

**DEFIANCE CITY SCHOOL DISTRICT**

**DEFIANCE COUNTY**

**FINANCIAL STATEMENTS**

*Year Ended June 30, 2003*





**Auditor of State  
Betty Montgomery**

Board of Education  
Defiance City School District  
Defiance, Ohio

We have reviewed the Independent Auditor's Report of the Defiance City School District, Defiance County, prepared by Steyer & Co., for the audit period July 1, 2002 through June 30, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Defiance City School District is responsible for compliance with these laws and regulations.

*Betty Montgomery*

BETTY MONTGOMERY  
Auditor of State

October 4, 2004

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**INDEPENDENT AUDITOR'S REPORT**

Board of Education  
Defiance City School District  
Defiance, Ohio

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Defiance City School District as of and for the year ended June 30, 2003, 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 an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and the aggregate remaining fund information of the Defiance City School District, as of June 30, 2003, and the respective changes in financial position, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, the District has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as of and for the year ended June 30, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2004, on our consideration of Defiance City School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3 through 9 are not a required part of the basic financial statements but are supplementary information required by Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinions on the financial statements that collectively comprise the Defiance City School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements of the District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Steyer & Co." with a stylized flourish at the end of the word "Co."

STEYER & CO.  
Certified Public Accountants

Defiance, Ohio  
August 18, 2004

**DEFIANCE CITY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED JUNE 30, 2003  
UNAUDITED**

The discussion and analysis of Defiance City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

**Highlights**

Highlights for fiscal year 2003 are as follows:

- In total, net assets decreased \$168,008, which represents less than a 2 percent decrease from fiscal year 2002.
- General revenues were \$16,714,175, or 85 percent of total revenues, and reflect the School District's significant dependence on local property taxes, income taxes, and unrestricted State entitlements.
- The School District had \$19,853,528 in expenses related to governmental activities; only \$2,971,345 of these expenses, or 15 percent, was offset by program specific charges for services, grants, or contributions.
- The School District has received payments in lieu of taxes related to tax abatement agreements with several companies that are making capital investments in the School District. These abatements have been placed into a permanent improvement fund. For fiscal year 2003, the abatements were a little over \$55,000.
- The School District is part of the Northern Buckeye Education Council Employee Insurance Benefits Program with member school districts located primarily in Defiance, Fulton, Henry, and Williams Counties. As with many health insurance plans, the School District's per policy health insurance premiums increased 15 percent in fiscal year 2003 and are increasing another 24 percent in fiscal year 2004. This increase has had a significant impact on the School District's budget and continues to be a major factor in fiscal decisions.

**Using the Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand Defiance City School District as a financial whole, or as an entire operating entity.

The statement of net assets and the statement of activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances.

Fund financial statements provide a greater 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 School District's most significant funds, with all other nonmajor funds presented in total in a single column. For Defiance City School District, the General Fund is the most significant fund.

**DEFIANCE CITY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED JUNE 30, 2003  
UNAUDITED**

**Reporting the School District as a Whole**

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2003. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

These statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the School District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Non-financial factors include the School 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 School District discloses a single type of activity, governmental activities. All of the School District's programs and services are reported here including instruction, support services, non-instructional services, and extracurricular activities.

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

Fund financial statements provide detailed information about the School District's major funds. While the School District uses many funds to account for its financial transactions, the fund financial statements focus on the School District's most significant funds. The School District's only major governmental fund is the General Fund.

Governmental Funds - Most of the School District's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the School District's programs. These funds use the accrual basis of accounting.

**The School District as a Whole**

Table 1 provides a summary of the School District's net assets for fiscal year 2003 compared to fiscal year 2002:

Table 1 - Net Assets

	<u>Governmental Activities</u>	
	<u>2003</u>	<u>2002</u>
<u>Assets:</u>		
Current and Other Assets	\$ 11,102,023	\$ 11,587,178
Capital Assets, Net	9,156,378	9,072,700
Total Assets	<u>20,258,401</u>	<u>20,659,878</u>

**DEFIANCE CITY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED JUNE 30, 2003  
UNAUDITED**

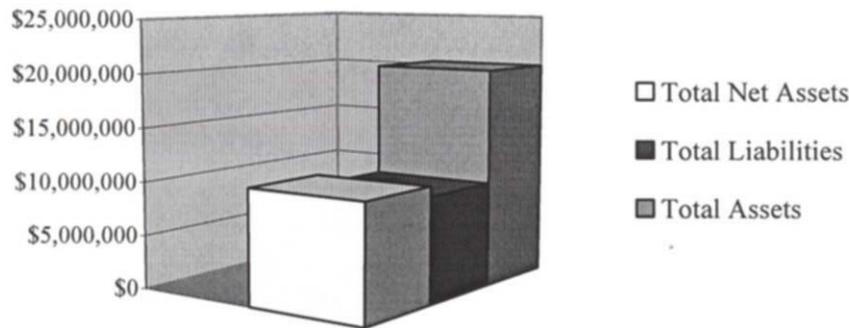
Liabilities:

Current and Other Liabilities	7,780,151	7,873,507
Long-Term Liabilities	1,901,432	2,041,545
Total Liabilities	<u>9,681,583</u>	<u>9,915,052</u>

Net Assets:

Invested in Capital Assets, Net of Related Debt	8,503,877	8,389,062
Restricted	1,168,822	1,510,753
Unrestricted	904,119	845,011
Total	<u>\$ 10,576,818</u>	<u>\$ 10,744,826</u>

**Governmental Activities - FY 2003**



Total assets decreased \$401,477. This reduction is less than 2 percent overall and is generally the result of lower cash balances at the end of fiscal year 2003 due to spending cash reserves. There is no particular individual asset account that had a great deal of fluctuation from the prior fiscal year.

At fiscal year end, capital assets represented 45 percent of total assets. Capital assets include land, land improvements, buildings and building improvements, furniture and equipment, and vehicles. The amount invested in capital assets net of related debt at June 30, 2003, was \$8,503,877. Capital assets are used to provide services to the students and are not available for future spending. Although the School District's investment in capital assets is reported net of related debt, it should be noted that resources to repay debt must be provided from other sources since capital assets may not be used to liquidate these liabilities.

Total liabilities decreased \$233,469, which is a 2 percent decrease from the prior fiscal year. There were also not any individual liability accounts reflecting much fluctuation from the prior fiscal year.

A portion of the School District's net assets, \$1,168,822, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets, in the amount of \$904,119 may be used to meet the School District's ongoing obligations to the students and creditors.

Table 2 reflects the changes in net assets for fiscal year 2003. Since this is the first year the School District has prepared financial statements according to GASB Statement No. 34, revenue and expense comparisons to fiscal year 2002 are not available. In future years, when prior fiscal year information is available, a comparative analysis of government-wide data will be presented.

