



**Auditor of State  
Betty Montgomery**



**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Ayersville Local School District, Defiance County, (the District) as of and for the year ended June 20, 2002, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Ayersville Local School District, Defiance County, as of June 30, 2002, and the respective changes in financial position and the cash flows, where applicable, thereof and the respective budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2002, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 2003 on our consideration of the Government's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

**Betty Montgomery**  
Auditor of State

May 12, 2003

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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, 2002. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for 2002 are as follows:

- In total, net assets increased \$1,005,358. Net assets of governmental activities increased \$1,012,869 which represents a 54.50% increase from 2001. Net assets of business-type activities decreased \$7,511 or 12.75% from 2001.
- General revenues accounted for \$6,132,751 in revenue or 86.46% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$960,202 or 13.54% of total revenues of \$7,092,953.
- The District had \$5,806,546 in expenses related to governmental activities; only \$690,529 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$6,128,886 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$6,214,892 in revenues and other financing sources and \$5,511,837 in expenditures and other financing uses. The general fund's fund balance increased to \$785,592 from \$87,726.
- Net assets for the District's enterprise fund decreased from 2001 to 2002. This decline resulted from operating expenses of \$281,049 exceeding operating revenues of \$220,273. Operating grants of \$27,470 and federal donated commodities of \$24,333, which are reported as nonoperating revenues, reduced the operating loss in the enterprise fund.

**Using Basic Financial Statements**

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

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

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)

**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 2002?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets and liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

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

***Fund Financial Statements***

The analysis of the District's major governmental fund begins on page 16 and the analysis of the District's enterprise fund begins on page 21. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's only major governmental fund is the general fund.

***Governmental Funds***

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



**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)

**Proprietary Funds**

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

**Reporting the District's Fiduciary Responsibilities**

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private purpose trust fund. The District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in two agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 25 and 26, respectively. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**The District as a Whole**

This is the first year for government-wide financial statements using the full accrual basis of accounting; therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

The table below provides a summary of the District's net assets for 2002.

Net Assets			
	Governmental Activities 2002	Business-Type Activities 2002	Total 2002
<b>Assets</b>			
Current Assets	\$5,210,259	\$50,210	\$5,260,469
Capital Assets	2,349,722	44,982	2,394,704
<b>Total Assets</b>	<b>7,559,981</b>	<b>95,192</b>	<b>7,655,173</b>
<b>Liabilities</b>			
Current Liabilities	4,173,862	34,565	4,208,427
Long-Term Liabilities	514,766	9,240	524,006
<b>Total Liabilities</b>	<b>4,688,628</b>	<b>43,805</b>	<b>4,732,433</b>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Debt	2,223,722	44,982	2,268,704
Restricted	280,689		280,689
Unrestricted	366,942	6,405	373,347
<b>Total Net Assets</b>	<b>\$2,871,353</b>	<b>\$51,387</b>	<b>\$2,922,740</b>

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)

The table below shows the changes in net assets for fiscal year 2002. Since this is the first year the District has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2001 are not available. A comparative analysis will be provided in future years when prior year information is available.

Change in Net Assets			
	Governmental Activities 2002	Business-Type Activities 2002	Total 2002
<b>Revenues</b>			
Program Revenues:			
Charges for Services and Sales	\$214,133	\$217,870	\$432,003
Operating Grants and Contributions	447,286	51,803	499,089
Capital Grants and Contributions	29,110		29,110
General Revenues:			
Property Taxes	3,487,286		3,487,286
Grants and Entitlements	2,603,019		2,603,019
Investment earnings	33,074	1,462	34,536
Other	5,507	2,403	7,910
Total Revenues	6,819,415	273,538	7,092,953
<b>Expenses</b>			
Program Expenses:			
Instruction:			
Regular	2,852,304		2,852,304
Special	497,431		497,431
Vocational	265,113		265,113
Other	8,715		8,715
Support Services:			
Pupil	180,786		180,786
Instructional Staff	230,263		230,263
Board of Education	23,798		23,798
Administration	520,539		520,539
Fiscal	184,025		184,025
Operations and Maintenance	477,464		477,464
Pupil Transportation	162,062		162,062
Central	31,373		31,373
Operation of Non-Instructional Services	87,161		87,161
Extracurricular Activities	276,907		276,907
Interest and Fiscal Charges	8,605		8,605
Food Service		281,049	281,049
Total Expenses	5,806,546	281,049	6,087,595
Change in Net Assets	\$1,012,869	(\$7,511) <span style="color: green;">▲</span>	\$1,005,358

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)

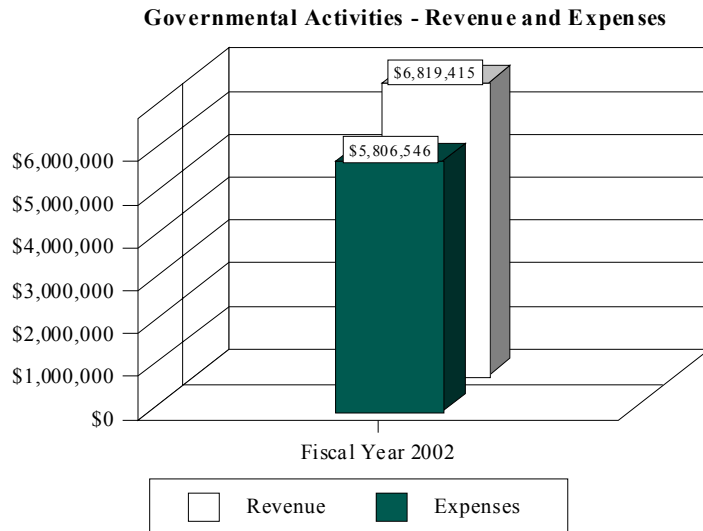
**Governmental Activities**

Net assets of the District's governmental activities increased by \$1,012,869. Total governmental expenses of \$5,806,546 were offset by program revenues of \$690,529 and general revenues of \$6,128,886. Program revenues supported 11.89% 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 represent 89.31% of total governmental activities revenue. Real estate property is reappraised every six years. The primary increase in governmental net assets is due to an increase in property tax revenue. The District's voters approved a 7.9 mill operating levy in November of 2000. The District collected this levy for a full year in fiscal 2002 resulting in increased tax revenue. In addition to the passage of the operating levy, within the District's boundaries, the General Motors Corporation installed an aluminum coating assembly line which generates the District approximately \$250,000 annually.

