



**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2005**



**Auditor of State  
Betty Montgomery**





Mary Taylor, CPA  
Auditor of State

January 12, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

*Mary Taylor*

MARY TAYLOR, CPA  
Auditor of State

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**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, the business-type activities, each major fund, and the aggregate remaining fund information of Ayersville Local School District, Defiance County, Ohio (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Ayersville Local School District, Defiance County, Ohio, as of June 30, 2005, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

One Government Center / Room 1420 / Toledo, OH 43604-2246  
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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

**Betty Montgomery**  
Auditor of State

December 20, 2006



**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED**

The discussion and analysis of Ayersville Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for 2005 are as follows:

- In total, net assets increased \$1,019,487. Net assets of governmental activities increased \$1,012,842, which represents a 21.33% increase from 2004. Net assets of business-type activities increased \$6,645 or 18.59% from 2004.
- General revenues accounted for \$7,461,064 in revenue or 84.07% of all governmental revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,412,649 or 15.92% of total revenues of \$8,873,713 in governmental funds.
- The District had \$7,840,871 in expenses related to governmental activities; only \$1,412,649 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 \$7,461,064 were adequate to provide for these programs.
- The District's major governmental fund is the general fund. The general fund had \$7,086,328 in revenues and other financing sources and \$7,103,121 in expenditures and other financing uses. The general fund's fund balance decreased from \$2,319,485 to \$2,316,581.
- The District's enterprise fund is the food service fund. The food services had \$345,358 in revenues, \$20,000 in transfers and \$358,713 in expenses. The food services fund balance increased from \$35,745 to \$42,390.

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

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund is by far the most significant 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, 2005  
UNAUDITED  
(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 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and 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***

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, 2005  
UNAUDITED  
(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 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. The District's fiduciary activities are reported in a Statement of Fiduciary Net Assets. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

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

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

**The District as a Whole**

The Statement of Net Assets provides the perspective of the District as a whole. The table below provides a summary of the District's net assets for 2005 and 2004.

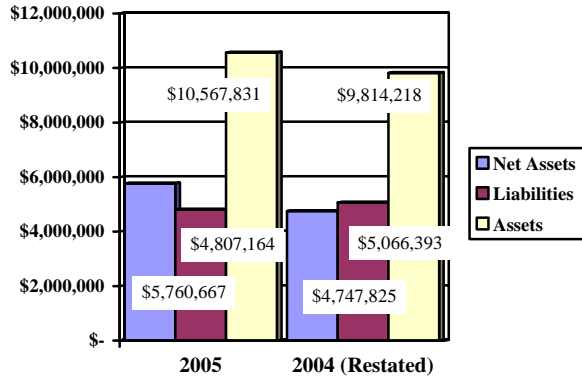
	<b>Net Assets</b>			
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>2005</u>	<u>2004 (Restated)</u>	<u>2005</u>	<u>2004</u>
<b><u>Assets</u></b>				
Current assets	\$ 7,836,787	\$ 6,961,311	\$ 41,982	\$ 13,706
Capital assets	2,731,044	2,852,907	55,934	62,892
Total assets	<u>10,567,831</u>	<u>9,814,218</u>	<u>97,916</u>	<u>76,598</u>
<b><u>Liabilities</u></b>				
Current liabilities	4,107,001	4,373,622	45,493	32,151
Long-term liabilities	<u>700,163</u>	<u>692,771</u>	<u>10,033</u>	<u>8,702</u>
Total liabilities	<u>4,807,164</u>	<u>5,066,393</u>	<u>55,526</u>	<u>40,853</u>
<b><u>Net Assets</u></b>				
Invested in capital assets, net of debt	2,659,044	2,762,907	55,934	62,892
Restricted	313,724	127,402		
Unrestricted	<u>2,787,899</u>	<u>1,857,516</u>	<u>(13,544)</u>	<u>(27,147)</u>
Total net assets	<u>\$ 5,760,667</u>	<u>\$ 4,747,825</u>	<u>\$ 42,390</u>	<u>\$ 35,745</u>

Total assets increased by \$774,931 due primarily from an increase in cash and cash equivalents of \$282,556 and tax receivables rising by \$731,686, due mainly to delinquencies. Subsequently, the net assets of the District increased \$1,019,487.

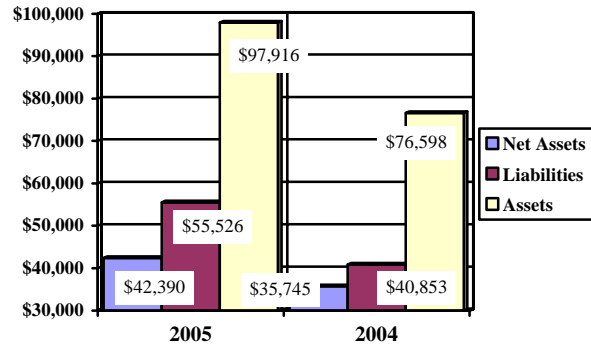
**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

**Governmental – Net Assets**



**Business-Type – Net Assets**



The table below shows the changes in net assets for governmental activities and business-type activities for fiscal year 2005 and 2004.

**Change in Net Assets**

	Governmental Activities		Business-Type Activities	
	2005	2004 (Restated)	2005	2004
<b>Revenues</b>				
Program revenues:				
Charges for services and sales	\$ 1,072,035	\$ 1,065,684	\$ 264,274	\$ 223,214
Operating grants and contributions	288,866	254,686	75,757	74,731
Capital grants and contributions	51,748	26,994		
General revenues:				
Property taxes	4,577,898	3,633,511		
Grants and entitlements	2,207,930	2,116,457		
Revenue in lieu of taxes	518,552	500,070		
Investment earnings	66,982	24,023	209	102
Other	89,702	149,305	5,118	2,522
<b>Total revenues</b>	<b>8,873,713</b>	<b>7,770,730</b>	<b>345,358</b>	<b>300,569</b>

**AYERSVILLE LOCAL SCHOOL DISTRICT  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
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(Continued)**

	<u>2005</u>	<u>2004 (Restated)</u>	<u>2005</u>	<u>2004 (Restated)</u>
<b><u>Expenses</u></b>				
Program expenses:				
Instruction:				
Regular	3,798,081	3,391,125		
Special	625,734	471,032		
Vocational	214,933	278,859		
Other	205,959	246,219		
Support services:				
Pupil	326,769	292,455		
Instructional staff	291,717	270,739		
Board of Education	7,779	7,280		
Administration	678,002	597,343		
Fiscal	298,575	273,611		
Operations and maintenance	670,298	676,992		
Pupil transportation	233,887	218,681		
Central	29,029	38,543		
Operation of non-instructional services	108,254	69,488		
Extracurricular activities	349,368	342,606		
Interest and fiscal charges	2,486	4,313		
Food service	-	-	358,713	309,380
Total expenses	<u>7,840,871</u>	<u>7,179,286</u>	<u>358,713</u>	<u>309,380</u>
Transfers	<u>(20,000)</u>	<u>(10,000)</u>	<u>20,000</u>	<u>10,000</u>
Changes in net assets	<u>\$ 1,012,842</u>	<u>\$ 581,444</u>	<u>\$ 6,645</u>	<u>\$ 1,189</u>

**Governmental Activities**

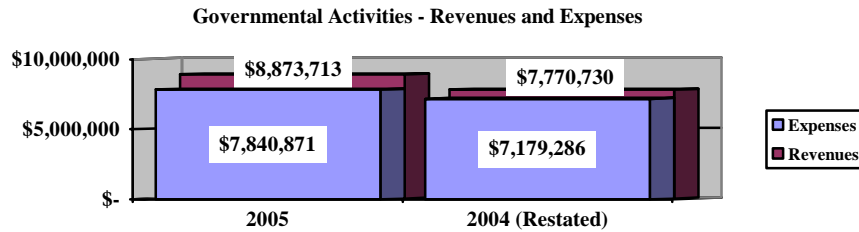
Net assets of the District's governmental activities increased \$1,012,842. Total governmental expenses of \$7,840,871 were offset by program revenues of \$1,412,649 and general revenues of \$7,461,064. Program revenues supported 18.02% of the total governmental expenses.

