



**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 1999**



**JIM PETRO**  
**AUDITOR OF STATE**  

---

**STATE OF OHIO**



**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Report of Independent Accountants .....	1
Combined Balance Sheet – All Fund Types and Account Groups .....	4
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – All Governmental and Similar Fiduciary Fund Types .....	6
Combined Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) – All Governmental Fund Types .....	8
Combined Statement of Revenues, Expenses, and Changes in Retained Earnings/ Fund Balances – Proprietary and Similar Fiduciary Fund Types .....	10
Combined Statement of Cash Flows – Proprietary and Similar Fiduciary Fund Types .....	11
Notes to the General-Purpose Financial Statements .....	13
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i> .....	35

**This page intentionally left blank.**



STATE OF OHIO  
OFFICE OF THE AUDITOR  

---

JIM PETRO, AUDITOR OF STATE

One Government Center  
Room 1420  
Toledo, Ohio 43604-2246  
Telephone 419-245-2811  
800-443-9276  
Facsimile 419-245-2484  
www.auditor.state.oh.us

## REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Ayersville Local School District, Defiance County, (the District) as of and for the year ended June 30, 1999, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Ayersville Local School District, Defiance County, as of June 30, 1999, and the results of its operations and the cash flows of its proprietary fund type and nonexpendable trust fund for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 3 to the general-purpose financial statements, during the year ended June 30, 1999, the District changed its method of accounting for the deferred compensation program.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2000 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 grants.

**Jim Petro**  
Auditor of State

November 27, 1999

**This page intentionally left blank.**

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS  
AS OF JUNE 30, 1999**

	<b>Governmental Fund Types</b>			
	<b>General</b>	<b>Special Revenue</b>	<b>Debt Service</b>	<b>Capital Projects</b>
<b>ASSETS AND OTHER DEBITS:</b>				
<b>Assets:</b>				
Equity in Pooled Cash and Cash Equivalents	\$886,475	\$108,300		\$141,655
Cash and Cash Equivalents with Fiscal Agent		2,903		
Receivables:				
Taxes	2,534,781	123,176	\$63,792	102,723
Accounts	229	1,344		
Intergovernmental	100			
Prepaid Items	29,847	978		
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	31,333			
Materials and Supplies Inventory	17,568	1,631		
Fixed Assets (Net, where applicable)				
Other Debits:				
Amount to be Provided from General Governmental Resources				
<b>Total Assets and Other Debits</b>	<b><u>\$3,500,333</u></b>	<b><u>\$238,332</u></b>	<b><u>\$63,792</u></b>	<b><u>\$244,378</u></b>
<b>LIABILITIES, FUND EQUITY AND OTHER CREDITS:</b>				
<b>Liabilities:</b>				
Accounts Payable	\$3,669	\$2,104		
Accrued Wages and Benefits	548,749	22,356		
Compensated Absences Payable	32,711			
Intergovernmental Payable	82,452	3,674		
General Obligation Bonds Payable				
Deferred Revenue	2,445,654	118,897	\$63,792	\$97,545
Undistributed Monies				
Due to Students				
Total Liabilities	<u>3,113,235</u>	<u>147,031</u>	<u>63,792</u>	<u>97,545</u>
<b>Fund Equity and Other Credits:</b>				
Investment in General Fixed Assets				
Retained Earnings:				
Unreserved				
Fund Balance:				
Reserved for Encumbrances	24,876	14,361		123,097
Reserved for Bus Purchase	11,750			
Reserved for Inventory	17,568	1,631		
Reserved for Prepaid Items	29,847	978		
HB 412 Budget Reserve	19,583			
Reserved for Contributions				
Reserved for Property Taxes	78,257	3,740		4,529
Unreserved:				
Undesignated	205,217	70,591		19,207
Total Fund Equity and Other Credits	<u>387,098</u>	<u>91,301</u>		<u>146,833</u>
<b>Total Liabilities, Fund Equity and Other Credits</b>	<b><u>\$3,500,333</u></b>	<b><u>\$238,332</u></b>	<b><u>\$63,792</u></b>	<b><u>\$244,378</u></b>

*The notes to the general-purpose financial statements are an integral part of this statement.*

Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Trust and Agency			
\$27,011	\$48,101			\$1,211,542 2,903
				2,824,472
430	659			2,662
7,691				7,791
1,345				32,170
				31,333
6,654				25,853
21,709		\$5,275,666		5,297,375
			\$736,506	736,506
<b>\$64,840</b>	<b>\$48,760</b>	<b>\$5,275,666</b>	<b>\$736,506</b>	<b>\$10,172,607</b>
				\$5,773
\$17,303	\$112			588,520
12,296			\$422,595	467,602
3,137			42,335	131,598
			271,576	271,576
2,967				2,728,855
	2,200			2,200
	33,287			33,287
35,703	35,599		736,506	4,229,411
		\$5,275,666		5,275,666
29,137				29,137
				162,334
				11,750
				19,199
				30,825
				19,583
	10,098			10,098
				86,526
	3,063			298,078
29,137	13,161	5,275,666		5,943,196
<b>\$64,840</b>	<b>\$48,760</b>	<b>\$5,275,666</b>	<b>\$736,506</b>	<b>\$10,172,607</b>