**DEFIANCE CITY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED JUNE 30, 2003  
UNAUDITED**

Table 2 - Change in Net Assets

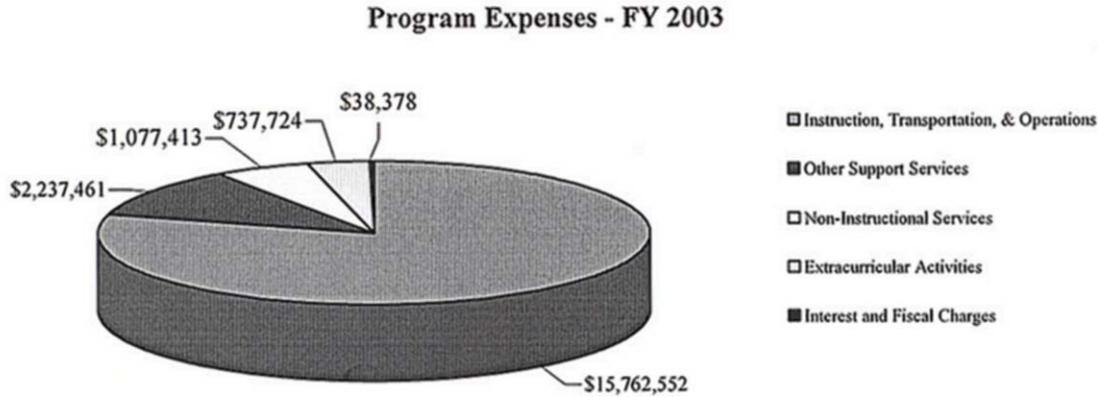
	Governmental Activities 2003
<u>Revenues:</u>	
<u>Program Revenues:</u>	
Charges for Services	\$ 772,434
Operating Grants, Contributions and Interest	2,153,705
Capital Grants and Contributions	45,206
Total Program Revenues	2,971,345
<u>General Revenues:</u>	
Property Taxes Levied for General Purposes	5,880,818
Income Taxes Levied for General Purposes	1,317,960
Payment in Lieu of Taxes	55,209
Grants and Entitlements	9,229,591
Interest	96,645
Extracurricular Activities	26,422
Rent	21,670
Miscellaneous	85,860
Total General Revenues	16,714,175
Total Revenues	19,685,520
<u>Expenses:</u>	
<u>Instruction:</u>	
Regular	9,106,831
Special	2,052,673
Vocational	227,709
<u>Support Services:</u>	
Pupils	890,000
Instructional Staff	755,245
Board of Education	147,253
Administration	1,584,144
Fiscal	402,522
Operation and Maintenance of Plant	2,081,156
Pupil Transportation	648,938
Central	103,542
Non-Instructional Services	1,077,413
Extracurricular Activities	737,724
Interest and Fiscal Charges	38,378
Total Expenses	19,853,528
Decrease in Net Assets	\$ (168,008)

Net assets for governmental activities decreased \$168,008, or less than 2 percent. Program revenues, which represented 15 percent of total revenues, are primarily represented by restricted intergovernmental revenues, charges for tuition and fees and extracurricular activities, and food service sales. General revenues, which represent the remaining 85 percent of total revenues, are generally derived from property taxes, income taxes, and unrestricted grants and entitlements. Of these sources, property taxes represent 35 percent, income taxes 8 percent, and unrestricted grants and entitlements 55 percent of general revenues.

The major program expenses for governmental activities are for instruction, which accounts for 57 percent of all governmental expenses. Other programs which support the instruction process, including pupils, instructional staff, and pupil transportation account for 12 percent of governmental expenses. Maintenance of the School District's facilities also represents a significant expense, 10 percent. Therefore, 79 percent of the School District's expenses are related to the primary functions of providing facilities and delivering education.

**DEFIANCE CITY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED JUNE 30, 2003  
UNAUDITED**

The graph below presents the portion of the expenses which are related directly to the School District's primary functions.



Governmental Activities

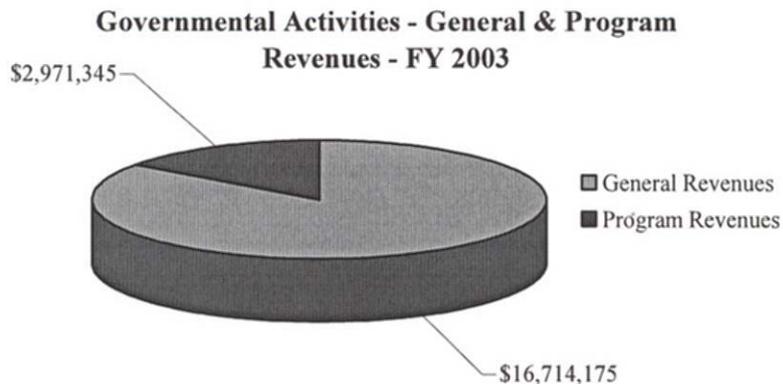
Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements. Comparisons to fiscal year 2002 have not been made since they are not available.

Table 3 - Governmental Activities

	Total Cost of Services 2003	Net Cost of Services 2003
Instruction:		
Regular	\$ 9,106,831	\$ 8,643,620
Special	2,052,673	803,387
Vocational	227,709	226,663
Support Services:		
Pupils	890,000	880,582
Instructional Staff	755,245	755,245
Board of Education	147,253	147,253
Administration	1,584,144	1,584,144
Fiscal	402,522	384,841
Operation and Maintenance of Plant	2,081,156	2,081,156
Pupil Transportation	648,938	579,582
Central	103,542	79,042
Non-Instructional Services	1,077,413	134,047
Extracurricular Activities	737,724	544,243
Interest and Fiscal Charges	38,378	38,378
<b>Total Expenses</b>	<b><u>\$19,853,528</u></b>	<b><u>\$16,882,183</u></b>

**DEFIANCE CITY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED JUNE 30, 2003  
UNAUDITED**

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is demonstrated in the above table. Almost 85 percent of instruction activities are supported through taxes and other general revenues. However, over 61 percent of special instruction activities are funded through program revenues, or operating grants restricted for special education purposes. Non-instructional programs received over 87 percent of their funding through program revenues. This includes not only cafeteria sales and state and federal subsidies and donated commodities food service operations, it also includes operating grants received on behalf of the parochial schools, St. John's Catholic School, St. Mary's Catholic School, St. John Lutheran School, and the Seventh Day Adventist School. Approximately 26 percent of extracurricular activities expenses are also covered by program revenues. This is primarily from music and athletic fees, ticket sales, and gate receipts.



**The School District's Funds**

The School District's governmental funds are accounted for using the modified accrual basis of accounting. Total governmental funds had revenues of \$19,773,205 and expenditures \$20,735,133. The overall change in fund balance was a decrease of \$297,333, or 8 percent. This decrease was almost entirely related to changes which occurred within other governmental funds.

**General Fund Budgeting Highlights**

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

During fiscal year 2003, the School District amended its General Fund budget as needed. Final budgeted revenues, in the amount of \$17,285,134, were slightly below original budgeted revenues, in the amount of \$17,571,606. The change was less than 1 percent. The change from final budgeted revenues to actual revenues received was also less than 1 percent.

Budgeted expenditures in the General Fund were increased from an original budget amount of \$17,497,225 to \$17,751,135, a less than 1 percent change. Actual expenditures were slightly less than those budgeted by \$325,078.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2003, the School District had \$9,156,378 invested in capital assets (net of accumulated depreciation), an increase of \$83,678, or less than 1 percent. For further information regarding the School District's capital assets, see Note 10 to the basic financial statements.

**DEFIANCE CITY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED JUNE 30, 2003  
UNAUDITED**

Debt

The School District's outstanding long-term obligations at fiscal year end consisted of an energy conservation loan, in the amount of \$595,000. This loan was used to retire a previously issued energy conservation loan as well as energy conservation bonds. This was done to take advantage of much lower interest rates. The School District's long-term obligations also included a capital lease for equipment, in the amount of \$57,501, and compensated absences. For further information regarding the School District's long-term obligations, see Note 16 to the basic financial statements.

Current Issues

The School District continues to responsibly budget monies coming into the School District. Perpetual challenges to the School District's financial outlook include the shortfalls in the State education budget and aging facilities. Despite these challenges, the School District remains a strong service provider to the students of the Defiance area.

During fiscal year 2003, the Board of Education started receiving collections on a five-year emergency levy which was approved by voters in 2002. During the levy campaign, the Board and management informed citizens that the proposed levy would not provide adequate revenues for that five-year period and that an additional small levy would be needed to supplement the revenue stream sometime in the third or fourth year. The type, term, and size of this levy are undecided at this time.

The Board has continued to discuss the issue of how to proceed with its aging facilities. The School District houses its students in seven school buildings. These buildings include four elementary (K-4) buildings, a middle school (5-6), a junior high (7-8), and senior high (9-12). The community takes great pride in its neighborhood schools, but as time goes on, these buildings continue to need repair as well as provide inefficiencies both physically and educationally. The Board has begun to develop a facilities master plan for submission to the Ohio School Facilities Commission. An application for an exceptional needs grant has also been submitted to the OSFC and is currently being considered, with our School District being on the top twenty list of schools for consideration.