The District's financial condition has improved significantly in recent years, partially due to increased financial support from the State. State support increased by approximately \$800,000 over fiscal 2001. Although state support has increased over the past couple years, future growth in state funding is expected to be lower.

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2002.



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Comparisons to 2001 have not been presented since they are not available.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

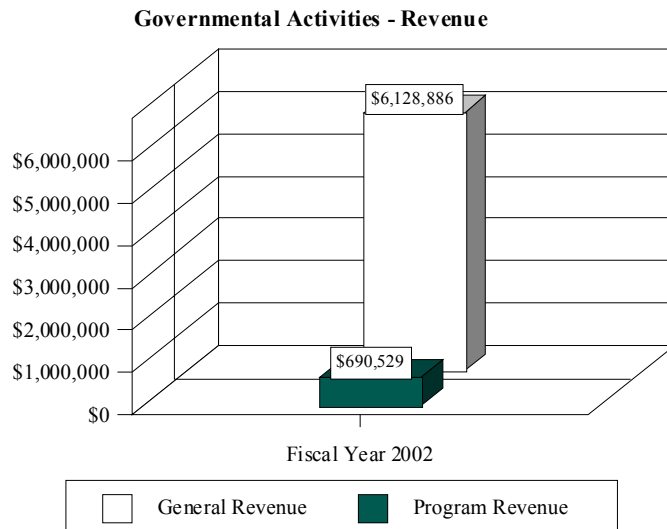
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)

**Governmental Activities**

	Total Cost of Services 2002	Net Cost of Services 2002
<b>Program Expenses:</b>		
<b>Instruction:</b>		
Regular	\$2,852,304	\$2,712,190
Special	497,431	317,712
Vocational	265,113	240,397
Other	8,715	8,715
<b>Support Services:</b>		
Pupil	180,786	174,282
Instructional Staff	230,263	186,629
Board of Education	23,798	23,798
Administration	520,539	519,329
Fiscal	184,025	181,902
Operations and Maintenance	477,464	477,464
Pupil Transportation	162,062	27,480
Central	31,373	31,373
Operation of Non-Instructional Services	87,161	74,381
Extracurricular Activities	276,907	131,760
Interest and Fiscal Charges	8,605	8,605
<b>Total Expenses</b>	<b><u>\$5,806,546</u></b>	<b><u>\$5,116,017</u></b>

The dependence upon tax revenues for governmental activities is apparent, 90.49% of instruction activities are supported through taxes and other general revenues. For all governmental activities, taxes and other general revenue support is 88.11%. The District's taxpayers, as a whole, is by far the primary support for District's students. Their support is evidenced by the passage of the 7.9 mill operating levy in November of 2000.

The graph below presents the District's governmental activities revenue for fiscal year 2002.



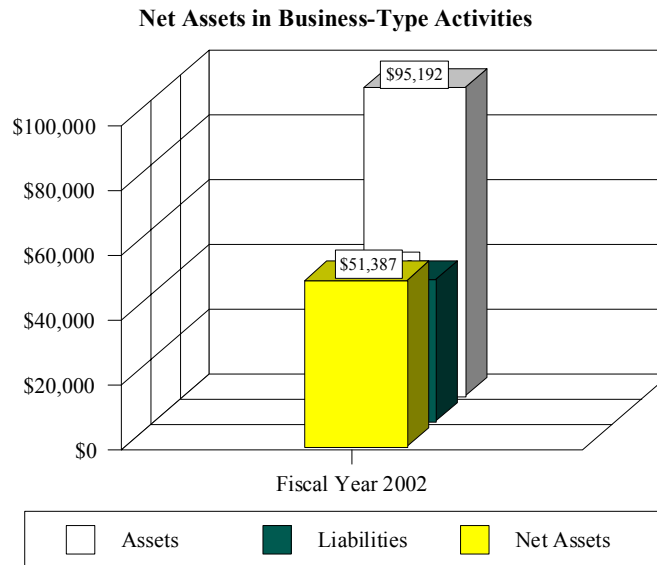
**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)

**Business-Type Activities**

Business-type activities include the District's food service operations. These programs had revenues of \$273,538 and expenses of \$281,049 for fiscal year 2002. To insure that net assets are not further reduced in fiscal 2003, the District is taking steps to reduce expenses, including renegotiating vendor agreements. The District is also increasing ala carte prices and pursuing further involvement in the Federal Breakfast program as means to offset expenses. The District's business activities receive no support from tax revenues.

The following graph shows the net assets in business-type activities for fiscal year 2002.



**The District's Funds**

The District's governmental funds reported a combined fund balance of \$1,111,365, which is above last year's total of \$287,326. The June 30, 2001 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2002 and 2001.

	Fund Balance 6/30/02	Fund Balance 6/30/01	Increase
General	\$785,592	\$87,726	\$697,866
Other Governmental	325,773	199,600	126,173
<b>Total</b>	<b>\$1,111,365</b>	<b>\$287,326</b>	<b>\$824,039</b>

**General Fund**

The District's general fund balance increased by \$703,055. The increase in fund balance can be attributed primarily to the overall increase in tax and intergovernmental revenues. The table that follows assists in illustrating the financial activities of the general fund.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)

	2002 Amount	2001 Amount	Increase (Decrease)
<b>Revenues</b>			
Taxes	\$3,250,377	\$2,723,903	\$526,474
Interest Earnings	33,074	61,482	(28,408)
Intergovernmental	2,558,672	1,727,321	831,351
Other Revenues	372,769	531,836	(159,067)
<b>Total</b>	<b>6,214,892</b>	<b>5,044,542</b>	<b>1,170,350</b>
<b>Expenditures</b>			
Instruction	3,544,159	3,455,157	89,002
Support Services	1,755,982	1,531,741	224,241
Operation on Non-Instructional Services	2,885	630	2,255
Extracurricular Activities	152,000	157,393	(5,393)
<b>Total</b>	<b>\$5,455,026</b>	<b>\$5,144,921</b>	<b>\$310,105</b>

**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 2002, the District amended its general fund budget numerous times, none significant. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, final budgeted revenues and other financing sources were \$6,100,284, above original budget estimates of \$5,410,998. Of this \$689,286 difference, most was due to conservative intergovernmental estimates in the original budget.