The governmental activities expenses and business type expenses increased \$661,585 and \$49,333, respectively, mainly due to rising health care costs. The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 76.5% of total governmental revenue. Real estate property is reappraised every six years.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
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(Continued)**

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2005 and 2004.



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2005 compared to 2004. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

**Governmental Activities**

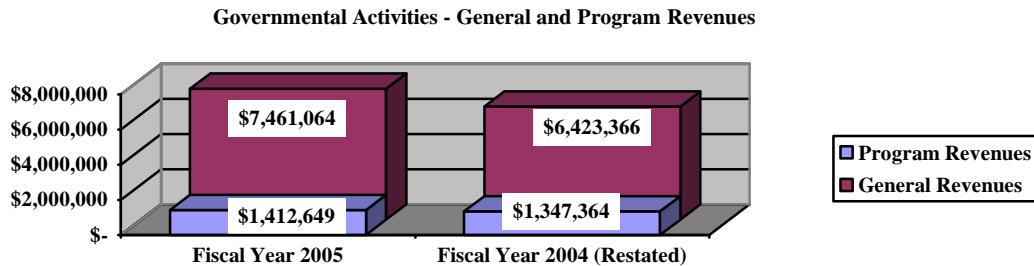
	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>	Total Cost of Services <u>2004 (Restated)</u>	Net Cost of Services <u>2004 (Restated)</u>
Program expenses:				
Instruction:				
Regular	\$ 3,798,081	\$ 2,784,764	\$ 3,391,125	\$ 2,404,671
Special	625,734	508,054	471,032	376,764
Vocational	214,933	212,233	278,859	278,859
Other	205,959	205,959	246,219	246,219
Support services:				
Pupil	326,769	256,892	292,455	239,936
Instructional staff	291,717	248,657	270,739	260,326
Board of Education	7,779	7,779	7,280	7,280
Administration	678,002	678,002	597,343	575,981
Fiscal	298,575	293,575	273,611	270,427
Operations and maintenance	670,298	626,425	676,992	649,998
Pupil transportation	233,887	233,887	218,681	218,681
Central	29,029	29,029	38,543	38,543
Operation of non-instructional services	108,254	90,101	69,488	55,697
Extracurricular activities	349,368	250,379	342,606	204,227
Interest and fiscal charges	2,486	2,486	4,313	4,313
<b>Total expenses</b>	<b>\$ 7,840,871</b>	<b>\$ 6,428,222</b>	<b>\$ 7,179,286</b>	<b>\$ 5,831,922</b>

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
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(Continued)**

The dependence upon tax revenues during fiscal year 2005 for governmental activities is apparent, as 76.6% of 2005 instruction activities are supported through taxes and other general revenues. All governmental activities, general revenue support are 81.98% in 2005. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2005 and 2004.



**Business-Type Activities**

Business-type activities include the food service operation. This program had revenues of \$345,358, transfers in of \$20,000 and expenses of \$358,713 for fiscal year 2005. During fiscal year 2005 the net assets for the food service operation increased from \$35,745 to \$42,390. The District's business activities receive no support from tax revenues mainly due to transfers in from the general fund.

**The District's Funds**

The District's governmental funds reported a combined fund balance of \$2,629,691 which is above last year's total of \$2,549,962. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance June 30, 2005	Fund Balance June 30, 2004 (Restated)	Increase (Decrease)
General	\$ 2,316,581	\$ 2,319,485	\$ (2,904)
Other Governmental	<u>313,110</u>	<u>230,477</u>	<u>82,633</u>
Total	<u>\$ 2,629,691</u>	<u>\$ 2,549,962</u>	<u>\$ 79,729</u>

**General Fund**

The District's general fund balance decreased by \$2,904 from the prior year due to increased expenditures, primarily in the areas of salaries and health care benefits. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
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	<u>2005</u> <u>Amount</u>	<u>Amount</u> <u>(Restated)</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>				
Taxes	\$ 3,289,715	\$ 3,345,643	\$ (55,928)	(1.67) %
Tuition	915,169	886,261	28,908	3.26 %
Interest earnings	65,459	21,681	43,778	201.92 %
Revenue in Lieu of Taxes	498,548	500,070	(1,522)	(0.30) %
Intergovernmental	2,207,930	2,116,457	91,473	4.32 %
Other revenues	<u>69,856</u>	<u>175,082</u>	<u>(105,226)</u>	(60.10)
	<u>\$ 7,046,677</u>	<u>\$ 7,045,194</u>	<u>\$ 1,483</u>	0.02 %
Total				
<b><u>Expenditures</u></b>				
Instruction	\$ 4,470,307	\$ 4,048,045	\$ 422,262	10.43 %
Support services	2,339,692	2,244,164	95,528	4.26 %
Operation of non-instructional services	4,230	2,500	1,730	69.20 %
Extracurricular activities	207,031	208,954	(1,923)	(0.92) %
Facilities acquisition and construction	<u>57,361</u>	<u>57,361</u>	<u>-</u>	100.00 %
Total	<u>\$ 7,078,621</u>	<u>\$ 6,561,024</u>	<u>\$ 517,597</u>	7.89 %

Intergovernmental revenue increased over the prior year, as well as interest earnings and tuition. The decrease in other revenues is due to the timing of enterprise zone donations. All other revenue remained comparable to 2004.

***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 2005, 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 \$7,493,571, below original budget estimates of \$7,495,350. The actual budget basis revenues and other financing sources for fiscal year 2005 totaled \$7,227,674, of this \$265,897 difference, most was due to the non-receipt of enterprise zone donations that was expected by June 30.