The Board has also begun the process to aggressively market the School District to local and area students to increase enrollment. The Board looks forward to highlighting the many successful programs that the School District has to offer to young people in the Defiance area. Additional enrollment will result in additional revenues for the School District.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to reflect the School District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Christopher Lee, Treasurer, Defiance City School District, 629 Arabella Street, Defiance, Ohio 43512.

**DEFIANCE CITY SCHOOL DISTRICT**  
**DEFIANCE COUNTY**  
**STATEMENT OF NET ASSETS**  
*AS OF JUNE 30, 2003*

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 4,202,061
Cash and Cash Equivalents with Fiscal Agent	206
Accounts Receivable	37,293
Accrued Interest Receivable	9,327
Intergovernmental Receivable	161,543
Income Taxes Receivable	540,274
Prepaid Items	38,972
Inventory Held for Resale	22,091
Property Taxes Receivable	6,090,256
Noncurrent Assets	
Nondepreciable Capital Assets	1,004,940
Depreciable Capital Assets, Net	<u>8,151,438</u>
Total Assets	20,258,401
<b>LIABILITIES</b>	
Current Liabilities	
Accounts Payable	91,309
Contracts Payable	60,715
Accrued Wages and Benefits Payable	1,554,224
Matured Compensated Absences Payable	18,111
Intergovernmental Payable	499,434
Deferred Revenue	5,550,656
Accrued Interest Payable	5,702
NonCurrent Liabilities	
Long-Term Liabilities	
Due Within One Year	214,954
Due in More Than One Year	<u>1,686,478</u>
Total Liabilities	9,681,583
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	8,503,877
Restricted For:	
Set Asides	501,820
Capital Projects	387,179
Other Purposes	279,823
Unrestricted	<u>904,119</u>
Total Net Assets	<u>\$ 10,576,818</u>

*The accompanying notes are an integral part of these financial statements.*

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2003**

	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Program Revenues Operating Grants and Contribution</u>	<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>  <u>Governmental Activities</u>
Governmental Activities					
Instruction:					
Regular	\$ 9,106,831	\$ 121,629	\$ 341,582	\$ -	\$ (8,643,620)
Special	2,052,673	-	1,249,286	-	(803,387)
Vocational	227,709	-	1,046	-	(226,663)
Support Services:					
Pupils	890,000	-	9,418	-	(880,582)
Instructional Staff	755,245	-	-	-	(755,245)
Board of Education	147,253	-	-	-	(147,253)
Administration	1,584,144	-	-	-	(1,584,144)
Fiscal	402,522	17,681	-	-	(384,841)
Operation and Maintenance of Plant	2,081,156	-	-	-	(2,081,156)
Pupil Transportation	648,938	4,882	27,268	37,206	(579,582)
Central	103,542	-	24,500	-	(79,042)
Non-Instructional Services	1,077,413	450,820	492,546	-	(134,047)
Extracurricular Activities	737,724	177,422	8,059	8,000	(544,243)
Interest and Fiscal Charges	38,378	-	-	-	(38,378)
	<u>\$19,853,528</u>	<u>\$ 772,434</u>	<u>\$ 2,153,705</u>	<u>\$ 45,206</u>	(16,882,183)
General Revenues					
Property Taxes, Levied for General Purposes					5,880,818
Income Taxes, Levied for General Purposes					1,317,960
Payment in Lieu of Taxes					55,209
Grants and Entitlements not Restricted to Specific Programs					9,229,591
Interest					96,645
Rent					21,670
Miscellaneous					<u>112,282</u>
Total General Revenues					<u>16,714,175</u>
Change in Net Assets					(168,008)
Net Assets Beginning of Year - Note 3					<u>10,744,826</u>
Net Assets End of Year					<u>\$ 10,576,818</u>

*The accompanying notes are an integral part of these financial statements.*

**DEFIANCE CITY SCHOOL DISTRICT**  
**DEFIANCE COUNTY**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
*AS OF JUNE 30, 2003*

	<u>General Fund</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
<b>ASSETS:</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 2,942,530	\$ 757,711	\$ 3,700,241
Cash and Cash Equivalents with Fiscal Agent	-	206	206
Accounts Receivable	3,771	33,522	37,293
Accrued Interest Receivable	9,327	-	9,327
Intergovernmental Receivable	6,271	155,272	161,543
Interfund Receivable	75,000	-	75,000
Income Taxes Receivable	540,274	-	540,274
Prepaid Items	38,972	-	38,972
Inventory Held for Resale	-	22,091	22,091
Property Taxes Receivable	6,090,256	-	6,090,256
Retricted Assets:			
Equity in Pooled Cash and Cash Equivalents	<u>501,820</u>	<u>-</u>	<u>501,820</u>
<i>Total Assets</i>	<u>\$ 10,208,221</u>	<u>\$ 968,802</u>	<u>\$ 11,177,023</u>
<b>LIABILITIES:</b>			
Accounts Payable	\$ 29,687	\$ 61,622	\$ 91,309
Contracts Payable	-	60,715	60,715
Accrued Wages and Benefits	1,398,896	155,328	1,554,224
Matured Compensated Absences Payable	18,111	-	18,111
Intergovernmental Payable	302,218	38,374	340,592
Interfund Payable	-	75,000	75,000
Deferred Revenue	<u>5,720,131</u>	<u>10,122</u>	<u>5,730,253</u>
<i>Total Liabilities</i>	<u>7,469,043</u>	<u>401,161</u>	<u>7,870,204</u>
<b>FUND BALANCES:</b>			
Reserved:			
Reserved for Property Taxes	470,000	-	470,000
Reserved for Capital Improvements	501,820	-	501,820
Reserved for Encumbrances	48,947	150,020	198,967
Unreserved, Undesignated, Reported in:			
General Fund	1,718,411	-	1,718,411
Special Revenue Funds	-	37,569	37,569
Capital Projects Funds	<u>-</u>	<u>380,052</u>	<u>380,052</u>
<i>Total Fund Balances</i>	<u>2,739,178</u>	<u>567,641</u>	<u>3,306,819</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 10,208,221</u>	<u>\$ 968,802</u>	<u>\$ 11,177,023</u>

*The accompanying notes are an integral part of these financial statements.*

**DEFIANCE CITY SCHOOL DISTRICT**  
**DEFIANCE COUNTY**  
**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO**  
**NET ASSETS OF GOVERNMENTAL ACTIVITIES**  
*AS OF JUNE 30, 2003*

<b>Total Governmental Fund Balances</b>		<b>\$ 3,306,819</b>
<i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Captial assets used in governmental activities are not financial resources and therefore are not reported in the funds		9,156,378
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Accounts Receivable	10,859	
Accrued Interest Receivable	6,217	
Income Taxes Receivable	92,921	
Property Taxes Receivable	69,600	
		179,597
Intergovernmental payable includes contractually required pension contributions not expected to be paid with available expendable resources and therefore not reported in the funds.		(158,842)
Some liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Accrued Interest Payable	(5,702)	
Notes Payable	(595,000)	
Compensated Absences	(1,248,931)	
Capital Leases	(57,501)	
		(1,907,134)
<i>Net Assets of Governmental Activities</i>		<b><u>\$ 10,576,818</u></b>

*The accompanying notes are an integral part of these financial statements.*

**DEFIANCE CITY SCHOOL DISTRICT**  
**DEFIANCE COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
*FOR THE YEAR ENDED JUNE 30, 2003*