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 1999**

	<u>Governmental Fund Types</u>	
	<u>General</u>	<u>Special Revenue</u>
<b>Revenues:</b>		
Taxes	\$2,532,786	\$122,876
Intergovernmental	1,731,607	125,644
Interest	73,265	2,280
Rent		544
Gifts and Donations	4,435	10,077
Payment in Lieu of Taxes	215,775	
Tuition and Fees	3,080	
Extracurricular Activities		92,193
Miscellaneous	11,146	18,889
	<u>4,572,094</u>	<u>372,503</u>
<b>Total revenues</b>		
<b>Expenditures:</b>		
Instruction:		
Regular	2,429,718	63,502
Special	326,994	73,906
Vocational	237,472	
Adult/Continuing	1,326	
Other	10,920	
Support Services:		
Pupils	153,308	22,969
Instructional Staff	158,397	10,592
Board of Education	22,777	
Administration	421,921	1,632
Fiscal	305,528	6,288
Operation and Maintenance of Plant	369,432	60
Pupil Transportation	161,802	
Central	15,110	
Non-Instructional Services		89,599
Extracurricular Activities	148,564	118,466
Capital Outlay	52,432	
Debt Service - Principal		
Debt Service - Interest		
	<u>4,815,701</u>	<u>387,014</u>
<b>Total Expenditures</b>		
Excess of Revenues Over (Under) Expenditures	<u>(243,607)</u>	<u>(14,511)</u>
<b>Other Financing Sources:</b>		
Proceeds from Sale of Long-Term Notes		
Proceeds from Sale of Fixed Assets	75	
	<u>75</u>	
<b>Total Other Financing Sources</b>		
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	(243,532)	(14,511)
Fund Balance, July 1	633,884	105,941
Decrease in Reserve for Inventory	(3,254)	(129)
	<u>630,630</u>	<u>105,812</u>
<b>Fund Balances, June 30</b>	<u><b>\$387,098</b></u>	<u><b>\$91,301</b></u>

*The notes to the general-purpose financial statements are an integral part of this statement.*

<u>Governmental Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
<u>Debt Service</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	
\$40,382	\$121,614 10,158		\$2,817,658
		\$108	1,867,409
			75,653
			544
		1,618	16,130
			215,775
			3,080
			92,193
			30,035
<u>40,382</u>	<u>131,772</u>	<u>1,726</u>	<u>5,118,477</u>
	101,091		2,594,311
			400,900
			237,472
			1,326
			10,920
			176,277
			168,989
			22,777
			423,553
	3,901		315,717
	234,135		603,627
			161,802
			15,110
			89,599
		200	267,230
			52,432
30,000			30,000
10,382			10,382
<u>40,382</u>	<u>339,127</u>	<u>200</u>	<u>5,582,424</u>
	<u>(207,355)</u>	<u>1,526</u>	<u>(463,947)</u>
	181,576		181,576
			75
	<u>181,576</u>		<u>181,651</u>
	(25,779)	1,526	(282,296)
	172,612	806	913,243
			(3,383)
	<b><u>\$146,833</u></b>	<b><u>\$2,332</u></b>	<b><u>\$627,564</u></b>

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 1999**

	General Fund Type			Special Revenue Fund Type		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
<b>Revenues:</b>						
Taxes	\$2,539,656	\$2,555,223	\$15,567	\$118,408	\$124,046	\$5,638
Intergovernmental	1,741,640	1,731,507	(10,133)	99,286	87,920	(11,366)
Interest	72,000	73,265	1,265	1,900	2,280	380
Rent	1,000		(1,000)	2,000	544	(1,456)
Gifts and Donations	3,500	4,435	935	8,500	10,077	1,577
Payment in Lieu of Taxes	61,791	215,775	153,984			
Tuition and Fees	2,200	3,080	880			
Extracurricular Activities				84,600	90,853	6,253
Miscellaneous	7,600	9,296	1,696	23,051	18,885	(4,166)
<b>Total revenues</b>	<b>4,429,387</b>	<b>4,592,581</b>	<b>163,194</b>	<b>337,745</b>	<b>334,605</b>	<b>(3,140)</b>
<b>Expenditures:</b>						
Instruction:						
Regular	2,423,004	2,384,848	38,156	63,132	62,682	450
Special	378,855	325,888	52,967	71,695	59,965	11,730
Vocational	226,748	225,106	1,642			
Adult/Continuing	1,470	1,203	267			
Other	12,500	12,045	455			
Support Services:						
Pupils	156,200	154,066	2,134	4,745	4,651	94
Instructional Staff	164,305	158,730	5,575	4,159	4,068	91
Board of Education	34,490	22,779	11,711			
Administration	433,050	423,824	9,226	1,290	1,288	2
Fiscal	319,342	305,435	13,907	9,222	6,222	3,000
Operation and Maintenance of Plant	430,675	385,356	45,319			
Pupil Transportation	173,039	163,021	10,018			
Central	17,000	15,110	1,890			
Non-Instructional Services				101,893	95,816	6,077
Extracurricular Activities	150,567	148,390	2,177	137,931	129,844	8,087
Capital Outlay	52,432	52,432				
Debt Service - Principal						
Debt Service - Interest						
<b>Total Expenditures</b>	<b>4,973,677</b>	<b>4,778,233</b>	<b>195,444</b>	<b>394,067</b>	<b>364,536</b>	<b>29,531</b>
Excess of Revenues Over (Under) Expenditures	<b>(544,290)</b>	<b>(185,652)</b>	<b>358,638</b>	<b>(56,322)</b>	<b>(29,931)</b>	<b>26,391</b>
<b>Other Financing Sources (Uses):</b>						
Proceeds from Sale of Long-Term Notes						
Proceeds from Sale of Fixed Assets	100	75	(25)			
Refund of Prior Year Expenditures	2,500	2,555	55			
Pass-Through						
Advances In						
Refund of Prior Year Receipts				(10,000)	(10,000)	
Advances Out	(500)		500			
Operating Transfers Out						
<b>Total Other Financing Sources (Uses)</b>	<b>2,100</b>	<b>2,630</b>	<b>530</b>	<b>(10,000)</b>	<b>(10,000)</b>	
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<b>(542,190)</b>	<b>(183,022)</b>	<b>359,168</b>	<b>(66,322)</b>	<b>(39,931)</b>	<b>26,391</b>
Fund Balance, July 1	1,003,391	1,003,391		113,517	113,517	
Prior Year Encumbrances Appropriated	68,893	68,893		18,249	18,249	
<b>Fund Balances, June 30</b>	<b>\$530,094</b>	<b>\$889,262</b>	<b>\$359,168</b>	<b>\$65,444</b>	<b>\$91,835</b>	<b>\$26,391</b>