General fund original appropriations of \$5,725,213 were increased to \$5,893,943 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2002 totaled \$5,520,312, which was \$373,631 less than the final budget appropriations, primarily because salary costs proved to be lower than anticipated in the original and final budget.

The general fund maintained an unencumbered cash balance of \$1,140,161 at June 30, 2002.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal 2002, the District had \$2,394,704 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and textbooks. Of this total, \$2,349,722 was reported in governmental activities and \$44,982 was reported in business-type activities. The following table shows fiscal 2002 balances compared to 2001:

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)

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

	Governmental Activities		Business-Type Activities		Total	
	2002	2001	2002	2001	2002	2001
Land	\$148,406	\$148,406			\$148,406	\$148,406
Land Improvements	102,471	90,758			102,471	90,758
Buildings and Improvements	1,329,991	1,338,522			1,329,991	1,338,522
Furniture and Equipment	536,815	527,783	\$44,982	\$19,417	581,797	547,200
Vehicles	158,441	114,469			158,441	114,469
Textbooks	73,598	19,235			73,598	19,235
Totals	<u>\$2,349,722</u>	<u>\$2,239,173</u>	<u>\$44,982</u>	<u>\$19,417</u>	<u>\$2,394,704</u>	<u>\$2,258,590</u>

During fiscal 2002, capital asset acquisitions for governmental activities were \$289,944 while depreciation expense was \$179,395. This resulted in a net increase to governmental capital assets of \$110,549.

**Debt Administration**

At June 30, 2002, the District had \$126,000 in general obligation energy conservation bonds outstanding. Of this total, \$18,000 is due within one year and \$108,000 is due within greater than one year. The following table summarizes the bonds outstanding.

	<b>Outstanding Debt, at Year End</b>	
	Governmental Activities 2002	Governmental Activities 2001
	General Obligation Bonds	<u>\$126,000</u>

At June 30, 2002 the District had a legal voted debt margin of \$8,565,439, an unvoted debt margin of \$96,572, and an energy conservation debt margin of \$743,144.

**For the Future**

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

- **Operating In The Black:** As of June 30, 2002, the District expects revenues to exceed expenditures through the end of fiscal year 2004. Carry over balances are expected to help us maintain the recommended 20% carry over balance through 2005. The carryover is recommended by the County Auditor to cover operating expenses for at least two months of the new fiscal year. We currently anticipate required renewal of all existing levies in order to maintain positive cash balances at the end of 2006 and 2007.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)

- **State Funding:** The State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable". Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. On December 11, 2002 the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional. At this time, the District is unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.
- **Facilities:** The District's school building was assessed by the State in 2001 to determine if the District was eligible to receive any Ohio Classroom Facilities Grants. A local committee was established to discuss such options as whether to renovate current school buildings or build new ones. Current status with the Ohio School Funding Committee would require community funding for 80 - 100% of the project.

Due to the passage of the 7.9 mill operating levy in November 2000, coupled with increased tax revenues from the new General Motors aluminum coating assembly line and increased state funding, the District will be afforded the necessary revenues in the near future to cover anticipated expenditures.

**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 Mr. Dan Schall, Treasurer at Ayersville Local School District, 28046 Watson Road, Defiance, Ohio, 43512.



**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

STATEMENT OF NET ASSETS  
JUNE 30, 2002

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents	\$1,481,967	\$43,422	\$1,525,389
Receivables:			
Taxes	3,645,928		3,645,928
Intergovernmental	65,936		65,936
Prepayments	7,891		7,891
Materials and supplies inventory	8,537	6,788	15,325
Capital assets:			
Land	148,406		148,406
Depreciable capital assets, net	2,201,316	44,982	2,246,298
Total capital assets	<u>2,349,722</u>	<u>44,982</u>	<u>2,394,704</u>
 Total assets	 <u>7,559,981</u>	 <u>95,192</u>	 <u>7,655,173</u>
<b>Liabilities:</b>			
Accounts payable	8,820	303	9,123
Accrued wages and benefits	630,820	22,441	653,261
Pension obligation payable	119,263	11,543	130,806
Intergovernmental payable	9,079	278	9,357
Deferred revenue	3,273,550		3,273,550
Accrued interest payable	572		572
Long-term liabilities:			
Due within one year	131,758		131,758
Due more than one year	514,766	9,240	524,006
 Total liabilities	 <u>4,688,628</u>	 <u>43,805</u>	 <u>4,732,433</u>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	2,223,722	44,982	2,268,704
Restricted for:			
Capital projects	167,156		167,156
Other purposes	113,533		113,533
Unrestricted	366,942	6,405	373,347
 <b>Total net assets</b>	 <u><u>\$2,871,353</u></u>	 <u><u>\$51,387</u></u>	 <u><u>\$2,922,740</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, 2002

<b>Program Revenues</b>				
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Governmental activities:</b>				
Instruction:				
Regular	\$2,852,304	\$54,996	\$85,118	
Special	497,431		179,719	
Vocational	265,113		24,716	
Other	8,715			
Support services:				
Pupil	180,786		6,504	
Instructional staff	230,263		14,524	\$29,110
Board of education	23,798			
Administration	520,539	1,210		
Fiscal	184,025		2,123	
Operations and maintenance	477,464			
Pupil transportation	162,062		134,582	
Central	31,373			
Operation of non-instructional services	87,161	12,780		
Extracurricular activities	276,907	145,147		
Interest and fiscal charges	8,605			
<b>Total governmental activities</b>	<u>5,806,546</u>	<u>214,133</u>	<u>447,286</u>	<u>29,110</u>
<b>Business-type activities:</b>				
Food service	281,049	217,870	51,803	
<b>Total business-type activities</b>	<u>281,049</u>	<u>217,870</u>	<u>51,803</u>	
<b>Totals</b>	<u><u>\$6,087,595</u></u>	<u><u>\$432,003</u></u>	<u><u>\$499,089</u></u>	<u><u>\$29,110</u></u>

