activities		<u>28,326</u>
Total depreciation expense	\$	<u>406,378</u>

**NOTE 11 – CAPITAL LEASES – LESSEE DISCLOSURE**

The District entered into capital leases for the acquisition of copiers in fiscal years 2009, 2011 and 2012. Additionally, in fiscal years 2011 and 2012, the District entered into capital leases for the acquisition of 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 FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers the benefits and risks of ownership to the lessee at the conclusion of the lease term. At inception, 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. These expenditures will be reflected as function expenditures on a budgetary basis. The general capital assets acquired by these capital leases have been capitalized in the governmental activities on the statement of net assets in the amount of \$109,718 for the copiers and \$241,328 for the computers, which is equal to the present value of the future minimum lease payments as of the date of their inception. A corresponding liability has been recorded in the governmental activities on the statement of net assets. Principal payments made during fiscal year 2012 totaled \$19,472 for the copiers, and \$80,099 for the computers.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2012.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 11 – CAPITAL LEASES – LESSEE DISCLOSURE – (Continued)**

Fiscal year ending June 30,	Copiers	Computers	Total
2013	\$ 25,612	\$ 82,753	\$ 108,365
2014	19,240	38,175	57,415
2015	10,316		10,316
2016	5,799		5,799
2017	1,475		1,475
Total minimum lease payment	62,442	120,928	183,370
Less amount representing interest	(6,777)	(4,073)	(10,850)
<b>Total</b>	<b>\$ 55,665</b>	<b>\$ 116,855</b>	<b>\$ 172,520</b>

**NOTE 12 - LONG-TERM OBLIGATIONS**

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

	Balance June 30, 2011	Increase	Decrease	Balance June 30, 2012	Amounts Due in One Year
<b>Governmental Activities</b>					
Compensated absences payable	\$ 704,327	\$ 51,706	\$ (70,338)	\$ 685,695	\$ 108,550
Capital Lease - copiers	60,591	14,546	(19,472)	55,665	22,099
Capital Lease - computers	85,627	111,327	(80,099)	116,855	80,056
Total governmental activities long-term liabilities	<u>\$ 850,545</u>	<u>\$ 177,579</u>	<u>\$ (169,909)</u>	<u>\$ 858,215</u>	<u>\$ 210,705</u>

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

**B. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation use in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2012, are a voted debt margin of \$7,954,957 and an unvoted debt margin of \$88,388.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 13 - COMPENSATED ABSENCES**

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

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

**NOTE 14 - RISK MANAGEMENT**

**A. Comprehensive**

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

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from last year.

**B. Employee Insurance Benefits Program**

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

Effective January 1, 2012, the Employee Insurance Benefits Consortium was removed from Northern Buckeye Education Council (NBEC) and merged with Optimal Health Initiative Consortium (OHI). The new name of this program is Northern Buckeye Health Plan, Northwest Division of OHI. (See Note 2 *Group Purchasing Pools*)

**C. Workers' Compensation Group Program**

The District participates in the Northern Buckeye Education Council's Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool. Effective January 1, 2012 the WCGRP was transferred to Northern Buckeye Health Plan, Northern Division of OHI (See Note 2 *Group Purchasing Pools*). 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

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 14 - RISK MANAGEMENT – (Continued)**

school districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate.

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

**NOTE 15 - PENSION PLANS**

**A. School Employees Retirement System**

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under "Employers/Audit Resources".

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2012, 12.65 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$100,597, \$92,619 and \$97,783, respectively; 100 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

**B. State Teachers Retirement System of Ohio**

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

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 15 - 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. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member 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 - For fiscal year 2012, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011 and 2010 were \$492,081, \$477,230 and \$471,948, respectively; 83.35 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010. Contributions to the DC and Combined Plans for fiscal year 2012 were \$210 made by the District and \$150 made by the plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2012, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 16 - POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 (latest information available) was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under "Employers/Audit Resources".

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2012, 0.55 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2012, 2011 and 2010 were \$10,323, \$17,045, and \$9,332, respectively; 100 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 16 - POSTEMPLOYMENT BENEFITS - (Continued)**

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$5,941, \$5,960 and \$5,815, respectively; 100 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

**B. State Teachers Retirement System of Ohio**

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

Funding Policy - Ohio law authorizes STRS Ohio 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 Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2012, 2011 and 2010 were \$37,852, \$36,710, and \$36,304, respectively; 83.35 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

**NOTE 17 - BUDGETARY BASIS OF ACCOUNTING**

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

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

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

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 17 - BUDGETARY BASIS OF ACCOUNTING – (Continued)**

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

	<u>General Fund</u>
Budget basis	\$ 286,038
Net adjustment for revenue accruals	110,895
Net adjustment for expenditure accruals	(71,753)
Net adjustment for other sources/uses	110,300
Adjustments for encumbrances	177,412
Perspective Differences for Cash Reporting Purposes:	
Activity of funds reclassified	<u>22,674</u>
GAAP basis	<u><u>\$ 635,566</u></u>

**NOTE 18 – CONTINGENCIES**

**Grants**

The District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General fund or other applicable funds. In the opinion of management, any such disallowed claims will not have a material effect on the financial position 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. A similar provision related to the purchase of textbooks and other instructional materials was repealed effective July 1, 2011. Therefore, the June 30, 2011 textbook set aside balance was not carried forward to fiscal year 2012.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 19 - SET-ASIDES – (Continued)**

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

	<u>Capital Improvements</u>
Set-aside balance June 30, 2011	
Current year set-aside requirement	\$ 139,549
Current year offsets	<u>(166,951)</u>
Total	<u>\$ (27,402)</u>

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

In addition to the above statutory set-asides, the District also has \$1,056 in monies restricted for school bus purchases.

**NOTE 20 - OTHER COMMITMENTS**

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

	Year-End
<u>Fund</u>	<u>Encumbrances</u>
General fund	\$ 176,921
Other governmental	<u>18,605</u>
Total	<u>\$ 195,526</u>

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# Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Ayersville Local School District, Defiance County, Ohio (the District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 25, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

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

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

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

### Compliance and Other Matters

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

We did note a certain matter not requiring inclusion in this report that we reported to the District's management in a separate letter dated February 25, 2013.

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

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

**Dave Yost**  
Auditor of State

February 25, 2013



# 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  
MARCH 12, 2013**