**AYERSVILLE LOCAL SCHOOL DISTRICT  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
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General fund original appropriations of \$7,153,261 were not changed in total in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$7,057,338, which was \$95,923 less than the final budget appropriations, primarily because materials and supplies proved to be lower than anticipated in the original and final budget.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2005, the District had \$2,786,978 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and textbooks. Of this total, \$2,731,044 was reported in governmental activities and \$55,934 was reported in business-type activities. The following table shows fiscal 2005 balances compared to 2004:

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

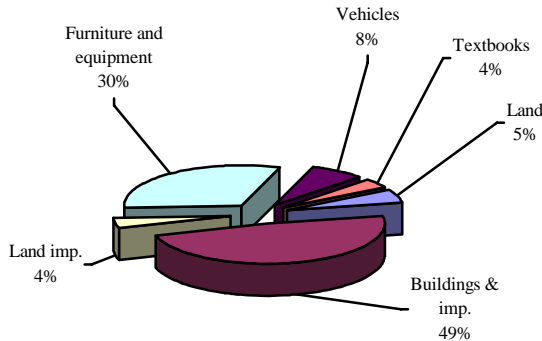
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Land	\$ 148,406	\$ 148,406			\$ 148,406	\$ 148,406
Land improvements	114,149	131,190			114,149	131,190
Building and improvements	1,339,499	1,390,415			1,339,499	1,390,415
Furniture and equipment	809,496	784,167	\$55,934	\$62,892	865,430	847,059
Vehicles	208,316	265,036			208,316	265,036
Textbooks	111,178	133,693			111,178	133,693
<b>Total</b>	<b><u>\$ 2,731,044</u></b>	<b><u>\$ 2,852,907</u></b>	<b><u>\$ 55,934</u></b>	<b><u>\$ 62,892</u></b>	<b><u>\$ 2,786,978</u></b>	<b><u>\$ 2,915,799</u></b>

**AYERSVILLE LOCAL SCHOOL DISTRICT  
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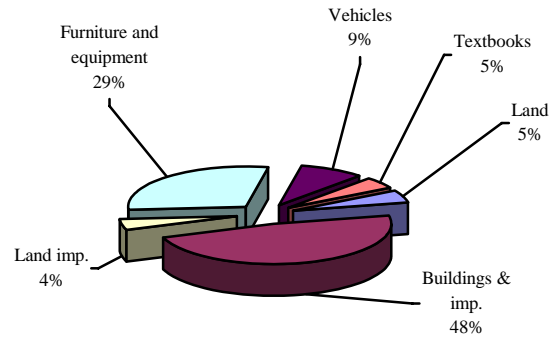
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
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(Continued)**

The following graphs show the breakdown of total capital assets by category for 2005 and 2004.

**Capital Assets - 2005**



**Capital Assets - 2004**



See Note 8 to the basic financial statements for additional information on the District's capital assets.

**Debt Administration**

At June 30, 2005, the District had \$72,000 in energy conservation bonds outstanding. Of this total, \$18,000 is due within one year and \$54,000 is due within greater than one year. The following table summarizes the bonds outstanding.

**Outstanding Debt, at Year End**

	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
Energy conservation bonds	\$ 72,000	\$ 90,000
Total	<u>\$ 72,000</u>	<u>\$ 90,000</u>

See Note 9 to the basic financial statements for additional information on the District's debt administration.

**Current Financial Related Activities**

As the preceding information shows, the District relies heavily upon grants and 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.

Operating levies are in place on a continuing basis to help fund General Fund operations; however, the future

**AYERSVILLE LOCAL SCHOOL DISTRICT  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

financial stability of the District is not without challenges. As of June 30, 2005, the District expects revenues to exceed expenditures through the end of fiscal year 2006. House Bill 66, which was passed in the Ohio State Legislature for implementation effective July 1, 2005, brings significant challenges to the future revenue stability of the District. The elimination of the personal tangible tax base over the next five years amounts to nearly 29% of the taxable value in the District. Although the state has guaranteed that districts will be reimbursed for this loss over the next five years, questions surround the language in the bill as to the total "hold harmless" provision. The impact on the district's enterprise zone donations is also unknown due to House Bill 66.

**Contacting the District's Financial Management**

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

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**STATEMENT OF NET ASSETS  
JUNE 30, 2005**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents. . . . .	\$ 2,675,725	\$ 26,864	\$ 2,702,589
Investments . . . . .	297,189		297,189
Receivables:			
Taxes . . . . .	4,432,827		4,432,827
Accounts . . . . .	371,069		371,069
Intergovernmental . . . . .	19,496	6,647	26,143
Accrued interest . . . . .	1,406		1,406
Prepayments . . . . .	9,644	675	10,319
Materials and supplies inventory. . . . .	29,431	7,796	37,227
Capital assets:			
Land . . . . .	148,406		148,406
Depreciable capital assets, net . . . . .	2,582,638	55,934	2,638,572
Total capital assets, net . . . . .	2,731,044	55,934	2,786,978
 Total assets. . . . .	 10,567,831	 97,916	 10,665,747
 <b>Liabilities:</b>			
Accounts payable. . . . .	18,436		18,436
Accrued wages and benefits . . . . .	785,472	29,811	815,283
Pension obligation payable. . . . .	140,506	15,022	155,528
Intergovernmental payable . . . . .	24,446	660	25,106
Deferred revenue . . . . .	3,137,920		3,137,920
Accrued interest payable . . . . .	221		221
Long-term liabilities:			
Due within one year. . . . .	120,253		120,253
Due within more than one year . . . . .	579,910	10,033	589,943
 Total liabilities . . . . .	 4,807,164	 55,526	 4,862,690
 <b>Net Assets:</b>			
Invested in capital assets, net of related debt. . . . .	2,659,044	55,934	2,714,978
Restricted for:			
Capital projects . . . . .	143,449		143,449
State funded programs	2,958		2,958
Federally funded programs	20,973		20,973
Other purposes . . . . .	146,344		146,344
Unrestricted (deficit) . . . . .	2,787,899	(13,544)	2,774,355
 Total net assets . . . . .	 \$ 5,760,667	 \$ 42,390	 \$ 5,803,057

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>
<b>Governmental activities:</b>			
Instruction:			
Regular . . . . .	\$ 3,798,081	\$ 969,652	\$ 43,665
Special . . . . .	625,734		117,680
Vocational . . . . .	214,933		2,700
Other . . . . .	205,959		
Support services:			
Pupil . . . . .	326,769		69,877
Instructional staff . . . . .	291,717		35,185
Board of education . . . . .	7,779		
Administration . . . . .	678,002		
Fiscal . . . . .	298,575		5,000
Operations and maintenance . . . . .	670,298		
Pupil transportation . . . . .	233,887		
Central . . . . .	29,029		
Operation of non-instructional			
services . . . . .	108,254	9,125	9,028
Extracurricular activities . . . . .	349,368	93,258	5,731
Interest and fiscal charges . . . . .	2,486		
Total governmental activities . . . . .	<u>7,840,871</u>	<u>1,072,035</u>	<u>288,866</u>
<b>Business-type activities:</b>			
Food service . . . . .	<u>358,713</u>	<u>264,274</u>	<u>75,757</u>
Total business-type activities . . . . .	<u>358,713</u>	<u>264,274</u>	<u>75,757</u>
Totals . . . . .	<u>\$ 8,199,584</u>	<u>\$ 1,336,309</u>	<u>\$ 364,623</u>
			<u>\$ 51,748</u>

**General Revenues:**

Property taxes levied for:
General purposes . . . . .
Debt service . . . . .
Capital outlay . . . . .
Other purposes . . . . .
Grants and entitlements not restricted to specific programs . . . . .
Revenue in lieu of taxes . . . . .
Investment earnings . . . . .
Miscellaneous . . . . .