	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>			
Property Taxes	\$ 5,874,918	\$ -	\$ 5,874,918
Income Taxes	1,330,333	-	1,330,333
Payment in Lieu of Taxes	-	55,209	55,209
Intergovernmental	9,981,342	1,504,412	11,485,754
Interest	89,180	2,386	91,566
Tuition and Fees	11,399	113,294	124,693
Extracurricular Activities	-	201,468	201,468
Charges for Services	26,187	440,624	466,811
Gifts and Donations	-	8,059	8,059
Rent	21,670	-	21,670
Miscellaneous	100,076	12,648	112,724
<i>Total Revenues</i>	<u>17,435,105</u>	<u>2,338,100</u>	<u>19,773,205</u>
<b>EXPENDITURES</b>			
Current:			
Instruction:			
Regular	8,760,807	442,294	9,203,101
Special	1,783,831	311,300	2,095,131
Vocational	265,135	2,865	268,000
Support Services:			
Pupils	828,414	41,622	870,036
Instructional Staff	545,645	180,577	726,222
Board of Education	147,221	-	147,221
Administration	1,512,268	45,007	1,557,275
Fiscal	402,626	12	402,638
Operation and Maintenance of Plant	1,788,869	-	1,788,869
Pupil Transportation	677,312	5,801	683,113
Central	210,978	24,500	235,478
Non-Instructional Services	-	1,055,219	1,055,219
Extracurricular Activities	381,151	415,686	796,837
Capital Outlay	66,980	110,605	177,585
Debt Service			
Principal Retirement	12,094	683,638	695,732
Interest and Fiscal Charges	4,370	28,306	32,676
<i>Total Expenditures</i>	<u>17,387,701</u>	<u>3,347,432</u>	<u>20,735,133</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	47,404	(1,009,332)	(961,928)
<b>OTHER FINANCING SOURCES AND USES</b>			
Refunding Loan	-	595,000	595,000
Inception of Captial Lease	69,595	-	69,595
Transfers In	-	117,190	117,190
Transfers Out	(117,190)	-	(117,190)
<i>Total Other Financing Sources and Uses</i>	<u>(47,595)</u>	<u>712,190</u>	<u>664,595</u>
<i>Net Change in Fund Balances</i>	(191)	(297,142)	(297,333)
<i>Fund Balance at Beginning of Year</i>	<u>2,739,369</u>	<u>864,783</u>	<u>3,604,152</u>
<i>Fund Balance at End of Year</i>	<u>\$ 2,739,178</u>	<u>\$ 567,641</u>	<u>\$ 3,306,819</u>

*The accompanying notes are an integral part of these financial statements.*

**DEFIANCE CITY 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 YEAR ENDED JUNE 30, 2003*

**Net Change in Fund Balances - Total Governmental Funds** \$ (297,333)

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

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

Capital Outlay - Depreciable Capital Assets	639,914	
Depreciable Capital Assets Contributed	8,000	
Depreciation	<u>(564,236)</u>	83,678

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

Property Taxes	5,900	
Income Taxes	(12,373)	
Intergovernmental	(94,789)	
Interest	6,217	
Tuition and Fees	(1,325)	
Charges for Services	48	
Miscellaneous	<u>637</u>	(95,685)

Repayment of principal is an expenditure in the governmental, but the repayment reduces long-term liabilities in the statement of net assets. 695,732

Note proceeds are other financing sources in governmental funds, but the issuance increases long-term liabilities on the statement of net assets. (595,000)

Interest is reported as an expenditure when due in governmental funds, but is accrued on outstanding debt on the statement of net assets. (5,702)

The inception of a capital lease is reported as an other financing source in the governmental funds, but increases long-term liabilities on the statement of net assets. (69,595)

Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represent contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Intergovernmental Payable	6,921	
Compensated absences	<u>108,976</u>	<u>115,897</u>

*Change in Net Assets of Governmental Activities* \$ (168,008)

*The accompanying notes are an integral part of these financial statements.*

**DEFIANCE CITY SCHOOL DISTRICT**  
**DEFIANCE COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET (NON-GAAP BASIS) AND ACTUAL**  
**GENERAL FUND**  
*FOR THE YEAR ENDED JUNE 30, 2003*

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>REVENUES:</b>				
Property Taxes	\$ 5,798,856	\$ 6,052,060	\$ 5,678,718	\$ (373,342)
Income Taxes	2,353,206	1,519,935	1,364,777	(155,158)
Intergovernmental	9,193,817	9,473,274	9,979,143	505,869
Interest	101,228	114,140	109,019	(5,121)
Tuition and Fees	10,866	10,633	11,459	826
Charges for Services	21,585	20,931	23,246	2,315
Rent	17,078	16,464	18,636	2,172
Miscellaneous	<u>74,970</u>	<u>77,697</u>	<u>83,681</u>	<u>5,984</u>
Total Revenues	17,571,606	17,285,134	17,268,679	(16,455)
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Regular	8,352,039	8,344,315	8,272,787	(71,528)
Special	1,598,491	1,782,082	1,780,797	(1,285)
Vocational	279,446	268,176	262,182	(5,994)
Other	366,000	505,093	481,112	(23,981)
Support Services:				
Pupils	910,347	859,536	829,228	(30,308)
Instructional Staff	556,737	578,657	545,397	(33,260)
Board of Education	152,547	157,401	150,877	(6,524)
Administration	1,608,665	1,577,042	1,554,435	(22,607)
Fiscal	417,584	405,537	393,644	(11,893)
Operation and Maintenance of Plant	1,857,045	1,854,928	1,815,799	(39,129)
Pupil Transportation	725,074	713,982	676,581	(37,401)
Central	220,000	220,000	210,380	(9,620)
Extracurricular Activities	358,250	398,486	385,858	(12,628)
Capital Outlay	<u>95,000</u>	<u>85,900</u>	<u>66,980</u>	<u>(18,920)</u>
Total Expenditures	<u>17,497,225</u>	<u>17,751,135</u>	<u>17,426,057</u>	<u>(325,078)</u>
Excess of Revenues Over Expenditures	74,381	(466,001)	(157,378)	308,623
<b>OTHER FINANCING SOURCES AND USES:</b>				
Refund of Prior Year Expenditures	26,485	29,153	28,524	(629)
Advances Out	(5,000)	(75,000)	(75,000)	-
Transfers Out	<u>(208,544)</u>	<u>(117,190)</u>	<u>(117,190)</u>	<u>-</u>
Total Other Financing Sources and Uses	<u>(187,059)</u>	<u>(163,037)</u>	<u>(163,666)</u>	<u>(629)</u>
Net Change in Fund Balances	(112,678)	(629,038)	(321,044)	307,994
Fund Balance at Beginning of Year	3,630,266	3,630,266	3,630,266	-
Prior Year Encumbrances Appropriated	<u>86,181</u>	<u>86,181</u>	<u>86,181</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ 3,603,769</u>	<u>\$ 3,087,409</u>	<u>\$ 3,395,403</u>	<u>\$ 307,994</u>

*The accompanying notes are an integral part of these financial statements.*

**DEFIANCE CITY SCHOOL DISTRICT**  
**DEFIANCE COUNTY**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUND**  
*AS OF JUNE 30, 2003*

	<b>Private Purpose Trust</b>
<b>ADDITIONS</b>	\$ -
<b>DEDUCTIONS</b>	-
Change in Net Assets	-
Net Assets at Beginning of Year	460
Net Assets at End of Year	\$ 460

*The accompanying notes are an integral part of these financial statements.*

**DEFIANCE CITY SCHOOL DISTRICT**  
**DEFIANCE COUNTY**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUND**  
*AS OF JUNE 30, 2003*

	<b>Private Purpose Trust</b>	<b>Agency Fund</b>
<b>ASSETS</b>		
Equity in Pooled Cash and Cash Equivalents	\$ 460	\$ <u>60,473</u>
<b>LIABILITIES</b>		
Due to Students	-	\$ <u>60,473</u>
<b>NET ASSETS</b>		
Held in Trust for Scholarships	\$ 460	

*The accompanying notes are an integral part of these financial statements.*

**DEFIANCE CITY SCHOOL DISTRICT**  
**DEFIANCE COUNTY**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
*JUNE 30, 2003*

**Note 1 - Description of the School District and Reporting Entity**

Defiance City 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 and federal guidelines.

The School District is the 196th largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by one hundred fifteen classified employees, one hundred seventy-eight certified teaching personnel, and sixteen administrative employees who provide services to 2,583 students and other community members. The School District currently operates seven instructional/support buildings.

Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Defiance City 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; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; 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 Defiance City School District.

