



**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2006



**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 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, 2006, 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.

As further described in Note 3, during the fiscal year ended June 30, 2006, the District reclassified its presentation of the Food Service fund.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Ayersville Local School District, Defiance County, Ohio, as of June 30, 2006, and the respective changes in financial position 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.

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, 2006
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, 2006. 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 2006 are as follows:

- In total, net assets increased \$111,978, which represents a 1.9% increase from 2005.
- General revenues accounted for \$6,685,676 in revenue or 77.56% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,934,137 or 22.44% of total revenues of \$8,619,813.
- The District had \$8,507,835 in expenses related to governmental activities; only \$1,934,137 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$6,685,676 provided for these programs.
- The District's major governmental fund is the general fund. The general fund had \$7,310,422 in revenues and other financing sources and \$7,517,353 in expenditures and other financing uses. The general fund's fund balance decreased from \$2,316,581 to \$2,097,141.

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.

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 2006" 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.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed 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.

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in two agency funds. The District's fiduciary activities are reported in a separate Statements 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 2006 and 2005.

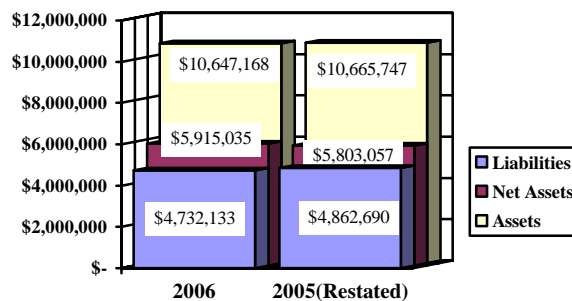
**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

	Net Assets	
	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005 (Restated)</u>
<u>Assets</u>		
Current assets	\$ 7,799,185	\$ 7,878,769
Capital assets	2,847,983	2,786,978
Total assets	<u>10,647,168</u>	<u>10,665,747</u>
<u>Liabilities</u>		
Current liabilities	3,963,458	4,152,494
Long-term liabilities	768,675	710,196
Total liabilities	<u>4,732,133</u>	<u>4,862,690</u>
<u>Net Assets</u>		
Invested in capital assets, net of debt	2,850,760	2,714,978
Restricted	426,353	313,724
Unrestricted	2,637,922	2,774,355
Total net assets	<u>\$ 5,915,035</u>	<u>\$ 5,803,057</u>

Total assets decreased by \$18,579 due primarily to a decrease in cash and cash equivalents. Subsequently, the net assets of the District increased \$111,978.

Governmental – Net Assets



**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

The table below shows the changes in net assets for governmental for fiscal year 2006 and 2005.

	Governmental Activities	
	2006	2005 (Restated)
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,556,533	\$ 1,336,309
Operating grants and contributions	377,604	364,623
Capital grants and contributions		51,748
General revenues:		
Property taxes	3,803,128	4,577,898
Grants and entitlements	2,261,663	2,207,930
Revenue in lieu of taxes	455,252	518,552
Investment earnings	137,531	67,191
Other	28,102	94,820
Total revenues	8,619,813	9,219,071
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	3,659,548	3,798,081
Special	677,808	625,734
Vocational	250,518	214,933
Other	258,456	205,959
Support services:		
Pupil	340,317	326,769
Instructional staff	341,476	291,717
Board of Education	18,660	7,779
Administration	746,569	678,002
Fiscal	293,844	298,575
Operations and maintenance	664,690	670,298
Pupil transportation	273,394	233,887
Central	30,433	29,029
Operation of non-instructional services	130,283	108,254
Extracurricular activities	440,632	349,368
Interest and fiscal charges	5,272	2,486
Food service	375,935	358,713
Total expenses	8,507,835	8,199,584
Changes in net assets	\$ 111,978	\$ 1,019,487

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

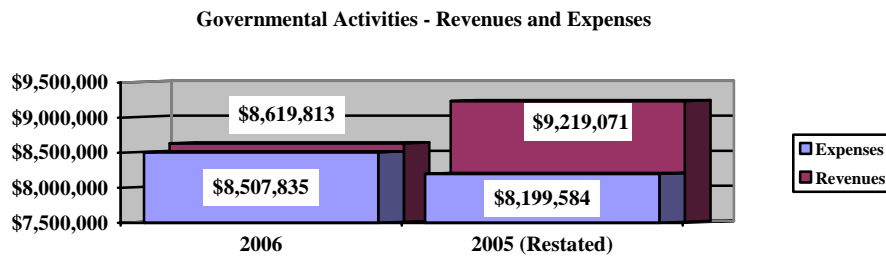
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

Governmental Activities

Net assets of the District's governmental activities increased \$111,978. Total governmental expenses of \$8,507,835 were offset by program revenues of \$1,934,137 and general revenues of \$6,685,676. Program revenues supported 22.73% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 70.36% of total governmental revenue. Real estate property is reappraised every six years.