Total general revenues . . . . .

Transfers . . . . .

Total general revenues and transfers . . . . .

Change in net assets . . . . .

**Net assets at beginning of year . . . . .**

**Net assets at end of year . . . . .**

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (2,784,764)		\$ (2,784,764)
(508,054)		(508,054)
(212,233)		(212,233)
(205,959)		(205,959)
(256,892)		(256,892)
(248,657)		(248,657)
(7,779)		(7,779)
(678,002)		(678,002)
(293,575)		(293,575)
(626,425)		(626,425)
(233,887)		(233,887)
(29,029)		(29,029)
(90,101)		(90,101)
(250,379)		(250,379)
(2,486)		(2,486)
(6,428,222)		(6,428,222)
	\$ (18,682)	(18,682)
	(18,682)	(18,682)
(6,428,222)	(18,682)	(6,446,904)
4,225,394		4,225,394
20,476		20,476
175,329		175,329
156,699		156,699
2,207,930		2,207,930
518,552		518,552
66,982	209	67,191
89,702	5,118	94,820
7,461,064	5,327	7,466,391
(20,000)	20,000	
7,441,064	25,327	7,466,391
1,012,842	6,645	1,019,487
4,747,825	35,745	4,783,570
\$ 5,760,667	\$ 42,390	\$ 5,803,057

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2005**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents . . . . .	\$ 2,388,446	\$ 281,757	\$ 2,670,203
Investments . . . . .	297,189		297,189
Receivables:			
Taxes . . . . .	4,094,157	338,670	4,432,827
Accounts . . . . .	340,295	30,774	371,069
Intergovernmental . . . . .		19,496	19,496
Accrued interest . . . . .	1,406		1,406
Prepayments . . . . .	9,230	414	9,644
Materials and supplies inventory . . . . .	29,431		29,431
Restricted assets:			
Equity in pooled cash and cash equivalents . . . . .	5,522		5,522
<b>Total assets . . . . .</b>	<b><u>\$ 7,165,676</u></b>	<b><u>\$ 671,111</u></b>	<b><u>\$ 7,836,787</u></b>
<b>Liabilities:</b>			
Accounts payable . . . . .	\$ 10,627	\$ 7,809	\$ 18,436
Accrued wages and benefits . . . . .	764,358	21,114	785,472
Compensated absences payable . . . . .	68,003	-	68,003
Pension obligation payable . . . . .	131,726	8,780	140,506
Intergovernmental payable . . . . .	23,818	628	24,446
Deferred revenue . . . . .	3,850,563	319,670	4,170,233
<b>Total liabilities . . . . .</b>	<b><u>4,849,095</u></b>	<b><u>358,001</u></b>	<b><u>5,207,096</u></b>
<b>Fund Balances:</b>			
Reserved for encumbrances . . . . .	49,907	58,850	108,757
Reserved for materials and supplies inventory . . . . .	29,431		29,431
Reserved for prepayments . . . . .	9,230	414	9,644
Reserved for tax revenue unavailable for appropriation . . . . .	245,000	19,000	264,000
Reserved for school bus purchases . . . . .	5,522		5,522
Unreserved, undesignated, reported in:			
General fund . . . . .	1,977,491		1,977,491
Special revenue funds . . . . .		185,771	185,771
Capital projects funds . . . . .		49,075	49,075
<b>Total fund balances . . . . .</b>	<b><u>2,316,581</u></b>	<b><u>313,110</u></b>	<b><u>2,629,691</u></b>
<b>Total liabilities and fund balances . . . . .</b>	<b><u>\$ 7,165,676</u></b>	<b><u>\$ 671,111</u></b>	<b><u>\$ 7,836,787</u></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, 2005**

<b>Total governmental fund balances</b>	\$	2,629,691
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*Amounts reported for governmental activities in the statement of net assets are different because:*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		2,731,044
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Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.

Taxes	\$	1,030,001	
Intergovernmental revenue		906	
Interest revenue		1,406	
		1,406	

Total		1,032,313
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Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Energy conservation bonds		72,000	
Compensated absences		560,160	
Accrued interest payable		221	
		221	

Total		(632,381)
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<b>Net assets of governmental activities</b>	<b>\$</b>	<b>5,760,667</b>
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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, 2005**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
From local sources:			
Taxes . . . . .	\$ 3,289,715	\$ 275,182	\$ 3,564,897
Tuition. . . . .	915,169		915,169
Earnings on investments. . . . .	65,459	1,523	66,982
Extracurricular. . . . .		92,669	92,669
Classroom materials and fees . . . . .	54,483		54,483
Other local revenues. . . . .	15,373	50,123	65,496
Revenue in lieu of taxes	498,548	45,007	543,555
Intergovernmental - state . . . . .	2,207,930	70,930	2,278,860
Intergovernmental - federal. . . . .		247,576	247,576
Total revenue . . . . .	<u>7,046,677</u>	<u>783,010</u>	<u>7,829,687</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular . . . . .	3,536,263	117,802	3,654,065
Special. . . . .	522,103	97,815	619,918
Vocational. . . . .	205,982		205,982
Other . . . . .	205,959		205,959
Support Services:			
Pupil. . . . .	251,328	72,706	324,034
Instructional staff . . . . .	282,157	39,242	321,399
Board of education . . . . .	7,779	-	7,779
Administration . . . . .	664,755	25,508	690,263
Fiscal . . . . .	292,149	12,307	304,456
Operations and maintenance . . . . .	619,844	88,962	708,806
Pupil transportation . . . . .	192,651		192,651
Central. . . . .	29,029		29,029
Operation of non-instructional services . . . . .	4,230	102,543	106,773
Extracurricular activities. . . . .	207,031	127,516	334,547
Facilities acquisition and construction . . . . .	57,361		57,361
Debt service:			
Principal retirement . . . . .		18,000	18,000
Interest and fiscal charges . . . . .		2,476	2,476
Total expenditures . . . . .	<u>7,078,621</u>	<u>704,877</u>	<u>7,783,498</u>
Excess of revenues over (under) expenditures . . . . .	<u>(31,944)</u>	<u>78,133</u>	<u>46,189</u>
<b>Other financing sources (uses):</b>			
Transfers (out). . . . .	(24,500)	4,500	(20,000)
Proceeds from sale of capital assets. . . . .	39,651		39,651
Total other financing sources (uses) . . . . .	<u>15,151</u>	<u>4,500</u>	<u>19,651</u>
Net change in fund balances . . . . .	(16,793)	82,633	65,840
<b>Fund balances at beginning of year (restated) . . . . .</b>	<b>2,319,485</b>	<b>230,477</b>	<b>2,549,962</b>
<b>Increase in reserve for inventory. . . . .</b>	<b>13,889</b>		<b>13,889</b>
<b>Fund balances at end of year. . . . .</b>	<b><u>\$ 2,316,581</u></b>	<b><u>\$ 313,110</u></b>	<b><u>\$ 2,629,691</u></b>