**General Revenues:**

Property taxes levied for:

    General purposes

    Special purposes

    Capital outlay

Grants and entitlements not restricted  
to specific programs

Investment earnings

Miscellaneous

Total general revenues

Change in net assets

Net assets at beginning of year (restated)

**Net assets at end of year**

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Net (Expense) Revenue  
and Changes in Net Assets**

<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
(\$2,712,190)		(\$2,712,190)
(317,712)		(317,712)
(240,397)		(240,397)
(8,715)		(8,715)
(174,282)		(174,282)
(186,629)		(186,629)
(23,798)		(23,798)
(519,329)		(519,329)
(181,902)		(181,902)
(477,464)		(477,464)
(27,480)		(27,480)
(31,373)		(31,373)
(74,381)		(74,381)
(131,760)		(131,760)
(8,605)		(8,605)
<u>(5,116,017)</u>		<u>(5,116,017)</u>
	(\$11,376)	(11,376)
	<u>(11,376)</u>	<u>(11,376)</u>
<u>(5,116,017)</u>	<u>(11,376)</u>	<u>(5,127,393)</u>
\$3,230,266		\$3,230,266
115,143		115,143
141,877		141,877
2,603,019		2,603,019
33,074	\$1,462	34,536
5,507	2,403	7,910
<u>6,128,886</u>	<u>3,865</u>	<u>6,132,751</u>
1,012,869	(7,511)	1,005,358
<u>1,858,484</u>	<u>58,898</u>	<u>1,917,382</u>
<u>\$2,871,353</u>	<u>\$51,387</u>	<u>\$2,922,740</u>

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2002

	<b>General</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents	\$1,080,028	\$307,414	\$1,387,442
Receivables:			
Taxes	3,380,592	265,336	3,645,928
Intergovernmental		65,936	65,936
Prepayments	7,891		7,891
Materials and supplies inventory	8,403	134	8,537
Restricted assets:			
Equity in pooled cash and cash equivalents	94,525		94,525
<b>Total assets</b>	<b>\$4,571,439</b>	<b>\$638,820</b>	<b>\$5,210,259</b>
<b>Liabilities:</b>			
Accounts payable	\$7,087	\$1,733	\$8,820
Accrued wages and benefits	609,464	21,356	630,820
Compensated absences payable	23,308		23,308
Pension obligation payable	82,340	3,568	85,908
Intergovernmental payable	8,736	343	9,079
Deferred revenue	3,054,912	286,047	3,340,959
<b>Total liabilities</b>	<b>3,785,847</b>	<b>313,047</b>	<b>4,098,894</b>
<b>Fund Balances:</b>			
Reserved for encumbrances	28,317	13,285	41,602
Reserved for prepayments	7,891		7,891
Reserved for materials and supplies inventory	8,403	134	8,537
Reserved for property tax unavailable for appropriation	325,680	31,021	356,701
Reserved for capital maintenance	61,432		61,432
Reserved for budget stabilization	19,583		19,583
Reserved for school bus purchases	13,510		13,510
Unreserved, undesignated, reported in:			
General fund	320,776		320,776
Special revenue funds		134,598	134,598
Capital projects funds		146,735	146,735
<b>Total fund balances</b>	<b>785,592</b>	<b>325,773</b>	<b>1,111,365</b>
<b>Total liabilities and fund balances</b>	<b>\$4,571,439</b>	<b>\$638,820</b>	<b>\$5,210,259</b>

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, 2002

<b>Total governmental fund balances</b>		<b>\$1,111,365</b>
<i>Amounts reported for governmental activities in 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		2,349,722
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$15,677	
Intergovernmental revenue	51,732	
	67,409	
Total		67,409
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General obligation bonds	126,000	
Compensated absences	530,571	
Accrued interest payable	572	
	(657,143)	
Total		(657,143)
<b>Net assets of governmental activities</b>		<b><u><u>\$2,871,353</u></u></b>

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, 2002

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
From local sources:			
Taxes	\$3,250,377	\$257,020	\$3,507,397
Tuition	37,141		37,141
Earnings on investments	33,074	1,773	34,847
Extracurricular		102,757	102,757
Other local revenues	24,572	53,397	77,969
Other revenue	311,056		311,056
Intergovernmental - State	2,558,672	75,512	2,634,184
Intergovernmental - Federal		82,443	82,443
<b>Total revenues</b>	<u>6,214,892</u>	<u>572,902</u>	<u>6,787,794</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular	2,820,324	80,838	2,901,162
Special	454,388	32,147	486,535
Vocational	260,732		260,732
Other	8,715		8,715
Support Services:			
Pupil	176,258	1,666	177,924
Instructional staff	225,414	17,211	242,625
Board of education	23,798		23,798
Administration	515,527	770	516,297
Fiscal	172,584	3,278	175,862
Operations and maintenance	403,699	103,146	506,845
Pupil transportation	207,329		207,329
Central	31,373		31,373
Operation of non-instructional services	2,885	81,532	84,417
Extracurricular activities	152,000	126,196	278,196
Debt service:			
Principal retirement		48,000	48,000
Interest and fiscal charges		8,811	8,811
<b>Total expenditures</b>	<u>5,455,026</u>	<u>503,595</u>	<u>5,958,621</u>
<b>Excess of revenues over expenditures</b>	<u>759,866</u>	<u>69,307</u>	<u>829,173</u>
<b>Other financing sources (uses):</b>			
Transfers in		56,811	56,811
Transfers out	(56,811)		(56,811)
<b>Total other financing sources (uses)</b>	<u>(56,811)</u>	<u>56,811</u>	<u></u>
<b>Net change in fund balances</b>	703,055	126,118	829,173
Fund balances at beginning of year (restated)	87,726	199,600	287,326
Increase (decrease) in reserve for inventory	(5,189)	55	(5,134)
<b>Fund balances at end of year</b>	<u>\$785,592</u>	<u>\$325,773</u>	<u>\$1,111,365</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, 2002