The School District's reporting entity includes the following:

Non-Public Schools - Within the School District's boundaries, the St John's Catholic School, St. Mary's Catholic School, St. John Lutheran School, and the Seventh Day Adventist School are operated as private schools. Current State legislation provides funding to the parochial schools. The monies are received and disbursed on behalf of the parochial schools by the Treasurer of the School District, as directed by the parochial schools. The activity is reflected in a special revenue fund of the School District.

The School District participates in six jointly governed organizations and two insurance pools. These organizations are the Northwest Ohio Computer Association, the Northern Buckeye Education Council, the Four County Career Center, the Northwestern Ohio Educational Research Council, Inc., the Northwest Ohio Special Education Regional Resource Center, the Northwest Ohio Regional Professional Development Center, 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 20 and 21 to the basic financial statements.

**DEFIANCE CITY SCHOOL DISTRICT**  
**DEFIANCE COUNTY**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
*JUNE 30, 2003*

**Note 2 - Summary of Significant Accounting Policies**

The basic financial statements of Defiance City 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 governmental activities provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the School District's accounting policies.

**A. Basis of Presentation**

The School District's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

**Government-Wide Financial Statements**

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

The statement of net assets presents the financial condition of the governmental activities of the School District at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. 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 charges paid by the recipient of the goods or services offered by the program and grants, contributions, and interest that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

**Fund Financial Statements**

During the fiscal year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

**B. Fund Accounting**

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the School District are divided into two categories, governmental and fiduciary.

**DEFIANCE CITY SCHOOL DISTRICT**  
**DEFIANCE COUNTY**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
*JUNE 30, 2003*

Governmental Funds

Governmental funds are those through which most governmental functions of the School District are financed. Governmental fund reporting focuses 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 School District's only major fund is the General Fund.

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

The other governmental funds of the School District account for grants and other resources whose uses are restricted to a particular purpose.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. The School District's private purpose trust fund accounts for college scholarships for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds account for student athletic insurance, for amounts held to pay for college placement tests, and for various student-managed activities.

**C. Measurement Focus**

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

Fund Financial Statements

All governmental funds 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. The statement of revenues, expenditures, and changes in fund balances reflects the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

**DEFIANCE CITY SCHOOL DISTRICT**  
**DEFIANCE COUNTY**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
*JUNE 30, 2003*

**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 use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

**Revenues - Exchange and Nonexchange 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 the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means 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 School District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from income taxes is recognized in the fiscal year in which the income is earned. 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 fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On the 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 both measurable and available at fiscal year end: property taxes available as an advance, income taxes, grants, interest, tuition, student fees, and charges for services, and rent.

**Deferred Revenues**

Deferred revenues arise when assets are recognized before revenue recognition criteria has been satisfied.

Property taxes for which there was an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, are recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

**Expenses/Expenditures**

On the accrual basis, expenses are recognized at the time they are incurred.

**DEFIANCE CITY SCHOOL DISTRICT**  
**DEFIANCE COUNTY**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
*JUNE 30, 2003*

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

**E. Budgetary Process**

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of budgetary control selected by the Board is at the function level for the General Fund and the fund level for all other funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education. Budgetary allocations at the object level within the General Fund and at the function and object level within all other funds are made by the School District Treasurer.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

The appropriation resolution is subject to amendment throughout the fiscal year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

**F. Cash and Investments**

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Cash and cash equivalents held for the School District by the Northwest Ohio Educational Service Center are reflected as "Cash and Cash Equivalents with Fiscal Agent".

During fiscal year 2003, investments included nonnegotiable certificates of deposit and STAR Ohio. Nonnegotiable certificates of deposit are reported at cost. 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, 2003.

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 2003 was \$89,180, which includes \$12,324 assigned from other School District funds.

**DEFIANCE CITY SCHOOL DISTRICT**  
**DEFIANCE COUNTY**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
*JUNE 30, 2003*

Investments of the School District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2003, 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.

**H. Inventory**

Inventory is presented at cost on a first-in, first-out basis and is expended/expensed when used. Inventory consists of donated and purchased food.

**I. Restricted Assets**

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by enabling legislation. Restricted assets in the General Fund represent amounts required by State statute to be set aside for the acquisition and construction of capital improvements.

**J. Capital Assets**

All of the School District's capital assets are general capital assets resulting from expenditures in governmental funds. These assets are reported in the governmental activities column on the government-wide statement of net assets but are not reported on the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. The School District maintains a capitalization threshold of two thousand five hundred dollars. 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 capitalized.

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

Description	Useful Lives
Land Improvements	10 - 50 years
Buildings and Building Improvements	10 - 118 years
Furniture, Fixtures, and Equipment	4 - 40 years
Vehicles	8 - 15 years

**K. Interfund Assets/Liabilities**

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "Interfund Receivables/Payables". Interfund balances within governmental activities are eliminated on the statement of net assets.

**DEFIANCE CITY SCHOOL DISTRICT**  
**DEFIANCE COUNTY**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
*JUNE 30, 2003*

**L. 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 the School District will compensate the employees for the benefits through time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for all employees after twenty years of service and for all employees who have 15 years of service at age 45, 10 years of service at age 50, and 5 years of service at age 60.

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

On governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid.

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

All payables, accrued liabilities, and long-term obligations are reported on 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, compensated absences and contractually required pension contributions that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current year. Energy conservation loans and capital leases are recognized as a liability on the fund financial statements when due.

**N. 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 balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include activities for food service operations, music and athletic programs, and federal and state grants restricted to expenditure for specified purposes.

The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

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**O. Fund Balance Reserves**

The School District reserves those portions of fund balance 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 which is available for appropriation in future periods. Fund balance reserves have been established for property taxes, capital improvements, 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.

**P. Interfund Transactions**

Transfers within governmental activities are eliminated on the government-wide financial statements.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. 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 management and are either unusual in nature or infrequent in occurrence.

**R. 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.

**NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE**

**A. Change in Accounting Principles**

For fiscal year 2003, the School District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedules - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements".

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

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On the government-wide financial statements, the beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2002, caused by the conversion to the accrual basis of accounting.

GASB Statement No. 37 makes certain clarifications regarding escheat property and modifies several provisions of GASB Statement No. 34, including Management's Discussion and Analysis. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization, or program structure that the School District uses for its legally adopted budget when significant budgetary perspective differences result in the School District not being able to present budgetary comparisons for the General Fund and each major special revenue fund. The implementation of this statement did not have any effect on the School District's financial statements for fiscal year 2003.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

**B. Restatement of Fund Balance**

The restatement due to the implementation of the above statements and interpretation had the following effect on fund balance of the major and nonmajor funds of the School District as they were previously reported. The transition from governmental fund balance to net assets of governmental activities is also presented:

	General	Other Governmental	Total Governmental Activities
Fund Balance June 30, 2002	\$ 2,747,687	\$ 897,576	\$ 3,645,263
GASB Statement No. 34 Adjustment:			
Change in Fund Structure	-	(32,793)	(32,793)
GASB Interpretation No. 6 Adjustment:			
Compensated Absences Payable	(8,318)	-	(8,318)
Adjusted Fund Balance	<u>\$ 2,739,369</u>	<u>\$ 864,783</u>	<u>3,604,152</u>
GASB Statement No. 34 Adjustments:			
Accounts Receivable			11,499
Intergovernmental Receivable			94,789
Income Taxes Receivable			105,294
Property Taxes Receivable			63,700
Capital Assets			9,072,700
Intergovernmental Payable			(165,763)
Energy Conservation Loan Payable			(123,638)
General Obligation Bonds Payable			(560,000)
Compensated Absences Payable			(1,357,907)
Governmental Activities Net Assets at June 30, 2002			<u>\$ 10,744,826</u>

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**Note 4 - Accountability and Compliance**

**A. Accountability**

At June 30, 2003, the Food Service, Uniform School Supplies, Athletics, Title VI-B, and Improving Teacher Quality special revenue funds had deficit fund balances, in the amount of \$53,476, \$6,141, \$28,198, \$4,021 and \$4,220, respectively, resulting from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit fund balances; however, this is done when cash is needed rather than when the accruals occur.