*The notes to the general-purpose financial statements are an integral part of this statement.*

Debt Service Fund Type			Capital Projects Fund Type			Totals (Memorandum Only)		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
\$40,382	\$40,382		\$116,811	\$123,249	\$6,438	\$2,815,257	\$2,842,900	\$27,643
			10,000	10,158	158	1,850,926	1,829,585	(21,341)
						73,900	75,545	1,645
						3,000	544	(2,456)
						12,000	14,512	2,512
						61,791	215,775	153,984
						2,200	3,080	880
						84,600	90,853	6,253
						30,651	28,181	(2,470)
40,382	40,382		126,811	133,407	6,596	4,934,325	5,100,975	166,650
			111,692	110,091	1,601	2,597,828	2,557,621	40,207
						450,550	385,853	64,697
						226,748	225,106	1,642
						1,470	1,203	267
						12,500	12,045	455
						160,945	158,717	2,228
						168,464	162,798	5,666
						34,490	22,779	11,711
			5,000	3,901	1,099	439,340	429,013	10,327
			354,216	348,233	5,983	682,780	659,890	22,890
						430,675	385,356	45,319
						173,039	163,021	10,018
						17,000	15,110	1,890
						101,893	95,816	6,077
						288,498	278,234	10,264
						52,432	52,432	
30,000	30,000					30,000	30,000	
10,382	10,382					10,382	10,382	
40,382	40,382		470,908	462,225	8,683	5,879,034	5,645,376	233,658
			(344,097)	(328,818)	15,279	(944,709)	(544,401)	400,308
			181,576	181,576		181,576	181,576	
						100	75	(25)
						2,500	2,555	55
						(10,000)	(10,000)	
						(500)		500
			181,576	181,576		173,676	174,206	530
			(162,521)	(147,242)	15,279	(771,033)	(370,195)	400,838
			101,559	101,559		1,218,467	1,218,467	
			64,240	64,240		151,382	151,382	
			<b>\$3,278</b>	<b>\$18,557</b>	<b>\$15,279</b>	<b>\$598,816</b>	<b>\$999,654</b>	<b>\$400,838</b>

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN RETAINED EARNINGS/FUND BALANCES  
PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 1999**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Nonexpendable Trust</u>	
<b>Operating Revenues:</b>			
Charges for Services	\$191,972		\$191,972
Classroom Materials and Fees	32,953		32,953
Other Operating Revenues		\$705	705
	<u>224,925</u>	<u>705</u>	<u>225,630</u>
<b>Operating Expenses:</b>			
Salaries and Wages	87,541		87,541
Fringe Benefits	29,136		29,136
Purchased Services	6,283		6,283
Supplies and Materials	5,436		5,436
Cost of Sales	135,250		135,250
Depreciation Expense	2,142		2,142
Other Operating Expenses		550	550
	<u>265,788</u>	<u>550</u>	<u>266,338</u>
Operating Income (Loss)	<u>(40,863)</u>	<u>155</u>	<u>(40,708)</u>
<b>Nonoperating Revenues:</b>			
Intergovernmental Revenues	42,851		42,851
Interest	636		636
	<u>43,487</u>		<u>43,487</u>
Net Income	2,624	155	2,779
Retained Earnings/Fund Balances, July 1	<u>26,513</u>	<u>10,674</u>	<u>37,187</u>
<b>Retained Earnings/Fund Balances, June 30</b>	<b><u><u>\$29,137</u></u></b>	<b><u><u>\$10,829</u></u></b>	<b><u><u>\$39,966</u></u></b>

*The notes to the general-purpose financial statements are an integral part of this statement.*