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, 2005**

<b>Net change in fund balances - total governmental funds</b>	<b>\$</b>	<b>65,840</b>
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$265,522) exceed depreciation expense (\$369,760) in the current period.		(104,238)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.		(17,625)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		1,004,375
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		18,000
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		(10)
Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		32,611
Governmental funds report expenditures for inventory when purchased, however; in the statement of activities they are reported as an expense when consumed.		<u>13,889</u>
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b><u>1,012,842</u></b>

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, 2005**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 3,537,470	\$ 3,537,470	\$ 3,249,215	\$ (288,255)
Tuition . . . . .	919,623	919,208	915,169	(4,039)
Earnings on investments . . . . .	63,748	63,719	63,439	(280)
Classroom materials and fees . . . . .	54,748	54,723	54,483	(240)
Other local revenues . . . . .	19,248	19,240	19,155	(85)
Revenue in lieu of taxes	661,772	661,473	658,567	(2,906)
Intergovernmental - state . . . . .	2,218,676	2,217,673	2,207,930	(9,743)
<b>Total revenue . . . . .</b>	<b>7,475,285</b>	<b>7,473,506</b>	<b>7,167,958</b>	<b>(305,548)</b>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	3,504,687	3,504,687	3,457,456	47,231
Special . . . . .	515,295	515,295	508,351	6,944
Vocational . . . . .	219,771	219,771	216,809	2,962
Other . . . . .	209,494	209,494	206,671	2,823
Support Services:				
Pupil . . . . .	252,308	252,308	248,908	3,400
Instructional staff . . . . .	286,365	286,365	282,506	3,859
Board of education . . . . .	7,953	7,953	7,846	107
Administration . . . . .	633,489	633,489	624,952	8,537
Fiscal . . . . .	300,666	300,666	296,614	4,052
Operations and maintenance . . . . .	685,824	685,824	676,581	9,243
Pupil transportation . . . . .	201,522	201,522	198,806	2,716
Central . . . . .	29,426	29,426	29,029	397
Operation of non-instructional services . . . . .	4,292	4,292	4,234	58
Extracurricular activities . . . . .	208,524	208,524	205,714	2,810
Facilities acquisition and construction . . . . .	58,145	58,145	57,361	784
<b>Total expenditures . . . . .</b>	<b>7,117,761</b>	<b>7,117,761</b>	<b>7,021,838</b>	<b>95,923</b>
Excess of revenues over expenditures . . . . .	357,524	355,745	146,120	(209,625)
<b>Other financing sources (uses):</b>				
Proceeds from sale of capital assets . . . . .			39,651	39,651
Transfers in . . . . .	11,000	11,000	11,000	
Transfers (out) . . . . .	(35,500)	(35,500)	(35,500)	
Refund of prior year expenditures . . . . .	9,065	9,065	9,065	
<b>Total other financing sources (uses) . . . . .</b>	<b>(15,435)</b>	<b>(15,435)</b>	<b>24,216</b>	<b>39,651</b>
Net change in fund balance . . . . .	342,089	340,310	170,336	(169,974)
<b>Fund balance at beginning of year . . . . .</b>	<b>2,412,703</b>	<b>2,412,703</b>	<b>2,412,703</b>	
<b>Prior year encumbrances appropriated . . . . .</b>	<b>50,395</b>	<b>50,395</b>	<b>50,395</b>	
<b>Fund balance at end of year . . . . .</b>	<b>\$ 2,805,187</b>	<b>\$ 2,803,408</b>	<b>\$ 2,633,434</b>	<b>\$ (169,974)</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2005**

	<b>Business-Type Activities- Enterprise Fund</b>
	<b>Food Service</b>
<b>Assets:</b>	
Current assets:	
Equity in pooled cash and cash equivalents . . . . .	\$ 26,864
Receivables:	
Intergovernmental . . . . .	6,647
Prepayments . . . . .	675
Materials and supplies inventory . . . . .	7,796
Total current assets . . . . .	41,982
Noncurrent assets:	
Capital assets, net . . . . .	55,934
Total assets . . . . .	97,916
<b>Liabilities:</b>	
Current liabilities:	
Accrued wages and benefits. . . . .	29,811
Pension obligation payable . . . . .	15,022
Intergovernmental payable . . . . .	660
Total current liabilities . . . . .	45,493
Noncurrent liabilities:	
Compensated absences payable. . . . .	10,033
Total liabilities . . . . .	55,526
<b>Net assets:</b>	
Invested in capital assets. . . . .	55,934
Unrestricted . . . . .	(13,544)
Total net assets . . . . .	\$ 42,390

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<b>Business-Type Activities- Enterprise Fund</b>
	<b>Food Service</b>
<b>Operating revenues:</b>	
Sales and charges for services. . . . .	\$ 264,274
Other . . . . .	5,118
	<u>269,392</u>
<b>Operating expenses:</b>	
Personal services . . . . .	182,618
Purchased services . . . . .	3,640
Materials and supplies . . . . .	10,661
Other . . . . .	70
Cost of sales. . . . .	154,766
Depreciation. . . . .	6,958
	<u>358,713</u>
Total operating expenses . . . . .	<u>358,713</u>
Operating loss. . . . .	<u>(89,321)</u>
<b>Nonoperating revenues:</b>	
Grants and subsidies. . . . .	47,315
Federal donated commodities . . . . .	28,442
Interest revenue . . . . .	209
	<u>75,966</u>
Total nonoperating revenues . . . . .	<u>75,966</u>
Loss before transfers	(13,355)
Transfer in . . . . .	20,000
	<u>6,645</u>
Change in net assets. . . . .	6,645
<b>Net assets at beginning of year . . . . .</b>	<b><u>35,745</u></b>
<b>Net assets at end of year . . . . .</b>	<b><u>\$ 42,390</u></b>

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, 2005**

	<b>Business-Type Activities- Enterprise Fund</b>
	<b>Food Service</b>
<b>Cash flows from operating activities:</b>	
Cash received from sales and charges for services. . . . .	\$ 264,274
Cash received from other operations. . . . .	5,118
Cash payments for personal services. . . . .	(167,945)
Cash payments for contractual services . . . . .	(4,301)
Cash payments for materials and supplies . . . . .	(135,930)
Cash payments for other expenses . . . . .	(70)
	(38,854)
Net cash used in operating activities . . . . .	(38,854)
<b>Cash flows from noncapital financing activities:</b>	
Cash received from grants and subsidies. . . . .	45,437
Transfers in from other funds . . . . .	20,000
	65,437
Net cash provided by noncapital financing activities . . . . .	65,437
Net cash provided by investing activities . . . . .	209
Net increase in cash and cash equivalents . . . . .	26,792
<b>Cash and cash equivalents at beginning of year . . . . .</b>	<b>72</b>
<b>Cash and cash equivalents at end of year . . . . .</b>	<b>\$ 26,864</b>

-continued

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUND (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<b>Business-Type Activities- Enterprise Fund</b>
	<b>Food Service</b>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>	
Operating loss. . . . .	\$ (89,321)
Adjustments:	
Federal donated commodities . . . . .	28,442
Depreciation. . . . .	6,958
Changes in assets and liabilities:	
Decrease in materials and supplies inventory . . . . .	1,055
Increase in prepayments . . . . .	(661)
Increase in accrued wages and benefits . . . . .	8,974
Increase in compensated absences payable . . . . .	1,331
Increase in pension obligation payable . . . . .	4,361
Increase in intergovernmental payable . . . . .	7
Net cash used in operating activities . . . . .	\$ (38,854)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2005**

	<b>Agency</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents . . . . .	\$ 38,777
Total assets . . . . .	\$ 38,777
<b>Liabilities:</b>	
Intergovernmental payable . . . . .	\$ 203
Due to students . . . . .	38,574
Total liabilities . . . . .	\$ 38,777

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, 2005**

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

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

The District was established in 1938 through the consolidation of existing land areas and school districts. The District serves an area of approximately fifty-five square miles. It is located in Defiance County. The District is the 518<sup>th</sup> largest in the State of Ohio (among the 614 public school districts) in terms of enrollment. It is staffed by 33 classified employees and 64 certified employees, including four administrative personnel, who provide services to 902 students and other community members. The District currently operates one instructional building and one bus garage.