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2006 and 2005.



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 2006 compared to 2005. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

Governmental Activities

	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>	Total Cost of Services 2005 (Restated)	Net Cost of Services 2005 (Restated)
Program expenses:				
Instruction:				
Regular	\$3,659,548	\$2,477,470	\$ 3,798,081	\$ 2,784,764
Special	677,808	567,101	625,734	508,054
Vocational	250,518	250,518	214,933	212,233
Other	258,456	256,456	205,959	205,959
Support services:				
Pupil	340,317	259,579	326,769	256,892
Instructional staff	341,476	327,874	291,717	248,657
Board of Education	18,660	18,660	7,779	7,779
Administration	746,569	707,565	678,002	678,002
Fiscal	293,844	288,844	298,575	293,575
Operations & maintenance	664,690	664,690	670,298	626,425
Pupil transportation	273,394	273,394	233,887	233,887
Central	30,433	30,433	29,029	29,029
Food service operations	375,935	12,723	358,713	18,682
Operation of non-instructional services	130,283	130,283	108,254	90,101
Extracurricular activities	440,632	302,836	349,368	250,379
Interest & fiscal charges	5,272	5,272	2,486	2,486
Total expenses	<u>\$8,507,835</u>	<u>\$6,573,698</u>	<u>\$ 8,199,584</u>	<u>\$ 6,446,904</u>

The dependence upon tax revenues during fiscal year 2006 for governmental activities is apparent, as 73.3% of 2006 instruction activities are supported through taxes and other general revenues. All governmental activities, general revenue support are 76.8% in 2006. The District's taxpayers, as a whole, are by far the primary support for District's students.

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. The District's major governmental fund is the General Fund. Total governmental funds had revenues and other financing sources of \$8,513,084 and expenditures and other financing uses of \$8,646,786.

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.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

During the course of fiscal 2006, 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 \$7,606,156, above original budget estimates of \$7,602,089. The actual budget basis revenues and other financing sources for fiscal year 2005 totaled \$7,375,995.

General fund original appropriations were \$7,432,814 and final appropriations were \$7,654,708. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$7,554,569.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2006, the District had \$2,847,983 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and textbooks. The following table shows fiscal 2006 balances compared to 2005:

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

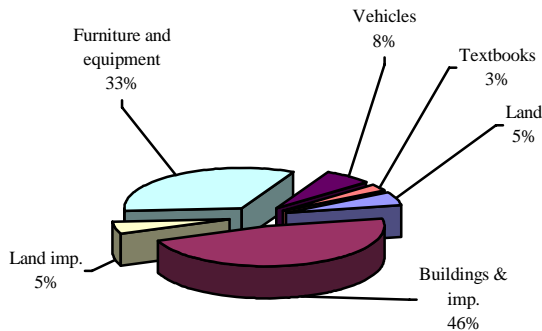
	Governmental Activities	
	2006	2005 (restated)
Land	\$ 148,406	\$ 148,406
Land improvements	139,350	114,149
Building and improvements	1,310,255	1,339,499
Furniture and equipment	933,445	865,430
Vehicles	237,560	208,316
Textbooks	78,967	111,178
Total	\$ 2,847,983	\$ 2,786,978

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

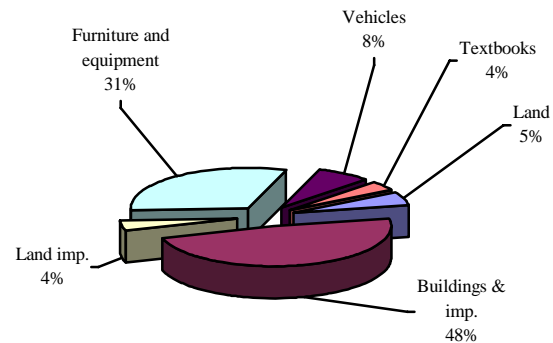
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

The following graphs show the breakdown of total capital assets by category for 2006 and 2005.