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**COMBINED STATEMENT OF CASH FLOWS  
PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES  
AS OF JUNE 30, 1999**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Nonexpendable Trust</u>	
<b>Cash flows from operating activities:</b>			
Cash received from students	\$191,400		\$191,400
Cash received from tuition and fees	32,842		32,842
Cash received from other operating sources	260	\$705	965
Cash payments to suppliers for goods and services	(130,981)	(550)	(131,531)
Cash payments to employees for services	(84,594)		(84,594)
Cash payments for employee benefits	(25,905)		(25,905)
Net cash provided (used) by operating activities	<u>(16,978)</u>	<u>155</u>	<u>(16,823)</u>
<b>Cash flows from noncapital financing activities:</b>			
Operating grants received	22,016		22,016
Miscellaneous non-operating revenue	635		635
Net cash provided by noncapital financing activities	<u>22,651</u>		<u>22,651</u>
<b>Cash flows for capital and related financing activities:</b>			
Payments for capital acquisitions	(2,136)		(2,136)
Net increase in cash and cash equivalents	3,537	155	3,692
Cash and cash equivalents, beginning of year	<u>23,474</u>	<u>10,674</u>	<u>34,148</u>
<b>Cash and cash equivalents, end of year</b>	<b><u>\$27,011</u></b>	<b><u>\$10,829</u></b>	<b><u>\$37,840</u></b>
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>			
Operating income (loss)	(\$40,863)	\$155	(\$40,708)
<b>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</b>			
Depreciation	2,142		2,142
Donated commodities revenue	15,664		15,664
(Increase)/decrease in accounts receivable	(423)		(423)
(Increase)/decrease in prepaid items	(391)		(391)
(Increase)/decrease in inventory of supplies	668		668
Increase/(decrease) in accrued wages	3,040		3,040
Increase/(decrease) in compensated absences payable	3,035		3,035
Increase/(decrease) in intergovernmental payable	150		150
Total adjustments	<u>23,885</u>		<u>23,885</u>
<b>Net cash provided (used) by operating activities</b>	<b><u>(\$16,978)</u></b>	<b><u>\$155</u></b>	<b><u>(\$16,823)</u></b>
<b>Reconciliation of Nonexpendable Trust Fund Cash and Cash Equivalents to Balance Sheet:</b>			
Cash and cash equivalents - Nonexpendable Trust Fund			\$10,829
Cash and cash equivalents - Agency Funds and Expendable Trust Funds			<u>37,272</u>
<b>Equity in Pooled Cash and Cash Equivalents - Fiduciary Fund Types</b>			<b><u>\$48,101</u></b>

The Food Service Fund consumed donated commodities with a value of \$15,664.  
The use of these commodities is reflected as an operating expense.

*The notes to the general-purpose financial statements are an integral part of this statement.*

**This page intentionally left blank.**

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 1999**

**1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

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

The School District was established in 1938 through the consolidation of existing land areas and school districts. The School District serves an area of approximately fifty-five square miles. It is located in Defiance County. The School District is the 543rd largest in the State of Ohio (among 611 school districts) in terms of enrollment. It is staffed by thirty-three classified employees, sixty certified teaching personnel, and four administrative employees who provide services to nine hundred two students and other community members. The School District currently operates two instructional buildings and one bus garage.

**Reporting Entity:**

The reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Ayersville Local School District, this includes general operations, food service, and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; (3) the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; (4) or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. There are no component units of the Ayersville Local School District.

The School District is associated with six organizations which are defined as jointly governed organizations, and group purchasing pools. These organizations include the Northwest Ohio Computer Association, the Northern Buckeye Education Council, the Four County Joint Vocational School, the Northern Buckeye Education Council Employee Insurance Benefits Program, and the Northern Buckeye Education Council Workers' Compensation Group Rating Plan. These organizations are presented in Notes 16 and 17 to the general purpose financial statements.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Ayersville Local School District have been prepared in conformity with generally accepted accounting principles (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 School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 1999  
(Continued)**

GASB pronouncements. The more significant of the School District's accounting policies are described below.

**A. Basis of Presentation - Fund Accounting**

The School District uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net available expendable resources.

For financial statement presentation purposes, the various funds of the School District are grouped into the following generic fund types under the broad fund categories governmental, proprietary, and fiduciary.

**1. Governmental Fund Types:**

Governmental funds are those through which most governmental functions of the School District are financed. The acquisition, use, and balances of the School District's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds and trust funds) are accounted for through governmental funds. The following are the School District's governmental fund types:

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

*Special Revenue Funds* -Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects or expendable trusts) that are legally restricted to expenditure for specified purposes.

*Capital Projects Funds* -Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds).

*Debt Service Funds* - The funds used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. According to the governmental accounting principles, the debt service fund accounts for the payment of long-term debt for governmental funds only. Under Ohio law, the debt service fund might also be used to account for the payment of debt for proprietary funds and the short-term debt of both governmental and proprietary funds.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 1999  
(Continued)**

**2. Proprietary Fund Types:**

Proprietary funds are used to account for the School District's ongoing activities which are similar to those found in the private sector. The following are the School District's proprietary fund types:

*Enterprise Funds* -Enterprise funds are used to account for School District activities that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**3. Fiduciary Fund Types:**

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The School District's fiduciary funds include an expendable trust fund and agency funds. The expendable trust fund is accounted for in essentially the same manner as governmental funds. The nonexpendable trust funds are accounted for in essentially the same manner as proprietary funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**4. Account Groups:**

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

*General Fixed Assets Account Group* -This account group is established to account for all fixed assets of the School District, other than those accounted for in proprietary funds or trust funds.

*General Long-Term Obligations Account Group* -This account group is established to account for all long-term obligations of the School District except those accounted for in proprietary funds or trust funds.

**B. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and the expendable trust fund are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary fund types and nonexpendable trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 1999  
(Continued)**

associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental, expendable trust, and agency funds. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the School District is sixty days after fiscal year end. In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: grants, interest, tuition, student fees, and rent.

The School District reports deferred revenues on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Property taxes measurable as of June 30, 1999, and delinquent property taxes, whose availability is indeterminable and which are intended to finance fiscal year 2000 operations, have been recorded as deferred revenue.

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

The accrual basis of accounting is utilized for reporting purposes by the proprietary fund types. Revenues are recognized in the accounting period in which they are earned and expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported on the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

**C. Budgetary Process**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the object level within each function. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 1999  
(Continued)**

The Eisenhower, Drug Free Schools, Preschool Disabilities and Title VI-B special revenue funds are pass through grants in which the Northwest Ohio Educational Service Center is the primary recipient. Budgetary information for these funds are not included within the School District's reporting entity for which the "appropriated budget" is adopted, and the School District does not maintain separate budgetary records.