**B. Compliance**

The following funds had appropriations in excess of estimated resources plus available balances for the fiscal year ended June 30, 2003.

<u>Fund Type/Fund</u>	<u>Estimated Resources Plus Available Balances</u>	<u>Appropriations</u>	<u>Excess</u>
Special Revenue Funds			
Food Service	\$ 700,871	\$ 725,112	\$ 24,241
Uniform School Supplies	120,211	150,360	30,149
EMIS	8,525	18,935	10,410
Title VI	19,533	19,621	88
Improving Teacher Quality	179,473	179,482	9
Debt Service Fund			
Bond Retirement	208,545	711,944	503,399

The Board of Education is monitoring budgetary controls to avoid future violations of budgetary compliance.

**Note 5 - Budgetary Basis of Accounting**

While the School District is reporting financial position, results of operations, and changes in fund balances 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 Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual 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 as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

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The adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund are as follows:

Net Change in Fund Balance	
GAAP Basis	\$ (191)
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2002, Received in Cash FY 2003	777,958
Accrued FY 2003, Not Yet Received in Cash	(929,768)
Expenditure Accruals:	
Accrued FY 2002, Paid in Cash FY 2003	(1,782,660)
Accrued FY 2003, Not Yet Paid in Cash	1,748,912
Cash Adjustments:	
Unrecorded Activity FY 2002	13,908
Prepaid Items	(25,256)
Advances Out	(75,000)
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(48,947)
Budget Basis	<u>\$ (321,044)</u>

**Note 6 - 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 the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

Protection of the 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 bills, bonds, notes, 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;

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2. Bonds, notes, debentures, or any other obligation or security 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 the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and 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) 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).
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time.
8. Under limited circumstances corporate debt interest rated in either of the two highest rated classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the 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.

At fiscal year end, the School District had \$27,377 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents".

At fiscal year end, the School District had \$206 in cash and cash equivalents held by the Northwest Ohio Educational Service Center, which is presented as "Cash and Cash Equivalents with Fiscal Agent". The Educational Service Center holds this flow through grant money for the School District together with that of other school districts, and therefore, the School District cannot classify this money by risk under GASB Statement No. 3.

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

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At fiscal year end, the carrying amount of the School District's deposits was \$3,588,878 and the bank balance was \$4,230,734. Of the bank balance, \$104,144 was covered by federal depository insurance and \$4,126,590 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District's investments are categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the School District or its 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 is unclassified since it is not evidenced by securities that exist in physical or book entry form. At June 30, 2003, the fair value of funds on deposit with STAR Ohio was \$646,739.

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

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No.9	\$ 4,263,200	\$ -
Cash on Hand	(27,377)	-
Cash and Cash Equivalents with Educational Service Center	(206)	-
Investments:		
STAR Ohio	(646,739)	646,739
GASB Statement No.3	\$ 3,588,878	\$ 646,739

**Note 7 - Receivables**

Receivables at June 30, 2003, consisted of accounts (student fees and billings for user charged services), accrued interest, intergovernmental, interfund, income taxes, and property taxes. 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. All receivables are expected to be collected within one year.

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A summary of the principal items of intergovernmental receivables follows:

	<u>Amounts</u>
Governmental Activities	
General Fund	
Transportation	\$ 2,941
CAFS	3,330
Total General Fund	6,271
Other Governmental Funds	
Title VI-B	35,606
Title I	87,978
Title VI	2,356
Drug Free	2,351
Improving Teacher Quality	26,981
Total Other Governmental Funds	155,272
Total Intergovernmental Receivables	\$ 161,543

**Note 8 - Income Taxes**

The School District levies a voted tax of .5 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1991, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

**Note 9 - Property Taxes**

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2003 represent the collection of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed values as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2003 represent the collection of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien on December 31, 2001, were levied after April 1, 2002, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

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Tangible personal property tax revenues received in calendar year 2003 (other than public utility property) represent the collection of calendar year 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 24 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, 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 School District prior to June 30.

The School District receives property taxes from Defiance and Paulding Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2003, and for which there was 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 reflected 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.

The amount available as an advance at June 30, 2003, was \$470,000 in the General Fund. The amount available as an advance at June 30, 2002, was \$273,800 in the General Fund.

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

The assessed values upon which fiscal year 2003 taxes were collected are:

	2002 Second-Half Collections		2003 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$153,298,440	68.57%	\$162,766,300	68.73%
Industrial/Commercial	30,896,220	13.82%	33,514,910	14.15%
Public Utility	11,540,060	5.16%	10,772,370	4.55%
Tangible Personal Property	27,831,690	12.45%	29,758,340	12.57%
Total Assessed Value	<u>\$223,566,410</u>	<u>100.00%</u>	<u>\$236,811,920</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$ 37.50		\$ 44.30	

In May 2002, the voters approved a 6.8 mill five-year emergency levy.

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**Note 10 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	<u>Restated Balance at 6/30/02</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/03</u>
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$ 1,004,940	\$ -	\$ -	\$ 1,004,940
Construction in Progress	31,000	-	(31,000)	-
Total Nondepreciable Capital Assets	<u>1,035,940</u>	-	<u>(31,000)</u>	<u>1,004,940</u>
Depreciable Capital Assets				
Land Improvements	1,561,780	-	(5,745)	1,556,035
Buildings and Building Improvements	8,007,491	133,846	-	8,141,337
Furniture, Fixtures, and Equipment	3,417,446	395,728	(105,297)	3,707,877
Vehicles	1,212,354	149,340	(33,474)	1,328,220
Total Depreciable Capital Assets	<u>14,199,071</u>	<u>678,914</u>	<u>(144,516)</u>	<u>14,733,469</u>
Less Accumulated Depreciation				
Land Improvements	(304,724)	(67,775)	5,745	(366,754)
Buildings and Building Improvements	(3,226,473)	(134,419)	-	(3,360,892)
Furniture, Fixtures, and Equipment	(1,956,696)	(252,292)	105,297	(2,103,691)
Vehicles	(674,418)	(109,750)	33,474	(750,694)
Total Accumulated Depreciation	<u>(6,162,311)</u>	<u>(564,236)</u>	<u>144,516</u>	<u>(6,582,031)</u>
Depreciable Capital Assets, Net	<u>8,036,760</u>	<u>114,678</u>	<u>-</u>	<u>8,151,438</u>
Governmental Activities Capital Assets, Net	<u>\$ 9,072,700</u>	<u>\$ 114,678</u>	<u>\$ (31,000)</u>	<u>\$ 9,156,378</u>

The School District accepted a contribution of depreciable capital assets for governmental activities with a fair value of \$8,000 during fiscal year 2003.

Depreciation expense was charged to governmental functions as follows:

	<u>Amounts</u>
Instruction:	
Regular	\$ 99,679
Special	8,773
Vocational	3,817
Support Services:	
Pupils	1,892
Instructional Staff	31,807
Board of Education	32
Administration	23,317
Fiscal	1,239
Operation and Maintenance of Plant	167,458
Pupil Transportation	96,699
Central	14,814
Non-Instructional Services	17,536
Extracurricular Activities	97,173
Total Depreciation Expense	<u>\$ 564,236</u>

**Note 11 - Interfund Assets/Liabilities**

At June 30, 2003, the General Fund had an interfund receivable and other governmental funds had an interfund payable, in the amount of \$75,000, resulting from short-term loans made to other governmental funds.

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**Note 12 - Risk Management**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2003, the School District contracted for the following insurance coverage.

Indiana Insurance Company:	
General Liability	
Per Occurrence	\$ 1,000,000
Total per Year	2,000,000
Umbrella Liability	
Per Occurrence	4,000,000
Total per Year	4,000,000
Building and contents	58,450,434
Cincinnati Insurance:	
Boiler Insurance	25,000,000
Auto Owners Insurance Company:	
Vehicle liability	1,000,000
Uninsured/Underinsured motorist	1,000,000

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

The School District participates in the Northern Buckeye Education Council Employee Insurance Benefits Program (Program), a public entity shared risk pool consisting of educational entities within Defiance, Fulton, Henry, Lucas, Williams, and Wood Counties. The School District pays monthly premiums to the Northern Buckeye Education Council for the benefits offered to its employees including medical, dental, vision, 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 all 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 (Plan), an insurance purchasing pool. The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants 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 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 performs its obligations in accordance with the terms of the agreement.