**Net change in fund balances - total governmental funds** \$829,173

*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 (\$289,944) exceeds depreciation expense (\$179,395)  
in the current period. 110,549

Revenues in the statement of activities that do not provide  
current financial resources are not reported as revenues in  
the funds. 31,621

Repayment of bond principal is an expenditure in the  
governmental funds, but the repayment reduces long-term  
liabilities in the statement of net assets. 48,000

In the statement of activities, interest is accrued on  
outstanding bonds, whereas in governmental funds, an  
interest expenditure is reported when due. 206

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. (6,680)

**Change in net assets of governmental activities** \$1,012,869

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, 2002

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
From local sources:				
Taxes	\$3,358,000	\$3,260,234	\$3,250,377	(\$9,857)
Tuition	33,000	38,003	37,141	(\$862)
Earnings on investments	22,045	30,580	33,074	2,494
Other local revenues	13,745	19,067	19,080	13
Other revenue	195,723	271,498	324,056	52,558
Intergovernmental - State	<u>1,777,337</u>	<u>2,465,437</u>	<u>2,549,525</u>	<u>84,088</u>
Total revenues	<u>5,399,850</u>	<u>6,084,819</u>	<u>6,213,253</u>	<u>128,434</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	3,032,415	2,897,121	2,808,213	88,908
Special	412,016	464,283	450,912	13,371
Vocational	285,680	263,980	259,978	4,002
Other	178,000	210,000	8,715	201,285
Support Services:				
Pupil	176,065	175,918	173,539	2,379
Instructional staff	197,858	223,242	220,968	2,274
Board of education	22,887	29,213	23,978	5,235
Administration	464,331	519,982	508,542	11,440
Fiscal	97,096	174,770	174,399	371
Operations and maintenance	398,076	446,475	431,370	15,105
Pupil transportation	167,656	211,603	206,640	4,963
Central	61,000	31,000	31,000	
Operation of non-instructional services	3,000	2,885	2,885	
Extracurricular activities	<u>174,133</u>	<u>152,517</u>	<u>152,413</u>	<u>104</u>
Total expenditures	<u>5,670,213</u>	<u>5,802,989</u>	<u>5,453,552</u>	<u>349,437</u>
Excess of revenues over (under) expenditures	<u>(270,363)</u>	<u>281,830</u>	<u>759,701</u>	<u>477,871</u>
<b>Other financing sources (uses):</b>				
Refund of prior year expenditure	3,976	5,516	5,516	
Transfers out		(56,812)	(56,811)	1
Advances in	7,172	9,949	9,949	
Advances out	<u>(55,000)</u>	<u>(34,142)</u>	<u>(9,949)</u>	<u>24,193</u>
Total other financing sources (uses)	<u>(43,852)</u>	<u>(75,489)</u>	<u>(51,295)</u>	<u>24,194</u>
Net change in fund balance	(314,215)	206,341	708,406	502,065
Fund balance at beginning of year (restated)	365,281	365,281	365,281	
Prior year encumbrances appropriated	<u>66,474</u>	<u>66,474</u>	<u>66,474</u>	
<b>Fund balance at end of year</b>	<u><u>\$117,540</u></u>	<u><u>\$638,096</u></u>	<u><u>\$1,140,161</u></u>	<u><u>\$502,065</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2002

	<u><b>Business-Type Activities- Enterprise Fund</b></u>
	<u><b>Food Service</b></u>
<b>Assets:</b>	
Current assets:	
Equity in pooled cash and cash equivalents	\$43,422
Materials and supplies inventory	<u>6,788</u>
Total current assets	<u>50,210</u>
Noncurrent assets:	
Depreciable capital assets, net	<u>44,982</u>
Total assets	<u>95,192</u>
<b>Liabilities:</b>	
Accounts payable	303
Accrued wages and benefits	22,441
Pension obligation payable	11,543
Intergovernmental payable	<u>278</u>
Total current liabilities	<u>34,565</u>
Long-term liabilities:	
Compensated absences	<u>9,240</u>
Total liabilities	<u>43,805</u>
<b>Net assets:</b>	
Invested in capital assets	44,982
Unrestricted	<u>6,405</u>
<b>Total net assets</b>	<u><u>\$51,387</u></u>

SEE ACCOMPANYING NOTES TO THE BASIS FINANCIAL STATEMENTS

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	<u><b>Business-Type Activities- Enterprise Fund</b></u>
	<u><b>Food Service</b></u>
<b>Operating revenues:</b>	
Sales/charges for services	\$217,870
Other	2,403
	<hr/>
Total operating revenues	220,273
	<hr/>
<b>Operating expenses:</b>	
Personal services	138,961
Purchased services	725
Materials and supplies	10,944
Cost of sales	126,716
Depreciation	3,703
	<hr/>
Total operating expenses	281,049
	<hr/>
Operating loss	(60,776)
	<hr/>
<b>Nonoperating revenues:</b>	
Federal donated commodities	24,333
Operating grants	27,470
Interest revenue	1,462
	<hr/>
Total nonoperating revenues	53,265
	<hr/>
Change in net assets	(7,511)
	<hr/>
Net assets at beginning of year (restated)	58,898
	<hr/>
<b>Net assets at end of year</b>	<u><u><b>\$51,387</b></u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	<u><b>Business-Type Activities- Enterprise Fund</b></u>
	<u><b>Food Service</b></u>
<b>Cash flows from operating activities:</b>	
Cash received from sales/charges for services	\$217,870
Cash received from other operations	2,403
Cash payments for personal services	(135,451)
Cash payments for contractual services	(978)
Cash payments for materials and supplies	<u>(117,648)</u>
Net cash used in operating activities	<u>(33,804)</u>
<b>Cash flows from noncapital financing activities:</b>	
Cash received from operating grants	<u>27,470</u>
Net cash provided by noncapital financing activities	<u>27,470</u>
<b>Cash flows from capital and related financing activities:</b>	
Acquisition of capital assets	<u>(29,268)</u>
Net cash used in capital and related financing activities	<u>(29,268)</u>
<b>Cash flows from investing activities:</b>	
Interest received	<u>1,462</u>
Net cash provided by investing activities	<u>1,462</u>
Net decrease in cash and cash equivalents	(34,140)
Cash and cash equivalents at beginning of year	<u>77,562</u>
<b>Cash and cash equivalents at end of year</b>	<u><u>\$43,422</u></u>