Capital Assets - 2006



Capital Assets - 2005



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

Debt Administration

At June 30, 2006, the District had \$54,000 in energy conservation bonds outstanding and \$64,695 in a Capital Lease outstanding. Of these totals, \$18,000 is due within one year and \$36,000 is due within greater than one year on the energy conservation bonds, \$11,662 and \$53,033 is due within one year and due within greater than one year on the capital lease, respectively. The following table summarizes the debt outstanding.

Outstanding Debt, at Year End

	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
Energy conservation bonds	\$ 54,000	\$ 72,000
Capital Lease	<u>64,695</u>	<u> </u>
Total	<u>\$ 118,695</u>	<u>\$ 72,000</u>

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

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

Current Financial Related Activities

Operating levies are in place on a continuing basis to help fund General Fund operations; however, the future financial stability of the District is not without challenges. As of June 30, 2006, the District's revenues to exceeded expenditures, as predicted. 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, failure to "hold harmless" the enterprise zone donations that are based on the personal tangible tax base will cause the District to actually experience a reduction in annual revenue in upcoming years.

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, 2006**

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 2,975,029
Receivables:	
Taxes	4,473,619
Accounts	272,714
Intergovernmental	40,536
Prepayments	12,668
Materials and supplies inventory	24,619
Capital assets:	
Land	148,406
Depreciable capital assets, net	2,699,577
Capital assets, net.	2,847,983
Total assets.	10,647,168
Liabilities:	
Accounts payable.	3,627
Accrued wages and benefits	806,433
Pension obligation payable.	165,523
Intergovernmental payable	28,193
Deferred revenue	2,959,516
Accrued interest payable	166
Long-term liabilities:	
Due within one year.	101,546
Due within more than one year	667,129
Total liabilities	4,732,133
Net Assets:	
Invested in capital assets, net of related debt.	2,850,760
Restricted for:	
Capital projects	172,433
State funded programs.	1,024
Federally funded programs.	25,673
Other purposes	227,223
Unrestricted	2,637,922
Total net assets	\$ 5,915,035

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Assets
		Governmental Activities		
Governmental activities:				
Instruction:				
Regular	\$ 3,659,548	\$ 1,153,000	\$ 29,078	\$ (2,477,470)
Special	677,808		110,707	(567,101)
Vocational	250,518			(250,518)
Other	258,456		2,000	(256,456)
Support services:				
Pupil	340,317		80,738	(259,579)
Instructional staff	341,476		13,602	(327,874)
Board of education	18,660			(18,660)
Administration	746,569		39,004	(707,565)
Fiscal	293,844		5,000	(288,844)
Operations and maintenance	664,690			(664,690)
Pupil transportation	273,394			(273,394)
Central	30,433			(30,433)
Operation of non-instructional services:				
Food service operations	375,935	270,402	92,810	(12,723)
Other non-instructional services	130,283			(130,283)
Extracurricular activities	440,632	133,131	4,665	(302,836)
Interest and fiscal charges	5,272			(5,272)
Total governmental activities	\$ 8,507,835	\$ 1,556,533	\$ 377,604	(6,573,698)
		General Revenues:		
		Property taxes levied for:		
		General purposes		3,502,947
		Special revenue		133,449
		Debt service		20,319
		Capital projects		146,413
		Grants and entitlements not restricted to specific programs		2,261,663
		Revenue in lieu of taxes		455,252
		Investment earnings		137,531
		Miscellaneous		28,102
		Total general revenues		6,685,676
		Change in net assets		111,978
		Net assets at beginning of year (restated) .		5,803,057
		Net assets at end of year		\$ 5,915,035

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 2,569,392	\$ 405,380	\$ 2,974,772
Receivables:			
Taxes	4,105,842	367,777	4,473,619
Accounts	269,245	3,469	272,714
Intergovernmental		40,536	40,536
Interfund receivable	1,800		1,800
Prepayments	11,849	819	12,668
Materials and supplies inventory	16,922	7,697	24,619
Restricted assets:			
Equity in pooled cash and cash equivalents	257		257
Total assets	<u>\$ 6,975,307</u>	<u>\$ 825,678</u>	<u>\$ 7,800,985</u>
Liabilities:			
Accounts payable	\$ 444	\$ 3,183	\$ 3,627
Accrued wages and benefits	755,918	50,515	806,433
Compensated absences payable	30,290		30,290
Pension obligation payable	147,651	17,872	165,523
Intergovernmental payable	26,796	1,397	28,193
Interfund payable		1,800	1,800
Deferred revenue	3,917,067	360,386	4,277,453
Total liabilities	<u>4,878,166</u>	<u>435,153</u>	<u>5,313,319</u>
Fund Balances:			
Reserved for encumbrances	53,809	85,685	139,494
Reserved for materials and supplies inventory	16,922	7,697	24,619
Reserved for prepayments	11,849	819	12,668
Reserved for property tax unavailable for appropriation	188,775	14,329	203,104
Reserved for school bus purchase	257		257
Unreserved, undesignated, reported in:			
General fund	1,825,529		1,825,529
Special revenue funds		253,109	253,109
Capital projects funds		28,886	28,886
Total fund balances	<u>2,097,141</u>	<u>390,525</u>	<u>2,487,666</u>
Total liabilities and fund balances	<u>\$ 6,975,307</u>	<u>\$ 825,678</u>	<u>\$ 7,800,985</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2006**