**1. Tax Budget**

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 express purpose of this budget document is to reflect the need for existing or increased tax rates.

By no later than January 20, the Board-adopted budget is filed with the Defiance County Budget Commission for rate determination.

**2. Estimated Resources**

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School 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 the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 1999.

**3. Appropriations**

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, 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 the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 1999  
(Continued)**

resources. During the year, several supplemental appropriation resolutions were legally enacted; however, none of these amendments were significant.

The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, except agency funds, consistent with statutory provisions.

**4. Encumbrances**

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. Expenditures plus encumbrances may not legally exceed appropriations. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds and reported in the notes to the financial statements for proprietary funds.

**5. Lapsing of Appropriations**

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

**D. Cash and Cash Equivalents**

To improve cash management, all cash received by the School District is pooled in a central bank account. Monies for all funds, including proprietary funds, are maintained in this account. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the balance sheet. Investments are stated at cost or amortized cost. Investment earnings are allocated based upon School District policy.

The District's investments were limited to the State Treasurer Asset Reserve of Ohio (STAR Ohio) during fiscal year 1999. 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, 1999.

Following Ohio statutes, 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 1999 amounted to \$73,265.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with an original

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 1999  
(Continued)**

maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents.

**E. Restricted Assets**

Restricted assets in the general fund represent cash and cash equivalents set aside to establish a budget stabilization reserve and amounts to be used for bus purchases. The budget stabilization reserve is required by State statute and can be used only after receiving approval from the State Superintendent of Public Instruction. Fund balance reserves have been established in the accompanying financial statements for budget stabilization set-aside and bus purchases.

**F. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 1999, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

**G. Inventory**

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets. Inventories of proprietary funds consist of donated food, purchased food, and school supplies held for resale and are expensed when used.

**H. Fixed Assets and Depreciation**

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Fixed assets utilized in the proprietary funds are capitalized in the fund. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of two hundred fifty dollars except for the cost of books. The District does not have any infrastructure.

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 capitalized. Improvements are capitalized. Improvements to proprietary fund fixed assets are depreciated over the remaining useful lives of the related fixed assets.

Assets in the general fixed assets account group are not depreciated. Depreciation of furniture and equipment in the proprietary funds is computed using the straight-line method over an estimated useful life of five to twenty years.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 1999  
(Continued)**

**I. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School 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 method. An accrual for 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 School District's past experience of making termination payments.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

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

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after fiscal year end are considered not to have used current available resources. Bonds are reported as a liability of the general long-term obligations account group until due.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

**K. Intergovernmental Revenues**

For governmental funds, intergovernmental revenues, such as grants awarded on a non-reimbursement basis, entitlements, and shared revenues are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Other than commodities, grants and entitlements for proprietary fund operations are recognized as non-operating revenues in the accounting period in which they are earned and become measurable.

The School District currently participates in several State and Federal programs, categorized as follows:

**Entitlements**

General Fund

State Foundation Program  
School Bus Purchase Reimbursement  
State Property Tax Relief

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 1999  
(Continued)**

**Non-Reimbursable Grants**

Special Revenue Funds

Educational Management Information Systems (EMIS)  
Chapter I / Title I  
Chapter II / Title VI  
Professional Development Grant  
Drug Free School Grant (Through Northwest Ohio Educational Service Center)  
Handicapped Preschool (Through Northwest Ohio Educational Service Center)  
Title VI-B Flow Through (Through Northwest Ohio Educational Service Center)  
Eisenhower Grant Fund (Through Northwest Ohio Educational Service Center)  
E-Rate

Capital Projects Funds

SchoolNet Plus

**Reimbursable Grants**

General Fund

Driver Education Reimbursement  
Vocational Mileage Reimbursement (C. Perkins Grant)

Enterprise Fund

National School Lunch Program  
Government Donated Commodities

Grants and entitlements amounted to approximately 38 percent of the School District's operating revenue during the 1999 fiscal year.

**L. Interfund Transactions**

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

**M. Fund Balance Reserves**

The School District records reservations for portions of fund equity which are legally segregated for 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 are established for property taxes, inventories of supplies and materials, prepaid items, budget stabilization, contributions, bus purchases, and encumbrances. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 1999  
(Continued)**

**N. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles 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. Total Columns on General Purpose Financial Statements**

Total columns on the general purpose financial statements are captioned "Totals (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**3. ACCOUNTABILITY**

**A. Change in Accounting Principles**

For fiscal year 1999, the School District has implemented GASB Statement No. 32, "Accounting and Financial Reporting For Internal Revenue Code Section 457 Deferred Compensation Plans" for its deferred compensation plan through the Ohio Public Employees Deferred Compensation Program. During fiscal year 1999, Ohio Public Employees Deferred Compensation Program created a trust for the assets of the plan for which the School District has no fiduciary responsibility, and accordingly, plan assets which totaled \$40,204 as of June 30, 1999 have been excluded from the School District's financial statements.

**B. Restatements**

Accumulated depreciation from fiscal year 1998 in the food service funds has been restated as follows:

<u>Restatement of Prior Year Proprietary Fund Retained Earnings</u>	
Retained Earnings, June 30, 1998	\$30,582
Restatement of Accrued Depreciation	<u>(4,069)</u>
Restated 6/30/98 Retained Earnings	<u>\$26,513</u>
 <u>Change in Prior Year Proprietary Fund Net Income</u>	
Net Income for the Year ended June 30, 1998	\$3,649
Depreciation Expense	<u>(1,296)</u>
Restated Net Income	<u>\$2,353</u>

**4. BUDGETARY BASIS OF ACCOUNTING**

While the School District is reporting financial position, results of operations, and changes in fund balances/retained earnings 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, disbursements, and encumbrances. The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances -Budget (Non-GAAP Basis) and Actual-All

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 1999  
(Continued)**

Governmental Fund Types are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for the governmental fund types.
4. Although not part of the appropriated budget, the Drug Free Schools Grant, Preschool Disabilities Grant, Eisenhower Grant and Title VI-B special revenue funds are included as part of the reporting entity when preparing financial statements that conform with GAAP.