(Continued)

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)

	<u><b>Business-Type Activities- Enterprise Fund</b></u>
	<u><b>Food Service</b></u>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>	
Operating loss	(\$60,776)
Adjustments:	
Depreciation	3,703
Federal donated commodities	24,333
Changes in assets and liabilities:	
Increase in materials and supplies inventory	(960)
Decrease in prepayments	1,196
Increase in accounts payable	50
Increase in accrued wages and benefits	5,953
Decrease in intergovernmental payable	(14,436)
Decrease in compensated absences payable	(746)
Increase in pension obligation payable	11,543
Decrease in deferred revenue	(3,664)
<b>Net cash used in operating activities</b>	<u><u><b>(\$33,804)</b></u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2002

	<b>Private Purpose Trust</b>	
	<b>Scholarship</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents	\$34,404	\$40,122
Total assets	34,404	40,122
<b>Liabilities:</b>		
Intergovernmental payable		175
Due to students		39,947
Total liabilities		\$40,122
<b>Net Assets:</b>		
Held in trust for scholarships	34,404	
<b>Total net assets</b>	<b>\$34,404</b>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AYERSVILLE LOCAL SCHOOLS  
DEFIANCE COUNTY**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	<b>Private Purpose Trust</b>
	<b>Scholarship</b>
<b>Additions:</b>	
Interest	\$799
Gifts and contributions	10,641
Total additions	11,440
<b>Deductions:</b>	
Scholarships awarded	1,870
Change in net assets	9,570
Net assets at beginning of year	24,834
<b>Net assets at end of year</b>	<b>\$34,404</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

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

The District was established in 1938 through the consolidation of existing land areas and school districts. The District serves an area of approximately fifty-five square miles. It is located in Defiance County. The District is the 519<sup>th</sup> largest in the State of Ohio (among the 705 public and community school districts) in terms of enrollment. It is staffed by 34 classified employees and 64 certified employees, including four administrative personnel, who provide services to 905 students and other community members. The District currently operates two instructional buildings and one bus garage.

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

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activity and to its proprietary funds 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". When applying GASB Statement No. 14, management has considered all potential component units. Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. Based upon the application of these criteria, the District has no component units. The financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

JOINTLY GOVERNED ORGANIZATIONS

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

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)

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, Cindy Siler, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

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

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

GROUP PURCHASING POOLS

Northern Buckeye Education Council's Employee Insurance Benefits Program - Northern Buckeye Education Council Employee Insurance Benefits Program (the Pool) is a public entity shared risk pool consisting of educational entities located in Defiance, Fulton, Henry, and Williams counties. The Pool is governed by the Northern Buckeye Education Council and its participating members. Total disbursements made by the District to NBEC for employee insurance benefits during fiscal years ending June 30, 2002 were \$384,120. Financial information can be obtained from Northern Buckeye Education Council, Cindy Siler, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

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

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



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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 \$622 for these services to NBEC in fiscal year 2002.

**B. Fund Accounting**

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

GOVERNMENTAL FUNDS

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

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

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

PROPRIETARY FUND

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

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

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

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FIDUCIARY FUNDS

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

**C. Basis of Presentation**

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

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

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

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

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

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are

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included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

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

**D. Basis of Accounting**

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

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

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

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

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2002, but which were levied to finance fiscal year 2003 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating

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statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as donated commodities revenue.

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

**E. Budgets**

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2002 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. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the final budgeted amount in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2002.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.)

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

5. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions within a fund must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All departments/functions and funds completed the year within the amount of their legally authorized cash basis appropriation.

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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 2002.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Cash disbursements plus encumbrances may not legally exceed budgeted appropriations at the fund, function and/or object level.

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

**F. Cash and Investments**

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

During fiscal year 2002, investments were limited to investments in the State Asset Treasury Reserve of Ohio (STAR Ohio).

The District has invested funds in STAR Ohio during fiscal 2002. 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, 2002.

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 2002 amounted to \$33,074, which includes \$7,884 assigned from other District funds.

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

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

**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.

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

**H. Capital Assets**

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

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

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

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

**I. Interfund Balances**

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

**J. Compensated Absences**

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

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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 as payments come due each period upon the occurrence of employee resignations and retirements.

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

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

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

**L. Fund Balance Reserves**

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

**M. Net Assets**

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

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

**N. Prepayments**

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

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recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

**O. Estimates**

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

**P. Restricted Assets**

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by state statute to be set aside to create a reserve for budget stabilization. See Note 16 for details.

**Q. Operating Revenues and Expenses**

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

**R. Contributions of Capital**

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

**S. Interfund Activity**

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

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

**T. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2002.



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**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Changes in Accounting Principles and Restatement of Fund Balance**

For fiscal year 2002, the District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments"; GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus"; GASB Statement No. 38, "Certain Financial Statement Note Disclosures"; and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2001, there was no effect on fund balance as a result of implementing GASB Statements 37 and 38.

GASB No. 34 creates new basic financial statements for reporting on the District's financial activities. The basic financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements show the District's programs for governmental activities and business-type activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2001, caused by the conversion to the accrual basis of accounting.

*Governmental Activities - Fund Reclassification and Restatement of Fund Balance* - Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Standards of GASB No. 34. Certain funds previously reported as enterprise funds have been reclassified and are now part of the general fund. Funds previously reported as expendable trust funds and nonexpendable trust funds have been reclassified and are now private purpose trust funds. It was also determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2001.