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

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

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service and student related activities of the District.

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

*JOINTLY GOVERNED ORGANIZATIONS*

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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

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

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

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

Northwest Ohio Special Education Regional Resource Center - The Northwest Ohio Special Education Regional Resource Center (SERRC) is a jointly governed organization formed to provide services to families, educators, and agencies regarding educational law and curriculum and instruction for students with disabilities. The SERRC serves a thirteen county area in Northwest Ohio. The Governing Board consists of superintendents from each of the cooperating School Districts, the fiscal agent superintendent, two parents of children with disabilities, one superintendent of a county board of MR/DD, one representative from a chartered non-public school, one representative from the University of Toledo, one representative from Bowling Green State University, one representative from a community school, and any other representatives from other agencies as designated by the Governing Board or the Ohio Department of Education. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from Dave Michel, Eastwood Local School District, 4800 Sugar Ridge Road, Pemberville, Ohio 43450.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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

Northwest Ohio Regional Professional Development Center - The Northwest Ohio Regional Professional Development Center (RPDC) is a jointly governed organization among the school districts in Defiance, Erie, Fulton, Henry, Lucas, Ottawa, Sandusky, Williams, and Wood counties. The RPDC focuses on the implementation of academic content standards and the deployment of State initiatives. All activities reflect definition of high quality professional development, including job-embedded, connected to strategic goals, sustained, intensive skill building, and measurement of impact on student learning.

The Center is governed by a fifteen member board made up of representatives from the participating school districts, the business community, and two institutions of higher learning. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from the Northwest Ohio Regional Professional Development Center, 414 Emerald Street, 2<sup>nd</sup> Floor, Toledo, Ohio 43602.

Northwest Ohio Education Council - The Northwest Ohio Education Council (NWOEC) was established to foster cooperation among various school districts within Ohio that participate in the Northwest Ohio Educational Council Self-Insurance Pool Program (NOEC Program). NWOEC is organized under Chapter 167.01 of the Ohio Revised Code as a regional council of governments pursuant to a written agreement entered into by its members and by policies adopted by the member school districts. NWOEC members consist of the school districts' superintendents. To obtain financial information write to Frank McKain, MARSH USA, One Seagate Center, Suite 1860, Toledo, Ohio 43604.

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's Employee Insurance Benefits Program (the Pool) is a public entity shared risk pool consisting of educational entities located in Defiance, Fulton, Henry, and Williams counties. The Pool is governed by the Northern Buckeye Education Council and its participating members. Total disbursements made by the District to NBEC for employee insurance benefits during the fiscal year ending June 30, 2005 were \$688,941. Financial information can be obtained from Northern Buckeye Education Council, Crystal Meyer, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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

Northern Buckeye Education Council's Worker's Compensation Group Rating Plan - The Section 4123.29 of the Ohio Revised Code. The Northern Buckeye Education Council's Workers' Compensation Group Rating Plan (WCGRP) was established through the Northern Buckeye Education Council (NBEC) as a group purchasing pool.

The WCGRP's business and affairs are conducted by a three member board of directors consisting of two Assembly representatives for each of the counties of Defiance, Fulton, Henry, and Williams and the representative of the member serving as fiscal agent for NBEC. The Executive Director of the Council shall coordinate the management and administration of the program. Each year, the participating members pay an enrollment fee to WCGRP to cover the costs of administering the program. The District paid \$829 for these services to NBEC in fiscal year 2005.

Northwest Ohio Educational Council Self-Insurance Pool Program

The District participates in the Northwest Ohio Educational Council Self-Insurance Pool Program (NOEC Program) which is an insurance purchasing pool. The NOEC Program is created and organized pursuant to and as authorized by § 2744.081 of the Ohio Revised Code. The Northwest Ohio Education Council (NWOEC) is a Council of Governments created pursuant to Chapter 167.01 of the Ohio Revised Code. The NOEC Program is a non-profit organization to its members and an instrumentality for each member for the purpose of enabling members of the NOEC Program to provide for a formalized, joint insurance program to maintain adequate insurance protection, risk management programs, and other administrative services. The NOEC Program's business and affairs are conducted by a nine member Insurance Committee created by the governing board of the NWOEC. The NOEC Program has an agreement with Marsh USA for administrative services and Cambridge Integrated Services, Inc. for claims processing. The District paid \$41,961 for these services to NOEC in fiscal year 2005.

**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.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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

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 the proprietary fund; 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 District's proprietary fund is an enterprise 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 following is the District's major enterprise fund:

*Food Service Fund* - This fund accounts for the financial transactions related to the food service operations of the District. This fund is the District's only enterprise fund and is reported as a major fund.

*FIDUCIARY FUNDS*

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

**C. Basis of Presentation**

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

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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

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. Fiduciary funds are reported by fund type.

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

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

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

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.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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

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, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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



**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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

**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 2005 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 in the budgetary statement reflect the amounts set forth in the original and final Amended Certificates issued for fiscal year 2005.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund and object level of expenditures, which are the legal levels of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.)

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

5. Any revisions that alter the total of any fund appropriation or alter object appropriations 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.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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

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 2005. The amounts reported in the budgetary statement reflect the amounts set forth in the original and final budgeted appropriations for fiscal year 2005.
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 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 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 2005, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), certificate of deposits, and federal agency securities. Except for non-participating investment contracts, investments are reported at fair value, which is based on quoted market prices. Non-participating investment contracts, such as non-negotiable certificates of deposits, are valued at cost.

The District has invested funds in STAR Ohio during fiscal 2005. 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, 2005.

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 2005 amounted to \$65,459, which includes \$5,706 assigned from other District funds.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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

For presentation on the financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

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

**G. Inventory**

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

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

**H. Capital Assets**

General capital assets are those assets not specifically related to activities reported in the proprietary fund. 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 fund are reported both in the business-type activities column of the government-wide statement of net assets and in fund financial statements.

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

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

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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

<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. Compensated Absences**

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

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

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

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

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

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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

**K. Fund Balance Reserves**

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

**L. Net Assets**

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

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

**M. Prepayments**

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

**N. Estimates**

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

**O. Restricted Assets**

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

**AYERSVILLE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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

**P. Operating Revenues and Expenditures**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are sales for food service. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating.