Total governmental fund balances		\$ 2,487,666
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		2,847,983
Other long-term assets (taxes) are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 1,310,999	
Intergovernmental revenue	<u>6,938</u>	
Total		1,317,937
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(166)
Long-term liabilities, including bonds and lease-purchase agreements payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	\$ 619,690	
Capital lease obligation	64,695	
Energy conservation note	<u>54,000</u>	
Total		<u>(738,385)</u>
Net assets of governmental activities		<u><u>\$ 5,915,035</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 3,251,033	\$ 271,097	\$ 3,522,130
Tuition	1,097,020		1,097,020
Charges for services		266,253	266,253
Earnings on investments	136,314	2,623	138,937
Classroom materials and fees	54,628		54,628
Extracurricular		102,664	102,664
Other local revenues	26,363	42,164	68,527
Revenue in lieu of taxes	424,896	30,356	455,252
Intergovernmental - State	2,250,083	40,278	2,290,361
Intergovernmental - Federal		338,227	338,227
Total revenue	7,240,337	1,093,662	8,333,999
Expenditures:			
Current:			
Instruction:			
Regular	3,595,406	97,501	3,692,907
Special	559,610	110,649	670,259
Vocational	222,538	2,700	225,238
Other	252,619	2,000	254,619
Support services:			
Pupil	254,904	81,256	336,160
Instructional staff	266,434	18,489	284,923
Board of education	18,660		18,660
Administration	676,856	26,337	703,193
Fiscal	273,621	16,863	290,484
Operations and maintenance	559,717	150,696	710,413
Pupil transportation	295,651		295,651
Central	30,433		30,433
Operation of non-instructional services:			
Food service operations		370,319	370,319
Other non-instructional services	14,392	108,075	122,467
Extracurricular activities	286,173	124,229	410,402
Facilities acquisition and construction	23,236		23,236
Capital outlay	69,895		69,895
Debt service:			
Principal retirement	5,200	18,000	23,200
Interest and fiscal charges	3,008	2,319	5,327
Total expenditures	7,408,353	1,129,433	8,537,786
Excess of expenditures over revenues	(168,016)	(35,771)	(203,787)
Other financing sources (uses):			
Transfers in		109,000	109,000
Transfers out	(109,000)		(109,000)
Sale of capital assets	190		190
Capital leases	69,895		69,895
Total other financing sources (uses)	(38,915)	109,000	70,085
Net change in fund balances	(206,931)	73,229	(133,702)
Fund balances at beginning of year (restated)	2,316,581	309,599	2,626,180
Increase in reserve for inventory	(12,509)	7,697	(4,812)
Fund balances at end of year	\$ 2,097,141	\$ 390,525	\$ 2,487,666

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, 2006**

Net change in fund balances - total governmental funds \$ (133,702)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital outlay	\$ 483,902	
Depreciation expense	(390,199)	
Total	93,703	93,703

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

Capital asset disposals	(222,355)	
Accumulated depreciation on disposals	189,657	
Total	(32,698)	(32,698)

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

(4,812)

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

Taxes	280,998	
Interest	(1,406)	
Intergovernmental	6,032	
Total	285,624	285,624

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

23,200

Proceeds of leases are recorded as revenue in the funds, however on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets.

(69,895)

Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is due to the accrued interest on bonds.

55

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.