An analysis of the difference between GAAP and budgetary basis for all governmental fund types follows.

<b>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</b>				
	General	Special Revenue	Debt Service	Capital Projects
Budget Basis	(\$183,022)	(\$39,931)		(\$147,242)
Revenue Accruals:				
FY 1998	(112,498)	(5,450)		(6,813)
FY 1999	89,456	43,347		5,179
Expenditure Accruals:				
FY 1998	571,719	37,570		
FY 1999	(637,733)	(66,512)		
Encumbrances - Budgetary Basis	28,546	16,465		123,097
GAAP Basis	(\$243,532)	(\$14,511)		(\$25,779)

**5. DEPOSITS AND INVESTMENTS**

State statutes classify monies held by the School 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 School 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 two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 1999  
(Continued)**

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

Protection of School 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 may be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States.
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 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. 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; and
6. The State Treasurer's investment pool (STAR Ohio).

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 of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

During fiscal year 1999, investments were limited to STAR Ohio. All investments of the School District had a maturity of two years or less.

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 1999  
(Continued)**

At fiscal year end, the School District had \$2,903 in cash and cash equivalents held by the Northwest Educational Service Center which is included on the balance sheet as "Cash and Cash Equivalents with Fiscal Agent".

**A. Cash on Hand**

For years ending June 30, 1999 the District had cash on hand of \$610.

**B. Deposits**

At fiscal year end, the carrying amount of the School District's deposits was \$670,715 and the bank balance was \$766,106. Of the bank balance, \$200,000 was covered by federal depository insurance and \$566,106 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements would potentially subject the School District to a successful claim by the FDIC.

**C. Investments**

GASB Statement No. 3, "Deposits with Financial Institutions, Investments, and Reverse Repurchase Agreements" requires the disclosure of the carrying amount and market value of investments, classified by risk. Category 1 includes investments that are insured or registered for which the securities are held by the School District or the School District's agent in the School District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The School District's investment in STAR Ohio, an investment pool operated by the Ohio State Treasurer, is unclassified since it is not evidenced by securities that exist in physical or book entry form. At June 30, 1999, the carrying value and market value of the funds on deposit with STAR Ohio, the School District's only investment, was \$571,550.

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting". A reconciliation between the classifications of cash and investments on the combined financial statements and the classifications of deposits and investments according to GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$1,242,875	
Cash on Hand	(610)	
Investments:		
STAR Ohio	(571,550)	\$571,550
GASB Statement No. 3	\$670,715	\$571,550

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 1999  
(Continued)**

**6. PROPERTY TAXES**

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the School District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes.

Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are 25 percent of true value.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due February 9; if paid semi-annually, the first payment is due February 9 with the remainder payable by July 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Tangible personal property taxes paid 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.

The School District receives property taxes from Defiance County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 1999, are available to finance fiscal year 1999 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility property taxes which became measurable as of June 30, 1999. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 1999, was \$78,257 in the General Fund, \$4,529 in the Permanent Improvement Fund, and \$3,740 in the Natatorium Special Levy Fund.

The assessed values upon which fiscal years 1999 taxes were collected are:

	<u>1998 Second Half Collections</u>	<u>1999 First Half Collections</u>
Agricultural/Residential	\$37,956,140	\$38,696,390
Commercial/Industrial	13,245,220	13,409,780
Public Utility Real Property	71,070	78,450
Public Utility Personal Property	5,297,980	5,213,180
General Personal Property	<u>34,460,530</u>	<u>32,961,413</u>
Total Valuation	<u>\$91,030,940</u>	<u>\$90,359,213</u>

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 1999  
(Continued)**

**7. RECEIVABLES**

Receivables at June 30, 1999, consisted of property taxes, accounts (student fees and billings for user charged services), and intergovernmental grants. 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 fiscal year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

Department of Education	\$100
State School Lunch Program	258
National School Lunch Program	<u>7,433</u>
Total Intergovernmental Receivables	<u><u>\$7,791</u></u>

**8. FIXED ASSETS**

A summary of changes in the General Fixed Assets Account Group is as follows:

<u>Asset Category</u>	<u>Balance at 6/30/98</u>	<u>Adjustments</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at 6/30/99</u>
Land and Improvements	\$165,857		\$109,899		\$275,756
Buildings and Improvements	2,712,042		89,477		2,801,519
Furniture, Fixtures, and Equipment	1,356,738		160,660	\$29,461	1,487,937
Vehicles	383,463		2,750	11,890	374,323
Text and Library Books	<u>226,858</u>	<u>\$87,860</u>	<u>21,413</u>		<u>336,131</u>
Total	<u><u>\$4,844,958</u></u>	<u><u>\$87,860</u></u>	<u><u>\$384,199</u></u>	<u><u>\$41,351</u></u>	<u><u>\$5,275,666</u></u>

The District restated the historical value of textbooks as of June 30, 1998 as a result of a inventory count that was performed.