The fund reclassifications and the implementation of GASB Interpretation No. 6 had the following effect on the District's governmental fund balances as previously reported:

	General	Nonmajor	Total
Fund balance June 30, 2001	\$91,520	\$199,600	\$291,120
Fund reclassifications	9,560		9,560
Implementation of GASB Interpretation No. 6	(13,354)		(13,354)
Adjusted fund balance, June 30, 2001	\$87,726	\$199,600	\$287,326

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

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	Total
Adjusted fund balance, June 30, 2001	\$287,326
GASB 34 adjustments:	
Long-term (deferred) assets	35,788
Capital assets	2,239,173
Accrued interest payable	(778)
Long-term liabilities	(703,025)
Governmental activities net assets, June 30, 2001	\$1,858,484

As part of the implementation of GASB Statement No. 34, it was determined to reclassify the Uniform School Supplies Fund from an enterprise fund to the general fund. This fund reclassification resulted in retained earnings of \$68,458 at June 30, 2001 being restated to net assets of \$58,898 at July 1, 2001. The reclassification also resulted in cash and cash equivalents on the cash flow statement of \$85,750 at June 30, 2001 being restated to \$77,562 at July 1, 2001.

**B. Deficit Fund Balances**

Fund balances at June 30, 2002 included the following individual fund deficit:

Nonmajor Funds	Deficit
Management Information Systems	\$405

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

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

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of monies held by the District into three categories.

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

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

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

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds

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deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Cash on Hand: At fiscal year-end, the District had \$670 in undeposited cash on hand which is included on the basic financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

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

Deposits: At year-end, the carrying amount of the District's deposits was \$189,859, and the bank balance was \$274,974. Of the bank balance:

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1. \$189,346 was covered by federal depository insurance; and
2. \$85,597 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

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

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

The District had investments of \$1,409,386 in STAR Ohio at June 30, 2002 which represents its fair value. STAR Ohio is not categorized because it is not evidenced by securities that exist in physical or book entry form.

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

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$1,599,915	
Investments of the cash management pool:		
Investment in STAR Ohio	(1,409,386)	\$1,409,386
Cash on hand	(670)	
GASB Statement No. 3	\$189,859	\$1,409,386

**NOTE 5 - INTERFUND TRANSACTIONS**

Interfund transfers for the year ended June 30, 2002, consisted of the following, as reported on the fund statements:

Transfer to nonmajor governmental fund from:	
General fund	\$56,811

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(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. Distributions from the second half of the calendar year occur in a new fiscal year and are intended to finance the operations of that year. Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the District.

Real property taxes and public utility taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by state law at 35% of appraised market value.

Public utility property taxes are assessed on tangible personal property, as well as land and improvements. Real property is assessed at 35% of market value; tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25% of true value.

The assessed value upon which the 2001 taxes were collected was \$96,571,540. Agricultural/Residential and public utility real estate represented 51.25% or \$49,493,630 of this total; Commercial & Industrial real estate represented 15.94% or \$15,391,880 of this total; public utility tangible represented 4.40% or \$4,248,640 of this total and general tangible property 28.41% or \$27,437,390 of this total. The voted general tax rate for operations at the fiscal year ended June 30, 2002 was \$45.20 per \$1,000.00 of assessed valuation, and \$2.00 per \$1,000.00 of assessed valuation for permanent improvements.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits later payment dates to be established.

The Defiance County Treasurer collects property tax on behalf of the District. The County Auditor periodically remits to the District its portion of the taxes collected. These tax "advances" are based on statutory cash flow collection rates. Final "settlements" are made each February and August. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes, which became measurable as of June 30, 2002. Although total property tax collections for the next fiscal year are measurable, they are not (exclusive of advances) intended to finance current year operations. The net receivable (total receivable less amount available intended to finance the current year) is therefore offset by a credit to deferred revenue. A total of \$356,701 was available to the District as an advance at June 30 and is recognized as revenue.

Taxes available for advance and recognized as revenue but not received by the District prior to June 30, 2002, are reflected as a reservation of fund balance for future appropriations. The District is prohibited, by law, from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year-end.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2002 consisted of taxes and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities	
Taxes - current and delinquent	\$3,645,928
Intergovernmental	<u>65,936</u>
Total receivables	<u><u>\$3,711,864</u></u>

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

**NOTE 8 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2002, was as follows:

	Balance 6/30/01	Additions	Deductions	Balance 6/30/02
<u>Governmental Activities</u>				
Capital assets, not being depreciated:				
Land	\$148,406			\$148,406
Capital assets, being depreciated:				
Land improvements	128,232	\$23,012		151,244
Building/improvements	2,716,114	45,930		2,762,044
Furniture/equipment	1,666,486	108,329	(\$161,433)	1,613,382
Vehicles	397,265	57,826	(52,486)	402,605
Textbooks	<u>378,309</u>	<u>54,847</u>		<u>433,156</u>
Total capital assets, being depreciated	<u>5,286,406</u>	<u>289,944</u>	<u>(213,919)</u>	<u>5,362,431</u>
Less: accumulated depreciation:				
Land improvements	(\$37,474)	(\$11,299)		(\$48,773)
Buildings/improvements	(1,377,592)	(54,461)		(1,432,053)
Furniture/equipment	(1,138,703)	(99,297)	\$161,433	(1,076,567)
Vehicles	(282,796)	(13,854)	52,486	(244,164)
Textbooks	<u>(359,074)</u>	<u>(484)</u>		<u>(359,558)</u>
Total accumulated depreciation	<u>(3,195,639)</u>	<u>(179,395)</u>	<u>213,919</u>	<u>(3,161,115)</u>
Governmental activities capital assets, net	<u><u>\$2,239,173</u></u>	<u><u>\$110,549</u></u>		<u><u>\$2,349,722</u></u>
<u>Business-Type Activities</u>				
Capital assets, being depreciated:				
Furniture/equipment	\$75,479	\$29,268		\$104,747
Less: accumulated depreciation	<u>(56,062)</u>	<u>(3,703)</u>		<u>(59,765)</u>
Business-type activities capital assets, net	<u><u>\$19,417</u></u>	<u><u>\$25,565</u></u>		<u><u>\$44,982</u></u>

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$87,824
Special	4,736
Vocational	4,694
<u>Support Services:</u>	
Pupil	1,974
Instructional staff	10,260
Administration	6,375
Fiscal	2,767
Operation and maintenance	42,530
Pupil transportation	12,485
Operation of non-instructional services	1,362
Extracurricular activities	4,388
Total depreciation expense	<u><u>\$179,395</u></u>