(49,497)

Change in net assets of governmental activities **\$ 111,978**

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, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 3,587,675	\$ 3,587,675	\$ 3,307,258	\$ (280,417)
Tuition	1,085,359	1,086,459	1,097,020	10,561
Earnings on investments	132,084	132,218	133,503	1,285
Classroom materials and fees	54,047	54,102	54,628	526
Other local revenues	26,095	26,121	26,375	254
Revenue in lieu of taxes	490,663	491,160	495,934	4,774
Intergovernmental - State	2,226,166	2,228,421	2,250,083	21,662
Total revenue	<u>7,602,089</u>	<u>7,606,156</u>	<u>7,364,801</u>	<u>(241,355)</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,641,497	3,695,010	3,645,889	49,121
Special	574,278	582,717	574,971	7,746
Vocational	220,398	223,637	220,664	2,973
Other	248,433	252,084	248,733	3,351
Support services:				
Pupil	255,500	259,254	255,808	3,446
Instructional staff	264,414	268,300	264,733	3,567
Board of education	25,739	26,117	25,770	347
Administration	707,016	717,406	707,869	9,537
Fiscal	273,050	277,062	273,379	3,683
Operations and maintenance	575,943	584,407	576,638	7,769
Pupil transportation	297,070	301,435	297,428	4,007
Central	30,396	30,843	30,433	410
Operation of non-instructional services:				
Other non-instructional services	13,058	13,250	13,074	176
Extracurricular activities	273,814	277,837	274,144	3,693
Facilities acquisition and construction	23,208	23,549	23,236	313
Total expenditures	<u>7,423,814</u>	<u>7,532,908</u>	<u>7,432,769</u>	<u>100,139</u>
Excess of revenues over (under) expenditures	<u>178,275</u>	<u>73,248</u>	<u>(67,968)</u>	<u>(141,216)</u>
Other financing sources (uses):				
Refund of prior year expenditure			4	4
Transfers (out)		(109,000)	(109,000)	
Advances in			11,000	11,000
Advances (out)	(9,000)	(12,800)	(12,800)	
Sale of capital assets			190	190
Total other financing sources (uses)	<u>(9,000)</u>	<u>(121,800)</u>	<u>(110,606)</u>	<u>11,194</u>
Net change in fund balance	169,275	(48,552)	(178,574)	(130,022)
Fund balance at beginning of year	2,633,434	2,633,434	2,633,434	
Prior year encumbrances appropriated	60,534	60,534	60,534	
Fund balance at end of year	<u>\$ 2,863,243</u>	<u>\$ 2,645,416</u>	<u>\$ 2,515,394</u>	<u>\$ (130,022)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2006**

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 40,141
	<hr/>
Total assets.	\$ 40,141
	<hr/> <hr/>
Liabilities:	
Due to students	40,141
	<hr/>
Total liabilities	\$ 40,141
	<hr/> <hr/>

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, 2006**

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 518th largest in the State of Ohio (among the 614 public school districts) in terms of enrollment. It is staffed by 33 classified employees and 62 certified employees, including four administrative personnel, who provide services to 906 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 activities provided they do not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed 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, foods service, preschool 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' government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

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

JOINTLY GOVERNED ORGANIZATIONS

Northwest Ohio Computer Association - The District is a participant in the Northwest Ohio Computer Association (NWOCA). NWOCA is an association of public school districts within the boundaries of Defiance, Fulton, Henry, and Williams Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. NWOCA is governed by the Northern Buckeye Education Council and its participating members. Financial information can be obtained from Robin Pfund, who serves as Treasurer, at 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, 2006
(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, 2nd 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, 2006 were \$821,901. Financial information can be obtained from Northern Buckeye Education Council, Robin Pfund, 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, 2006
(Continued)**

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

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

The WCGRP's business and affairs are conducted by a three member board of directors consisting of two Assembly representatives for each of the counties of Defiance, Fulton, Henry, and Williams and the representative of the member serving as fiscal agent for NBEC. The Executive Director of the Council shall coordinate the management and administration of the program. Each year, the participating members pay an enrollment fee to WCGRP to cover the costs of administering the program. The District paid \$913 for these services to NBEC in fiscal year 2006.

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 \$35,678 for these services to NOEC in fiscal year 2006

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 two categories: governmental 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:

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

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

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

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

FIDUCIARY FUNDS

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

C. Basis of Presentation

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

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

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

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

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

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

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

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

D. Basis of Accounting

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

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

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

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, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

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

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

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

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

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2006 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 2006.
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 is the legal level 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.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

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

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.
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 2006. The amounts reported in the budgetary statement reflect the amounts set forth in the original and final budgeted appropriations for fiscal year 2006.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Cash disbursements plus encumbrances may not legally exceed budgeted appropriations at the object level.