A summary of Enterprise Fund fixed assets follows:

	<u>Balance at June 30, 1999</u>
Furniture, Fixtures, and Equipment	\$73,071
Less Accumulated Depreciation	<u>(51,362)</u>
Total	<u><u>\$21,709</u></u>

**9. RISK MANAGEMENT**

The School District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 1999, the School District contracted with the following insurance companies for the listed insurance coverages.

Nationwide Insurance:

Building and Contents - Replacement cost (\$1000 deductible)	\$18,563,903
Inland Marine Coverage ( \$100 deductible)	80,000
General Liability	

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 1999  
(Continued)**

Per Occurrence	2,000,000
Annual Aggregate	5,000,000
Auto Schedule:	
Liability - Combined Single Limit	2,000,000
Uninsured Motorist - Combined Single Limit	500,000
Medical Payments Coverage per Person	5,000
Comprehensive Coverage - (\$100 deductible)	
Collision Coverage - (\$500 deductible)	
 Cincinnati Insurance Company:	
Boiler and Machinery Coverage (\$250 deductible)	\$300,000
 Auto-Owners Mutual Insurance Company:	
Employee Dishonesty Bond - Blanket (\$0 deductible)	10,000

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

The School District participates in the Northern Buckeye Education Council Employee Insurance Benefits Program (the Program), a public entity shared risk pool consisting of educational entities within Defiance, Fulton, Henry, and Williams Counties. The School District pays monthly premiums to the Northern Buckeye Education Council for the benefits offered to its employees including health, dental, and life insurance. The Northern Buckeye Education Council 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.

The School District participates in the Northern Buckeye Education Council Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool. The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Participation in the Plan is limited to educational entities that can meet the Plan's selection criteria. Each participant must apply annually. The Plan provides the participants with a centralized program for the processing, analysis, and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment or other fees, and perform its obligations in accordance with the terms of the agreement.

**10. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The Ayersville Local School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 1999  
(Continued)**

available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the Ayersville Local School District is required to contribute 14 percent; 7.7 percent was the portion used to fund pension obligations for fiscal year 1999. The contribution rates are not determined actuarially, but are established by SERS's Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The School District's required contribution for pension obligations to SERS for the fiscal years ending June 30, 1999, 1998, and 1997, were \$41,813, \$48,224 and \$46,376 respectively; 43.1 percent has been contributed for fiscal year 1999 and 100 percent for fiscal years 1998 and 1997. The unpaid contribution for fiscal year 1999, in the amount of \$23,793, is recorded as a liability within the respective funds and the general long-term obligations account group.

**B. State Teachers Retirement System**

The Ayersville Local School 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 basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the Ayersville Local School District is required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contribution for pension obligations to STRS for the fiscal years ending June 30, 1999, 1998, and 1997, were \$163,527, \$304,044, \$290,832 respectively; 83 percent has been contributed for fiscal year 1999 and 100 percent for fiscal years 1998 and 1997. The unpaid contribution for fiscal year 1999, in the amount of \$27,657 is recorded as a liability within the respective funds.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 1999, three members of the Board of Education have elected Social Security. The Board's liability is 7.5 percent of wages paid.

**11. POSTEMPLOYMENT BENEFITS**

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired classified

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 1999  
(Continued)**

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.

For STRS, all benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 1999, the Retirement Board allocated employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$218,036 during the 1999 fiscal year. As of June 30, 1999, eligible benefit recipients totaled 95,796. For the fiscal year ended June 30, 1999, net health care costs paid by STRS were \$249,929,000.

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

For this fiscal year, employer contributions to fund health care benefits were 6.3 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 1999, the minimum pay has been established at \$12,400. For the School District, this amount equaled \$13,495 during the 1999 fiscal year. The number of participants currently receiving health care benefits is 51,000. For the fiscal year ended June 30, 1999 net health care costs paid by SERS were \$126,380,984.

**12. EMPLOYEE BENEFITS**

**A. Compensated Absences**

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

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

**B. Other Employee Benefits**

The School District provides life, health, and dental insurance to most employees through the Northern Buckeye Education Council Employee Insurance Benefits Program.

**13. LONG-TERM OBLIGATIONS**

The changes in the School District's long-term obligations during fiscal year 1999 were as follows:

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 1999  
(Continued)**

	Balance at 7/1/98	Additions	Reductions	Balance at 6/30/99
General Obligation Bonds	\$120,000	\$181,576	(\$30,000)	\$271,576
Intergovernmental Payables	40,980	42,335	(40,980)	42,335
Compensated Absences Payable	345,654	76,941		422,595
Total	<u>\$506,634</u>	<u>\$300,852</u>	<u>(\$70,980)</u>	<u>\$736,506</u>

Compensated absences and intergovernmental payables will be paid from the fund from which the employees' salaries are paid.

The School District's voted legal debt margin was \$8,132,329 with an unvoted debt margin of \$90,359 at June 30, 1999.

The scheduled payments of principal and interest on the bonds outstanding as of June 30, 1999 (assuming an interest rate of 5.43%) are as follows:

For the years ending June 30	Principal	Interest	Total
2000	\$49,576	\$14,254	\$63,830
2001	48,000	12,299	60,299
2002	48,000	9,327	57,327
2003	18,000	6,354	24,354
2004	18,000	5,377	23,377
2005 - 2009	90,000	12,224	102,224
Total	<u>\$271,576</u>	<u>\$59,835</u>	<u>\$331,411</u>

**14. SEGMENT INFORMATION FOR ENTERPRISE FUNDS**

The School District maintains two enterprise funds to account for the operations of food service and uniform school supplies. The table below reflects the more significant financial data relating to the enterprise funds of the Ayersville Local School District as of and for the fiscal year ended June 30, 1999.