**Note 13 - Defined Benefit Pension Plans**

**A. State Teachers Retirement System**

The 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 retirement and disability benefits to members and death and survivor benefits to 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. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

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New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all of their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age fifty and termination of employment. The CP offers features of both the DBP and DCP. In the CP, 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 DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

A DBP or CP member with five or more years of 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 DCP 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.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salary and the School District was required to contribute 14 percent; 13 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 for the DBP for the fiscal years ended June 30, 2003, 2002, and 2001 was \$1,173,614, \$971,165, and \$801,689, respectively; 83 percent has been contributed for fiscal year 2003 and 100 percent has been contributed for fiscal years 2002 and 2001. Contributions for the DCP and CP for the fiscal year ended June 30, 2003, were \$302 made by the School District and \$3,208 made by plan members.

**B. School Employees Retirement System**

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available 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.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9 percent of their annual covered salary and the School District was required to contribute an actuarially determined rate. The rate for fiscal year 2003 was 14 percent of annual covered payroll; 8.17 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$169,290, \$113,108, and \$99,638, respectively; 39 percent has been contributed for fiscal year 2003 and 100 percent has been contributed for fiscal years 2002 and 2001.

**DEFIANCE CITY SCHOOL DISTRICT**  
**DEFIANCE COUNTY**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
*JUNE 30, 2003*

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2003, none of the Board of Education members have elected Social Security.

**Note 14 - 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 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 obligation 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.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2003, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount was \$92,278.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$2,800 million at June 30, 2003. For the fiscal year ended June 30, 2003, net health care costs paid by STRS were \$352,301,000, and STRS had 108,294 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to 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 the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 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 2003, the minimum pay was established at \$14,500. For the School District, the amount to fund health care benefits, including the surcharge, was \$162,245 for fiscal year 2003.

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 at June 30, 2003, were \$204,930,737, and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**DEFIANCE CITY SCHOOL DISTRICT**  
**DEFIANCE COUNTY**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
*JUNE 30, 2003*

**Note 15 - Other Employee Benefits**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits is derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Unused vacation time can be carried forward with special permission and is limited to one year's accumulation. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred twenty days for all employees. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of fifty-five days for all employees.

**B. Health Care Benefits**

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

**Note 16 - Long-Term Obligations**

Changes in the School District's long-term obligations during fiscal year 2003 were as follows:

	<u>Interest Rate</u>	<u>Balance at 6/30/02</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/03</u>	<u>Amounts due within One year</u>
Energy Conservation Loan	4.6%	\$ 123,638	\$ -	\$ 123,638	\$ -	\$ -
Energy Conservation Loan	2.65%	-	595,000	-	595,000	148,750
General Obligation Bonds	5.64%	560,000	-	560,000	-	-
Compensated absences payable		1,357,907	28,538	137,514	1,248,931	53,259
Capital Leases payable		-	69,595	12,094	57,501	12,945
Total Governmental Activities long-term obligations		<u>\$2,041,545</u>	<u>\$ 693,133</u>	<u>\$ 833,246</u>	<u>\$1,901,432</u>	<u>\$ 214,954</u>

Energy Conservation Loan - On May 1, 1994, the School District obtained a loan, in the amount of \$536,684, for energy conservation improvements. The loan had an interest rate of 4.6 percent and was issued for a ten year period. The loan was fully retired in fiscal year 2003.

Energy Conservation Loan - On February 18, 2003, the School District obtained a loan, in the amount of \$595,000, to refund an energy conservation loan obtained in fiscal year 1994, with an outstanding balance of \$93,774, and general obligation bonds issued in fiscal year 1997, with an outstanding balance of \$504,000. The refunding will reduce the total debt service payments over the next four fiscal years by \$11,098 and results in an economic gain of \$3,568. The new energy conservation loan has an interest rate of 2.65 percent and will mature in fiscal year 2007. The loan is being retired from the Bond Retirement debt service fund.

General Obligation Bonds - On January 15, 1997, the School District issued unvoted general obligation bonds, in the amount of \$1,078,699, for energy conservation improvements. The bonds were issued for a ten year period. The bonds were fully retired in fiscal year 2003.

Compensated absences will be paid from the General Fund and from the Food Service special revenue fund. Capital leases will be paid from the General Fund.

**DEFIANCE CITY SCHOOL DISTRICT**  
**DEFIANCE COUNTY**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
*JUNE 30, 2003*

The School District's overall debt margin was \$21,245,342 with an unvoted debt margin of \$236,059 at June 30, 2003.

Principal and interest requirements to retire energy conservation loan outstanding at June 30, 2003, were as follows.

Fiscal Year Ending June 30,	Principal	Interest	Total
2004	\$ 148,750	\$ 14,037	\$ 162,787
2005	148,750	10,840	159,590
2006	148,750	6,898	155,648
2007	148,750	2,957	151,707
	<u>\$ 595,000</u>	<u>\$ 34,732</u>	<u>\$ 629,732</u>

**Note 17 - Capital Leases - Lessee Disclosure**

The School District has entered into a capitalized lease for equipment. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. The new capital lease is reflected in the accounts "Regular Instruction" and "Inception of Capital Lease" in the fund which will be making the lease payments. Capital lease payments are reflected as debt service expenditures on the statement of revenues, expenditures, and changes in fund balances for the governmental funds. Principal payments in 2003 were \$12,094.

	Governmental Activities
Property under Capital Lease	\$ 69,595
Less Accumulated Depreciation	(12,759)
Total June 30, 2003	<u>\$ 56,836</u>

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2003.

Fiscal Year Ending June 30,	Principal	Interest	Total
2004	\$ 12,945	\$ 3,519	\$ 16,464
2005	13,855	2,609	16,464
2006	14,829	1,635	16,464
2007	15,872	592	16,464
	<u>\$ 57,501</u>	<u>\$ 8,355</u>	<u>\$ 65,856</u>

**Note 18 - Set Asides**

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 fiscal year must be held in cash at fiscal year end. These amounts must be carried forward and used for the same purposes in future years.

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2003.

**DEFIANCE CITY SCHOOL DISTRICT**  
**DEFIANCE COUNTY**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
*JUNE 30, 2003*

	Textbooks	Capital Improvements
Balance June 30, 2002	\$ 94,756	\$ 530,076
Current Year Set Aside Requirement	342,787	342,787
Qualifying Expenditures	(795,000)	(371,043)
Balance June 30, 2003	\$ (357,457)	\$ 501,820
Amount Carried Forward to Fiscal Year 2004	\$ -	\$ 501,820

The School District had qualifying expenditures during the fiscal year that reduced the textbooks set aside amount below zero. This amount may be used to reduce the set aside requirement in future fiscal years.

**Note 19 - Interfund Transfers**

During fiscal year 2003, the General Fund made transfers to other governmental funds, in the amount of \$117,190, to move receipts to the debt service fund as debt payments came due.

**Note 20 - Jointly Governed Organizations**

**A. Northwest Ohio Computer Association**

The School District is a participant in the Northwest Ohio Computer Association (NWOCA), which is a computer consortium. NWOCA is an association of educational entities within the boundaries of Defiance, Fulton, Henry, Lucas, Williams, and Wood 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 educational entities.

The NWOCA Assembly consists of the superintendent from each participating educational entity and a representative from the fiscal agent. The Assembly elects the governing council of two representatives from each of the six counties in which member educational entities are located and the representative from the member educational entity serving as fiscal agent for NWOCA. The degree of control exercised by any participating educational entity is limited to its representation on the Governing Council. During fiscal year 2003, the School District paid \$221,755 to NWOCA for various services. Financial information can be obtained from Cindy Siler, who serves as Treasurer, 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 educational entities located in Defiance, Fulton, Henry, Lucas, Williams, and Wood 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 six 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. Financial information can be obtained from the Northern Buckeye Education Council, Cindy Siler, who serves as Treasurer, 22-900 State Route 34, Archbold, Ohio 43502.