As part of 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 2006, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio and certificate of deposits. 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 2006. 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, 2006.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

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

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 2006 amounted to \$136,314, which includes \$15,564 assigned from other District funds.

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

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

G. Inventory

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

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

H. Capital Assets

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

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, 2006
(Continued)**

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

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

I. Compensated Absences

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

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

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

J. Accrued Liabilities and Long-Term Obligations

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

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

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.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

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

L. Net Assets

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

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

M. Prepayments

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

N. Estimates

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

O. Restricted Assets

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

P. Interfund Activity

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2006.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles

For fiscal year 2006, the District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 42, GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

B. Restatement of Fund Balances and Net Assets

The food service fund was reclassified to properly reflect it's intended purpose.

The fund reclassification had the following effect on the District's fund balances as previously reported:

	Other Governmental Funds	Food Service Fund
Fund Balance, June 30, 2005	\$ 313,110	
Net Assets, June 30, 2005		\$ 42,390
Adjustment to restate to Fund Balance:		
Capital Assets		(55,934)
Compensated Absences		10,033
June 30, 2005 Fund Balance	313,110	(3,511)
Reclassification of Food Services	(3,511)	3,511
Restated June 30, 2005 Balance	\$ 309,599	3,511

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

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE – (Continued)

	Governmental Activities	Business Type Activities
Net Assets, June 30, 2005	\$ 5,760,667	\$ 42,390
Reclassification of Food Service Fund	42,390	(42,390)
Restated Net Assets, June 30, 2005	\$ 5,803,057	

C. Deficit Fund Balances

Fund balances at June 30, 2006, included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Food Service Operations	\$ 1,171
EMIS	530
Title I	3,723
Title VI	307
Improving Teacher Quality	2,816

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

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

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

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

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(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 \$470 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, 2006, the carrying amount of all District deposits was \$907,392. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$955,125 of the District's bank balance of \$1,056,680 was exposed to custodial risk as discussed below, while \$101,555 was covered by Federal Deposit Insurance Corporation.

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

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

C. Investments

As of June 30, 2006, the District had the following investments and maturities:

<u>Investment type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturities 6 months or less</u>
STAR Ohio	\$ 2,107,308	\$ 2,107,308
	<u>\$ 2,107,308</u>	<u>\$ 2,107,308</u>

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

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

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

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer, however state statute limits investments in commercial paper and bankers' acceptances to 25% of the interim monies available for investment at any one time. The following table includes the percentage of each investment type held by the District at June 30, 2006:

STAR Ohio	\$ <u>2,107,308</u>	<u>100.00%</u>
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D. Reconciliation of Cash and Investment to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2006:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 907,392
Investments	2,107,308
Cash on hand	<u>470</u>
Total	<u>\$ 3,015,170</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 2,975,029
Agency funds	<u>40,141</u>
Total	<u>\$ 3,015,170</u>

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund transfers for the year ended June 30, 2006, consisted of the following, as reported on the government-wide and fund financial statements:

Transfer from general fund to:		
Retirement and Severance Benefits Fund	\$	105,000
EMIS Fund		4,000

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.

- B. Interfund balances at June 30, 2006, as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Nonmajor governmental funds	\$ 1,800

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2006 are reported on the Statement of Net Assets.

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 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, 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.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 6 - PROPERTY TAXES – (Continued)

Public utility property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005, and are collected in 2006 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 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2004. 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.

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, 2006, are available to finance fiscal year 2006 operations. The amount available as an advance at June 30, 2006, was \$188,775 in the general fund, \$6,473 in the Special Levy special revenue fund (a nonmajor governmental fund) and \$7,856 in the Permanent Improvement capital projects fund (a nonmajor governmental fund). The amount available for 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 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, 2006, 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.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 6 - PROPERTY TAXES – (Continued)

The assessed values upon which the fiscal year 2006 taxes were collected are:

	2005 Second Half Collections		2006 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 67,503,640	67.40	\$ 73,764,580	76.53
Public utility personal property	3,747,060	3.74	3,110,740	3.22
Tangible personal property	<u>28,897,720</u>	<u>28.86</u>	<u>19,516,028</u>	<u>20.25</u>
Total	<u>\$ 100,148,420</u>	<u>100.00</u>	<u>\$ 96,391,348</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation:				
Operations		44.48		44.48
Permanent improvement		2.00		2.00

NOTE 7 - RECEIVABLES

Receivables at June 30, 2006, 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	\$ 4,473,619
Accounts	272,714
Intergovernmental	<u>40,536</u>
Total	<u>\$ 4,786,869</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, 2006
(Continued)**