	Lunchroom/ Cafeteria	Uniform School Supply	Total Enterprise Fund
Operating revenues	\$191,972	\$32,953	\$224,925
Depreciation	2,142		2,142
Operating (loss)	(38,731)	(2,132)	(40,863)
Operating grants, entitlements and shared revenues	42,851		42,851
Net income(loss)	4,756	(2,132)	2,624
Fixed Asset Additions	2,136		2,136
Net working capital	3,915	3,513	7,428
Total assets	61,327	3,513	64,840
Total liabilities	35,703	3,513	35,703
Total equity	25,624	3,513	29,137

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 1999  
(Continued)**

**15. RESERVATIONS OF FUND BALANCE**

The School 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 School District is required to set aside money for budget stabilization.

The School District also receives resources from the State of Ohio which are restricted by State law to the purchase of school buses. The balance of this allocation is also reflected as a reservation of fund balance in the General Fund at fiscal year end.

The changes in the fund balance reserves for textbooks, capital improvements, and budget stabilization during fiscal year 1999 as well as the balance of the bus purchase allocation are as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>	<u>Totals</u>
Set-aside Cash Balance as of June 30, 1998			\$19,583	\$19,583
Current Year Set-aside Requirement	68,826	68,826		137,652
Current Year Offsets	12,131	68,826		80,957
Qualifying Disbursements	101,240			101,240
Total	<u>(\$44,545)</u>		<u>\$19,583</u>	<u>(\$24,962)</u>
Cash Balance Carried Forward to FY 1999			<u>\$19,583</u>	\$19,583
Amount Restricted for Bus Purchase				11,750
Total Restricted Assets				<u>\$31,333</u>

**16. JOINTLY GOVERNED ORGANIZATIONS**

**A. Northwest Ohio Computer Association**

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

**B. 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

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 1999  
(Continued)**

Buckeye Education Council, Cindy Siler, who serves as treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**C. Four County Joint Vocational School**

The Four County Joint Vocational School 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 Joint Vocational School possesses its own budgeting and taxing authority. To obtain financial information write to the Four County Joint Vocational School, Michele Zeedyk, who serves as treasurer, at Route 1, Box 245A, Archbold, Ohio 43502.

**17. GROUP PURCHASING POOLS**

**A. Northern Buckeye Education Council's Employee Insurance Benefits Program**

Northern Buckeye Education Council Employee Insurance Benefits Program (the Pool) is a public entity shared risk pool consisting of educational entities located in Defiance, Fulton, Henry, and Williams counties. The Pool is governed by the Northern Buckeye Education Council and its participating members. Total disbursements made by the District to NBEC for employee insurance benefits during fiscal years ending June 30, 1999 were \$314,657. Financial information can be obtained from Northern Buckeye Education Council, Cindy Siler, who serves as treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**B. Northern Buckeye Education Council's Worker's Compensation Group Rating Plan**

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Northern Buckeye Education Council Workers' Compensation Group Rating Plan (WCGRP) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool. The WCGRP is governed by the Northern Buckeye Education Council and the participating members of the WCGRP. The Executive Director of the NBEC coordinates the management and administration of the program. Each year, the participating members pay an enrollment fee to the WCGRP to cover the costs of administering the program. During fiscal year ending June 30, 1999, the District paid an enrollment fee of \$671 to the WCGRP to cover the costs of administering the program.

**18. CONTINGENCIES**

**A. Grants**

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such

**AYERSVILLE LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 1999  
(Continued)**

disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 1999.

**B. Litigation**

There are currently no matters in litigation with the School District as defendant.

**C. State School Funding Decision**

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to the School District. During the fiscal year ended June 30, 1999, the School District received \$1,557,330 of school foundation support for its general fund.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State General Assembly in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. On May 11, 2000, the Ohio Supreme Court rendered an opinion on this issue. The Court concluded, "...the mandate of the [Ohio] Constitution has not been fulfilled." The Court's majority recognized efforts by the Ohio General Assembly taken in response to the Court's March 24, 1997, decision, however, it found seven "...major areas warrant further attention, study, and development by the General Assembly...", including the State's reliance on local property tax funding, the state's basic aid formula, the school foundation program, as discussed above, the mechanism for, and adequacy of, funding for school facilities, and the existence of the State's School Solvency Assistance Fund, which the Court found took the place of the unconstitutional emergency school loan assistance program.

The Court decided to maintain jurisdiction over these issues and continued the case at least until June 15, 2001.

As of the date of these financial statements, the School District is unable to determine what effect, if any, this ongoing litigation will have on its future State funding under this program and on its financial operations.



STATE OF OHIO  
OFFICE OF THE AUDITOR  
JIM PETRO, AUDITOR OF STATE

One Government Center  
Room 1420  
Toledo, Ohio 43604-2246  
Telephone 419-245-2811  
800-443-9276  
Facsimile 419-245-2484  
www.auditor.state.oh.us

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

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

To the Board of Education:

We have audited the financial statements of Ayersville Local School District, Defiance County, (the District) as of and for the year ended June 30, 1999, and have issued our report thereon dated November 27, 2000, which report noted a change in accounting for the deferred compensation plan. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to management of the District in a separate letter dated November 27, 2000.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated November 27, 2000.

Ayersville Local School District  
Defiance County  
Report of Independent Accountants on Compliance and on  
Internal Control Required by *Government Auditing Standards*  
Page 2

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

**Jim Petro**  
Auditor of State

November 27, 2000



STATE OF OHIO  
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**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  
DECEMBER 28, 2000**