**Q. 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.

**R. 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 2005.

**NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES AND NET ASSETS**

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modifies disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The private purpose trust funds were reclassified to properly reflect their intended purpose.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES AND NET ASSETS – (Continued)**

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the District, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 and the fund reclassification had the following effect on the fund balances of the major and non-major funds of the District as they were previously reported as of June 30, 2004:

	General Fund	Other Governmental Funds	Private Purpose Trust Funds
Fund Balances, June 30, 2004	\$ 2,355,995	\$ 186,652	\$ 48,570
GASB Technical Bulletin No. 2004-2	(36,510)	(4,745)	
Reclassification of Private Purpose Trust Funds		48,570	(48,570)
Restated Fund Balance, June 30, 2004	\$ 2,319,485	\$ 230,477	

The change in net assets due to the reclassification of the private purpose trust funds to the governmental activities is presented as follows:

	Activities	Trust Funds
Net Assets, June 30, 2004	\$ 4,699,255	\$ 48,570
Reclassification of Private Purpose Trust Funds	48,570	(48,570)
Restated Net Assets, June 30, 2004	\$ 4,747,825	

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

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

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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

Protection of District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC) and by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

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



**AYERSVILLE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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

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

**A. Cash on Hand**

At year-end, the District had \$490 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

**B. Deposits with Financial Institutions**

At June 30, 2005, the carrying amount of all District deposits was \$1,089,935. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$1,131,274 of the District's bank balance of \$1,232,852 was exposed to custodial risk as discussed below, while \$101,578 was covered by Federal Deposit Insurance Corporation.

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

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

**AYERSVILLE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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

**C. Investments**

As of June 30, 2005, the District had the following investments and maturities:

<u>Investment type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturities</u>	
		<u>6 months or less</u>	<u>7 to 12 months</u>
STAR Ohio	\$ 1,650,941	\$ 1,650,941	
Federal Home Loan Bank	297,189		\$ 297,189
	<u>\$ 1,948,130</u>	<u>\$ 1,650,941</u>	<u>\$ 297,189</u>

Interest Rate Risk - The District has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the District, and that an investment must be purchased with the expectation that it will be held to maturity. State statute limits investments in commercial paper to a maximum maturity of 180 days from the date of purchase. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2% and be marked to market daily.

Credit Risk - The Federal Home Loan Bank Notes carry a rating of Aaa by Moody's and AAA by Standard and Poor's. The STAR Ohio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market mutual fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. The District has no investment policy that would further limit its investment choices.

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

Concentration of Credit Risk - The District places no limit on the amount it may invest in any one issuer, however state statute limits investments in commercial paper and bankers' acceptances to 25% of the interim monies available for investment at any one time. The District's investments in the Federal Home Loan Bank represent 15% of the District's total investments.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**NOTE 5 - INTERFUND TRANSACTIONS**

Interfund transfers for the year ended June 30, 2005, consisted of the following, as reported on the government-wide and fund financial statements:

Transfer from general fund to:	
Food Service Fund	<u>\$ 20,000</u>
Public School Support Fund	<u>\$ 4,500</u>

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

**NOTE 6 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004, and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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

The District receives property taxes from Defiance County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available as an advance at June 30, 2005, was \$245,000 in the general fund, \$8,500 in the Special Levy special revenue fund (a nonmajor governmental fund) and \$10,500 in the Permanent Improvement capital projects fund (a nonmajor governmental fund). The amount available for advance at June 30, 2004, was \$204,500 in the general fund, \$7,000 in the Special Levy special revenue fund (a nonmajor governmental fund) and \$8,800 in the Permanent Improvement capital projects fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary depending upon when the tax bills are sent by the County Auditor.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

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

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second Half Collections		2005 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 67,113,390	64.05	\$ 67,503,640	67.40
Public utility personal property	4,162,480	3.97	3,747,060	3.74
Tangible personal property	<u>33,515,080</u>	<u>31.98</u>	<u>28,897,720</u>	<u>28.86</u>
<b>Total</b>	<b><u>\$ 104,790,950</u></b>	<b><u>100.00</u></b>	<b><u>\$ 100,148,420</u></b>	<b><u>100.00</u></b>
Tax rate per \$1,000 of assessed valuation:				
Operations		44.65		44.48
Permanent improvement		2.00		2.00

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2005, consisted of taxes, accounts, accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the items of receivables reported on the Statement of Net Assets follows:

**Governmental Activities:**

Taxes	\$ 4,432,827
Accounts	371,069
Intergovernmental	19,496
Accrued interest	<u>1,406</u>
Total	<u>\$ 4,824,798</u>

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

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**NOTE 8 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Balance <u>June 30, 2004</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2005</u>
<b>Governmental Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 148,406	\$ -	\$ -	\$ 148,406
Capital assets, being depreciated:				
Land improvements	213,750			213,750
Building/improvements	2,937,489	8,339		2,945,828
Furniture/equipment	1,923,438	231,473	(149,693)	2,005,218
Vehicles	541,813		(13,741)	528,072
Textbooks	<u>538,839</u>	<u>25,710</u>	<u>-</u>	<u>564,549</u>
Total capital assets, being depreciated	<u>6,155,329</u>	<u>265,522</u>	<u>(163,434)</u>	<u>6,257,417</u>
Less: accumulated depreciation				
Land improvements	(82,560)	(17,041)		(99,601)
Building/improvements	(1,547,074)	(59,255)		(1,606,329)
Furniture/equipment	(1,139,271)	(198,443)	141,992	(1,195,722)
Vehicles	(276,777)	(46,796)	3,817	(319,756)
Textbooks	<u>(405,146)</u>	<u>(48,225)</u>	<u>-</u>	<u>(453,371)</u>
Total accumulated depreciation	<u>(3,450,828)</u>	<u>(369,760)</u>	<u>145,809</u>	<u>(3,674,779)</u>
Governmental activities capital assets, net	<u>\$ 2,852,907</u>	<u>\$ (104,238)</u>	<u>\$ (17,625)</u>	<u>\$ 2,731,044</u>
<b>Business-Type Activities</b>				
Capital assets, being depreciated:				
Furniture/equipment	132,206		(12,193)	120,013
Less: accumulated depreciation	<u>(69,314)</u>	<u>(6,958)</u>	<u>12,193</u>	<u>(64,079)</u>
Business-type activities capital assets, net	<u>\$ 62,892</u>	<u>\$ (6,958)</u>	<u>\$ -</u>	<u>\$ 55,934</u>

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**NOTE 8 - CAPITAL ASSETS – (Continued)**

Depreciation expense was charged to governmental functions as follows:

Instruction:		
Regular	\$	126,755
Special		5,332
Vocational		20,715
Support Services:		
Pupil		1,951
Instructional staff		61,157
Administration		8,518
Fiscal		2,707
Operations and maintenance		77,428
Pupil transportation		41,261
Operation of non-instructional services		1,481
Extracurricular activities		<u>22,455</u>
Total depreciation expense	\$	<u>369,760</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 following is a description of the District's bonds outstanding as of June 30, 2005:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Bonds Outstanding June 30, 2004</u>	<u>Retired 2005</u>	<u>Bonds Outstanding June 30, 2005</u>
Energy conservation bonds	3.68%	02/01/99	12/01/08	\$ <u>90,000</u>	\$ <u>(18,000)</u>	\$ <u>72,000</u>