**NOTE 9 - LONG-TERM OBLIGATIONS**

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

The following is a description of the District's bonds outstanding as of June 30, 2002:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Bonds Outstanding 6/30/01</u>	<u>Retired in 2002</u>	<u>Bonds Outstanding 6/30/02</u>
Energy conservation bonds	5.43%	2/1/99	12/1/08	<u>\$174,000</u>	<u>(\$48,000)</u>	<u>\$126,000</u>

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$18,000	\$6,354	\$24,354
2004	18,000	5,377	23,377
2005	18,000	4,400	22,400
2006	18,000	3,422	21,422
2007	18,000	2,445	20,445
2008-2011	36,000	1,957	37,957
Total	<u>\$126,000</u>	<u>\$23,955</u>	<u>\$149,955</u>

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)

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

	Balance 6/30/01	Increase	Decrease	Balance 6/30/02	Amounts Due in One Year
<u>Governmental Activities</u>					
Compensated absences payable	\$504,037	\$16,487		\$520,524	\$113,758
General obligation bonds payable	174,000		(\$48,000)	126,000	18,000
Total governmental activities long-term liabilities	<u>\$678,037</u>	<u>\$16,487</u>	<u>(\$48,000)</u>	<u>\$646,524</u>	<u>\$131,758</u>
<u>Business-Type Activities</u>					
Compensated absences	<u>\$9,986</u>		<u>(\$746)</u>	<u>\$9,240</u>	

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

**C. Legal Debt Margin**

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

The effects of these debt limitations at June 30, 2002 are a voted debt margin of \$8,565,439, an unvoted debt margin of \$96,572, and an energy conservation debt margin of \$743,144.

**NOTE 10 - COMPENSATED ABSENCES**

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

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred days for both classified and certified employees. Upon retirement, payment is made for twenty-five percent of accrued plus three days if notice of retirement is received by the Superintendent prior to April 1, to a maximum of fifty-three days.

**NOTE 11 - RISK MANAGEMENT**

**A. Comprehensive**

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

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



**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)

**B. Employee Insurance Benefits Program**

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

**C. Workers' Compensation Group Program**

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

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

**NOTE 12 - DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

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

Plan members are required to contribute 9% of their annual covered salary and the District is required to contribute 14% for 2002; 5.46% was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by the School Employees Retirement Board within the rates allowed by state statute. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2002, 2001 and 2000 were \$34,948, \$28,784, and \$43,223, respectively; 77.90% has been contributed for fiscal year 2002 and 100% for the fiscal years 2001 and 2000. \$19,800 represents the unpaid contribution for fiscal year 2002.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)

**B. State Teachers Retirement System**

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

Plan members are required to contribute 9.3% of their annual covered salary and the District is required to contribute 14%; 9.5% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The District's required contributions to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$282,960, \$286,243, and \$174,702, respectively; 82.43 % has been contributed for fiscal year 2002 and 100% for the fiscal years 2001 and 2000. \$73,260 represents the unpaid contribution for fiscal year 2002.

**NOTE 13 - POSTEMPLOYMENT BENEFITS**

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$134,034 during fiscal 2002.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.011 billion at June 30, 2002. For the fiscal year ended June 30, 2002, net health care costs paid by STRS were \$354.697 million and STRS had 105,300 eligible benefit recipients.

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

For this fiscal year, employer contributions to fund health care benefits were 8.54 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2001 (the latest information available), were \$161.440 million and the target level was \$242.2 million. At June 30, 2001 (the latest information available), SERS had net assets available for payment of health care benefits of \$315.7 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$64,621 during the 2002 fiscal year.

**NOTE 14 - BUDGETARY BASIS OF ACCOUNTING**

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

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

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

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

Net Change in Fund Balance	
	General Fund
Budget basis	\$708,406
Net adjustment for revenue accruals	1,639
Net adjustment for expenditure accruals	(35,866)
Net adjustment for other sources/uses	(5,516)
Adjustment for encumbrances	34,392
GAAP basis	\$703,055

**NOTE 15 - CONTINGENCIES**

**A. Grants**

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)

District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

**B. State School Funding Decision**

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

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

**NOTE 16 - STATUTORY RESERVES**

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2002, the reserve activity was as follows:

	Instructional Materials	Capital Acquisition	Budget Stabilization
Set-aside cash balance as of June 30, 2001	\$18,055		\$19,583
Current year set-aside requirement	111,816	\$111,816	
Current year offsets			
Qualifying disbursements	(180,821)	(50,384)	
Balance carried forward to FY 2003	(\$50,950)	\$61,432	\$19,583
Cash balance as of June 30, 2002		\$61,432	\$19,583

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

A schedule of the Governmental Fund restricted assets at June 30, 2002 follows:

Amount restricted for budget stabilization	\$19,583
Amount restricted for capital acquisition	61,432
Amount restricted for school bus purchase allowance	13,510
Total restricted assets	\$94,525



**Auditor of State  
Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of Ayersville Local School District, Defiance County, (the District) as of and for the year ended June 30, 2002, and have issued our report thereon dated May 12, 2003, in which we noted the District adopted Governmental Accounting Standards Board Statement 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated May 12, 2003.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated May 12, 2003.

One Government Center / Room 1420 / Toledo, OH 43604-2246  
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

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

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

**Betty Montgomery**  
Auditor of State

May 12, 2003

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2002

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i><b>Explain:</b></i>
2001-10120-001	§ 5705.41 (B) – Expenditures exceeded appropriations	Yes	
2001-10120-002	§ 5705.10 – General levy money misposted to the incorrect fund	No	Partially corrected. Reissued as a management letter comment.
2001-10120-003	Material Weakness – Financial Reporting	Yes	
2001-10120-004	Reportable Condition – Board approved estimated resources were not properly posted to the District's system	No	Partially corrected. Reissued as a management letter comment.







**Auditor of State  
Betty Montgomery**

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**AYERSVILLE LOCAL SCHOOL DISTRICT**

**DEFIANCE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JUNE 17, 2003**