NOTE 8 - CAPITAL ASSETS

- A. The capital asset balances of the governmental activities and proprietary funds have been restated due to a prior period adjustment. See Note 3.B for detail:

	Balance		Restated
	<u>06/30/05</u>	<u>Adjustments</u>	<u>06/30/05</u>
Governmental Activities			
Capital assets, not being depreciated:			
Land	\$ 148,406		\$ 148,406
Total capital assets, not being depreciated	<u>148,406</u>		<u>148,406</u>
Capital assets, being depreciated:			
Land improvements	213,750		213,750
Building/improvements	2,945,828		2,945,828
Furniture/equipment	2,005,218	\$ 120,013	2,125,231
Vehicles	528,072		528,072
Textbooks	564,549		564,549
Total capital assets, being depreciated	<u>6,257,417</u>	<u>120,013</u>	<u>6,377,430</u>
Less: accumulated depreciation			
Land improvements	(99,601)		(99,601)
Building/improvements	(1,606,329)		(1,606,329)
Furniture/equipment	(1,195,722)	(64,079)	(1,259,801)
Vehicles	(319,756)		(319,756)
Textbooks	(453,371)		(453,371)
Total accumulated depreciation	<u>(3,674,779)</u>	<u>(64,079)</u>	<u>(3,738,858)</u>
Governmental activities capital assets, net	<u>\$ 2,731,044</u>	<u>\$ 55,934</u>	<u>\$ 2,786,978</u>
Business-Type Activities			
Capital Assets, being depreciated:			
Furniture/equipment	\$ 120,013	\$ (120,013)	
Less: accumulated depreciation	(64,079)	64,079	
Business-type activities capital assets, net	<u>\$ 55,934</u>	<u>\$ (55,934)</u>	

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 8 - CAPITAL ASSETS – (Continued)

B. Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Restated Balance <u>06/30/05</u>	<u>Additions</u>	<u>Deductions</u>	Balance 06/30/06
<i>Governmental Activities</i>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 148,406			\$ 148,406
Total capital assets, not being depreciated	<u>148,406</u>			<u>148,406</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	213,750	\$ 46,423		260,173
Buildings and improvements	2,945,828	30,303		2,976,131
Furniture and equipment	2,125,231	261,945	\$ (183,883)	2,203,293
Vehicles	528,072	134,877	(38,472)	624,477
Textbooks	564,549	10,354		574,903
Total capital assets, being depreciated	<u>6,377,430</u>	<u>483,902</u>	<u>(222,355)</u>	<u>6,638,977</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(99,601)	(21,222)		(120,823)
Buildings and improvements	(1,606,329)	(59,547)		(1,665,876)
Furniture and equipment	(1,259,801)	(168,531)	158,484	(1,269,848)
Vehicles	(319,756)	(98,334)	31,173	(386,917)
Textbooks	(453,371)	(42,565)		(495,936)
Total accumulated depreciation	<u>(3,738,858)</u>	<u>(390,199)</u>	<u>189,657</u>	<u>(3,939,400)</u>
Governmental activities capital assets, net	<u>\$ 2,786,978</u>	<u>\$ 93,703</u>	<u>\$ (32,698)</u>	<u>\$ 2,847,983</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 100,856
Special	5,353
Vocational	20,156
<u>Support Services:</u>	
Pupil	1,961
Instructional staff	60,783
Administration	8,435
Fiscal	2,764
Operations and maintenance	64,475
Pupil transportation	94,560
Operation of non-instructional	7,816
Extracurricular	<u>23,040</u>
Total depreciation expense	<u>\$ 390,199</u>

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE

In fiscal year 2006, the District entered into a capital lease for the acquisition of copiers. This lease meets the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers the benefits and risks of ownership to the lessee at the conclusion of the lease term. At inception, the lease was accounted for as an other financing source and a capital outlay expenditure in the general fund. Capital lease payments have been reclassified and shown as debt service expenditures in the general fund. These expenditures will be reflected as function expenditures on a budgetary basis. The general capital assets acquired by this capital lease have been capitalized in the governmental activities on the statement of net assets in the amount of \$69,895, which is equal to the present value of the future minimum lease payments as of the date of their inception. A corresponding liability has been recorded in the governmental activities on the statement of net assets. Principal payments made during fiscal year 2006 totaled \$5,200.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2006.