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**NOTE 9 - LONG-TERM OBLIGATIONS – (Continued)**

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

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 18,000	\$ 2,650	\$ 20,650
2007	18,000	1,987	19,987
2008	18,000	1,325	19,325
2009	<u>18,000</u>	<u>662</u>	<u>18,662</u>
Total	<u>\$ 72,000</u>	<u>\$ 6,624</u>	<u>\$ 78,624</u>

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

	<u>Balance June 30, 2004</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2005</u>	<u>Amounts Due in One Year</u>
<b>Governmental Activities</b>					
Compensated absences payable	\$ 602,771	\$25,392		\$ 628,163	\$ 102,253
General obligation bonds payable	<u>90,000</u>		<u>(18,000)</u>	<u>72,000</u>	<u>18,000</u>
Total governmental activities long-term liabilities	<u>\$ 692,771</u>	<u>\$25,392</u>	<u>\$ (18,000)</u>	<u>\$ 700,163</u>	<u>\$ 120,253</u>
<b>Business-Type Activities</b>					
Compensated absences payable	<u>\$ 8,702</u>	<u>\$ 4,651</u>	<u>\$ (3,320)</u>	<u>\$ 10,033</u>	
Total business-type activities long-term liabilities	<u>\$ 8,702</u>	<u>\$ 4,651</u>	<u>\$ (3,320)</u>	<u>\$ 10,033</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, 2005, are a voted debt margin of \$8,941,358, an unvoted debt margin of \$100,148, and an energy conservation debt margin of \$829,336.



**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**NOTE 10 - COMPENSATED ABSENCES**

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

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

**NOTE 11 - RISK MANAGEMENT**

**A. Comprehensive**

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

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

**B. Employee Insurance Benefits Program**

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

**C. Workers' Compensation Group Program**

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

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

**AYERSVILLE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**NOTE 12 - DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$93,692, \$70,638 and \$57,699, respectively; 53.53% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$57,672 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

**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 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**NOTE 12 - DEFINED BENEFIT PENSION PLANS – (Continued)**

DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2005 and 2004, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions for pension obligations for the fiscal years ended June 30, 2005, 2004, and 2003 were \$520,772, \$425,244, and \$426,217, respectively; 84.51% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$86,864 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement Systems/State Teachers Retirement System. As of June 30, 2005, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

**NOTE 13 - POSTEMPLOYMENT BENEFITS**

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

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**NOTE 13 - POSTEMPLOYMENT BENEFITS – (Continued)**

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% of covered payroll. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$40,059 during fiscal year 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.3 billion at June 30, 2005. For the fiscal year ended June 30, 2005, net health care costs paid by STRS were \$254.780 million and STRS had 115,395 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. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Net health care costs for the year ending June 30, 2005 were \$178.211 million. The target level for the health card fund is 150% of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health card fund was \$267.5 million, which is about 168% of next year's projected net health care costs of \$158.777 million. On the basis of actuarial projects, the allocation contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs. The number of participants eligible to receive benefits is 58,123. For the District, the amount to fund health care benefits, including surcharge, equaled \$41,554, during fiscal year 2005.

**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 Budgetary Basis) and Actual presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**NOTE 14 - BUDGETARY BASIS OF ACCOUNTING – (Continued)**

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

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:

<b>Net Change in Fund Balance</b>	<u>General Fund</u>
Budget basis	\$ 170,336
Net adjustment for revenue accruals	(121,281)
Net adjustment for expenditure accruals	(117,317)
Net adjustment for other sources/uses	(9,065)
Adjustment for encumbrances	<u>60,534</u>
GAAP basis	<u>\$ (16,793)</u>

**NOTE 15 - CONTINGENCIES**

**A. Grants**

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

**NOTE 16 - STATUTORY RESERVES**

The District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year end. These amounts must be carried forward and used for the same purposes in future years.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**NOTE 16 - STATUTORY RESERVES – (Continued)**

The District restated the June 30, 2004, balance of the Instructional Material set aside to include additional qualifying disbursements from fiscal years 2003 and 2004 that were not included in the calculations of the prior years' balances. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2005, the reserve activity was as follows:

	<u>Instructional Materials</u>	<u>Capital Maintenance</u>
Set-aside cash balance as of June 30, 2004	\$ 34,923	
Additional Qualifying disbursements not included in prior years	<u>(171,063)</u>	
Restated set-aside cash balance as of June 30, 2004	(136,140)	
Current year set-aside requirement	126,179	\$ 126,179
Current year offset		(157,339)
Qualifying disbursements	<u>(160,304)</u>	
Total	<u>\$ (170,265)</u>	<u>\$ (31,160)</u>
Balance carried forward to fiscal year 2006	<u>\$ (170,265)</u>	

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



**Auditor of State  
Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Ayersville Local School District, Defiance County (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated December 20, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

**Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2005-001.

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Ayersville Local School District  
Defiance County  
Independent Accountants' Report on Internal Control over Financial  
Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*  
Page 2

We intend this report solely for the information and use of the audit committee, management, and the Board of Education. It is not intended for anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

December 20, 2006



**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2005**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2005-001**

**Finding for Recovery Repaid Under Audit**

A fundraiser for the Class of 2006 involving the sale of candy bars was held in fiscal year 2005. The fundraiser was approved by the school principal as evidenced by the "Annual Student Activity Fund Budget Form" and "Sales Project Potential Form." As indicated in the invoice from the vendor, 30 cases of candy bars were ordered from the vendor at a cost of \$3,378.48. Each case contained four boxes of 52 candy bars. There were a total of 6,240 candy bars which amounted to a cost per candy bar of \$.54. Per the District's revenue ledger, there were 4,662 candy bars sold at a price of one dollar each. The remaining 1,578 candy bars are unaccounted for. According to the Student Advisor and Principal, all records regarding this fund raiser, other than the receipts and the invoice, were destroyed by water damage and were disposed of. The cost of the 1,578 candy bars at \$.54 each amounts to \$852.12 which represents monies due but not collected.

In accordance with the foregoing facts, and pursuant to the Ohio Revised Code Section 117.28, a Finding for Recovery for public monies due but not collected is hereby issued against Melanie Reinhart, Student Advisor in the amount of eight hundred fifty two and twelve cents and in favor of the District's Student Activity Fund 200-9606. On December 19, 2006, Ms. Reinhart reimbursed Student Activity Fund 200-9606 \$852.12 on Receipt Number 51158.

**Officials' Response**

Following this Class of 2006 fundraiser, there were boxes of inventory left over to be sold at a later date. The boxes were stored in one of the few temperature-controlled environments in the school building. It was not possible to secure this area at all times; at some point these boxes were disposed of or removed from this area, without the permission and/or knowledge of the advisor.

The cost of the entire fundraiser inventory was recovered through the profit from the sales that were made; the inability to sell the remaining missing boxes did not hinder the Class of 2006's ability to pay for their planned activities.





**Mary Taylor, CPA**  
Auditor of State

**AYERSVILLE LOCAL SCHOOL DISTRICT**  
**DEFIANCE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED**  
**JANUARY 18, 2007**