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2007	\$ 16,416
2008	16,416
2009	16,416
2010	16,416
2011	<u>12,312</u>
Total minimum lease payments	77,976
Less amount representing interest	<u>(13,281)</u>
Total	<u>\$ 64,695</u>

NOTE 10 - 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, 2006:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Bonds Outstanding June 30, 2005</u>	<u>Bonds Retired 2006</u>	<u>Bonds Outstanding June 30, 2006</u>
Energy conservation bonds	3.68%	02/01/99	12/01/08	<u>\$ 72,000</u>	<u>\$ (18,000)</u>	<u>\$ 54,000</u>

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 10 - 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 June 30	Principal	Interest	Total
2007	\$ 18,000	\$ 1,987	\$ 19,987
2008	18,000	1,325	19,325
2009	18,000	662	18,662
Total	<u>\$ 54,000</u>	<u>\$ 3,974</u>	<u>\$ 57,974</u>

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

	Restated Balance Outstanding 06/30/05	Additions	Reductions	Balance Outstanding 06/30/06	Amounts Due in One Year
Governmental Activities:					
Compensated absences	\$ 638,196	\$ 11,784		\$ 649,980	\$ 71,884
HB 264 energy conservation notes	72,000		\$ (18,000)	54,000	18,000
Capital lease	<u> </u>	<u>69,895</u>	<u>(5,200)</u>	<u>64,695</u>	<u>11,662</u>
Total long-term obligations, governmental activities	<u>\$ 710,196</u>	<u>\$ 81,679</u>	<u>\$ (23,200)</u>	<u>\$ 768,675</u>	<u>\$ 101,546</u>

Compensated absences at June 30, 2005, was restated to include compensated absences payable from the food service fund. See Note 3.B. for details.

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, 2006, are a voted debt margin of \$8,621,221, an unvoted debt margin of \$96,391, and an energy conservation debt margin of \$813,522.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 11 - COMPENSATED ABSENCES

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

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

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

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

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

B. Employee Insurance Benefits Program

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

C. Workers' Compensation Group Program

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

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

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 13 - 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 2006, 10.58% of annual covered salary was the portion used to fund pension obligations. 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, 2006, 2005, and 2004, were \$82,467, \$93,692 and \$70,638, respectively; 28.1% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$59,280 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.

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, 2006
(Continued)**

NOTE 13 - 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 2006 and 2005, 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 to the DB plan for the fiscal years ended June 30, 2006, 2005, and 2004, were \$492,438, \$520,772, and \$425,244, respectively; 81.4% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$91,560 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2006 were \$5,998 made by the District and \$11,222 made by plan members.

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, 2006, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems 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, 2006
(Continued)**

NOTE 14 - POSTEMPLOYMENT BENEFITS – (Continued)

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$37,880 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.3 billion. For the fiscal year ended June 30, 2005 (the latest information available), 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 ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, District paid \$37,709 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178.221 million. At June 30, 2005 (the latest information available), SERS had net assets available for payment of health care benefits of \$267.5 million, which is about 168 percent of next years projected net health care costs of \$158.776 million. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 58,123 participants currently receiving health care benefits.

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 15 - 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);
- (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:

Net Change in Fund Balance	<u>General Fund</u>
Budget basis	\$ (178,574)
Net adjustment for revenue accruals	(124,464)
Net adjustment for expenditure accruals	(29,838)
Net adjustment for other sources/uses	71,691
Adjustment for encumbrances	<u>54,254</u>
GAAP basis	<u>\$ (206,931)</u>

**AYERSVILLE LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 16 - 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.

B. Litigation

The District is involved in no material litigation as either plaintiff or defendant.

NOTE 17 - 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. In addition, the District received state funds that were required to be used for the purchase of a school bus. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2006, the reserve activity was as follows:

	<u>Instructional Materials</u>	<u>Capital Maintenance</u>
Set-aside cash balance as of June 30, 2005	\$ (170,265)	
Current year set-aside requirement	129,991	\$ 129,991
Current Year Offsets		(172,508)
Qualifying disbursements	<u>(200,258)</u>	<u> </u>
Total	<u>\$ (240,532)</u>	<u>\$ (42,517)</u>
Balance carried forward to FY 2007	<u>\$ (240,532)</u>	<u> </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 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, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 20, 2006, wherein we noted the District reclassified its presentation of the Food Service Fund. 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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 PRIOR AUDIT FINDINGS
JUNE 30, 2006

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	Finding for recovery for Class of 2006 fund raiser repaid under audit.	Yes	



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