**DEFIANCE CITY SCHOOL DISTRICT**  
**DEFIANCE COUNTY**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
*JUNE 30, 2003*

**C. Four County Career Center**

The Four County Career Center (Career Center) is a distinct political subdivision of the State of Ohio which provides vocational education to students. The Career Center is operated under the direction of a board consisting of five representatives from the Northwest Ohio Educational Service Center and one representative from the participating school districts elected boards. The Career Center possesses its own budgeting and taxing authority. The degree of control exercised by the School District is limited to its representation on the Board. Financial information can be obtained from the Four County Career Center, Lois Knuth, who serves as Treasurer, Route 1, Box 245A, Archbold, Ohio 43502.

**D. Northwestern Ohio Educational Research Council, Inc.**

The Northwestern Ohio Educational 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.

**E. 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.

**F. Northwest Ohio Regional Professional Development Center**

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

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

**DEFIANCE CITY SCHOOL DISTRICT**  
**DEFIANCE COUNTY**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
*JUNE 30, 2003*

**Note 21 - Insurance Pools**

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

The Northern Buckeye Education Council Employee Insurance Benefits Program (Program) is a public entity shared risk pool consisting of educational entities within Defiance, Fulton, Henry, Lucas, Williams, and Wood Counties. The Program is governed by the Northern Buckeye Education Council (NBEC) and its participating members.

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

The School 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 (Plan) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool. The Plan is governed by the Northern Buckeye Education Council and the participants of the Plan. The Executive Director of the NBEC coordinates the management and administration of the Plan. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

**Note 22 - State School Funding Decision**

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

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

**Note 23 - 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 disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2003.

**B. Litigation**

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

**DEFIANCE CITY SCHOOL DISTRICT**  
**DEFIANCE COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
*For The Year Ended June 30, 2003*  
(Non-GAAP Basis)

Federal Grantor/Pass Through Grantor Program Title	Project Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b>U.S. DEPARTMENT OF AGRICULTURE</b>						
<i>Passed Through Ohio Department of Education</i>						
Nutrition Cluster:						
National School Lunch Program	043869-LL-P4	10.555	\$ 183,127	\$ -	\$ 183,128	\$ -
School Breakfast Program	043869-05-PU	10.553	12,859	-	12,859	-
Food Distribution Program	N/A	10.550	-	64,940	-	62,982
Total Department of Agriculture and Nutrition Cluster			195,986	64,940	195,987	62,982
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>						
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities</i>						
Medical Assistance Plan (Medicaid: Title XIX)	N/A	93.778	51,747	-	51,747	-
Total Department of Health and Human Services			51,747	-	51,747	-
<b>U.S. DEPARTMENT OF EDUCATION</b>						
<i>Passed Through Ohio Department of Education</i>						
Special Education Cluster:						
Special Education Grants to States (Title VI-B)	043869-6B-SF	84.027	236,571	-	274,656	-
Total Special Education Cluster			236,571	-	274,656	-
Grants to Local Educational Agencies (ESEA Title I)						
Eisenhower Grant	043869-CI-SI	84.010	256,114	-	282,929	-
Innovative Educational Program Strategies (Title VI)	043869-MS-SI	84.281	(6,639)	-	3,482	-
Class Size Reduction Program	043869-C2-S1	84.298	15,693	-	13,924	-
Title II-D Education Technology	043869-CR-S1	84.340	34,825	-	40,991	-
Grants for School Repair and Renovation	043869-TJ-S1	84.318	7,204	-	7,204	-
Improving Teacher Quality	043869-AT-S2	84.352A	32,818	-	30,193	-
Drug Free Grant	043869-TR-S1	84.367	82,185	-	82,185	-
Total Department of Education	043869-DR-S1	84.186	10,544	-	13,795	-
			669,315	-	749,359	-
<b>TOTAL FEDERAL ASSISTANCE</b>			<b>\$ 917,048</b>	<b>\$ 64,940</b>	<b>\$ 997,093</b>	<b>\$ 62,982</b>

**DEFIANCE CITY SCHOOL DISTRICT**  
**DEFIANCE COUNTY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
*June 30, 2003*

**Note 1 - Significant Accounting Policies**

The accompanying schedule of expenditures of federal awards is a summary of the activity of the District's federal award programs. The schedule has been prepared on the cash (Non-GAAP) basis of accounting.

**Note 2 - Food Distribution**

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. Monies are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2003, the District had \$22,091 of food commodities in inventory.

# STEYER & CO.

*Certified Public Accountants*

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## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF GENERAL PURPOSE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Education  
Defiance City School District  
Defiance, Ohio

We have audited the financial statements of the Defiance City School District, as of and for the year ended June 30, 2003, and have issued our report thereon dated August 18, 2004 wherein we noted the District implemented a new accounting reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34 *Basis Financial Statement and Management Discussion and Analysis for State and Local Governments*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether Defiance City School 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2003-1 through 2003-7. We also noted certain immaterial instances of noncompliance that we have reported to management of Defiance City School District in a separate letter dated August 18, 2004.

### 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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2003-1 through 2003-4.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management of the District in a separate letter dated August 18, 2004.

This report is intended solely for the information and use of the Board of Education of the District, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Steyer & Co." with a stylized flourish at the end.

STEYER & CO.

Defiance, Ohio  
August 18, 2004

# STEYER & CO.

*Certified Public Accountants*

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## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Education  
Defiance City School District  
Defiance, Ohio

### Compliance

We have audited the compliance of the Defiance City School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, Defiance City School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

### Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Education of the District, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Steyer & Co." with a stylized flourish at the end.

STEYER & CO.

Defiance, Ohio  
August 18, 2004

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2003**

**Section I - Summary of Auditor's Results**

***Financial Statements***

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?	_____yes	_____X_____no
Reportable condition(s) identified not considered to be material weaknesses?	_____X_____yes	_____no

Noncompliance material to financial statements noted?

	_____yes	_____X_____no
--	----------	---------------

***Federal Awards***

Internal control over major programs:

Material weakness(es) identified?	_____yes	_____X_____no
Reportable condition(s) identified not considered to be material weaknesses?	_____yes	_____X_____no

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section.510(a)? \_\_\_\_\_yes \_\_\_\_\_X\_\_\_\_\_no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as a low-risk auditee? \_\_\_\_\_X\_\_\_\_\_yes \_\_\_\_\_no

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2003**

**Section II - Financial Statement Findings**

The results of our tests disclosed the following items that are required to be reported in accordance with paragraphs 5.18 through 5.20 of *Government Auditing Standards*.

**REPORTABLE CONDITIONS**

**Finding 2003-1 – Reportable Condition**

During the course of our audit, relating to Federal Funds, we tested internal controls and compliance issues associated with the Title I program, CFDA Number 84.010, also known as Title I. We noted that as of June 30, 2003, the Treasurer had reclassified by a journal entry a total of \$80,763 of Title I expenditures from the Title I program to the General Fund. This was done to avoid causing the fund to end the year in a deficit position. Further inspection into the reclassification, noted that all expenditures were proper amounts for Title I payroll. The result was that the District lost potential allowable reimbursement of these expenditures for which they could have been properly reimbursed had the proper procedures been followed and the requests been filed within the time limits of the program. It was noted that the District only properly received funds for expenditures it incurred and presented for payment under the grant. It is further noted that the Treasurer could have requested an advance of funds from the Board of Education managed General Fund to avoid the deficit position of the fund rather than reclassification of the expenditures. The Treasurer could also have requested a timely advance of funds from the Title I program to cover these expenditures. It is recommended that the present Treasurer properly review the federal funds under his control to insure that timely requests for funds are filed and that all applicable and proper expenditures associated with the federal funds be properly classified and reimbursed as soon as possible under the approved grant requests.

**Finding 2003-2 – Reportable Condition**

During the course of our audit as related to the Athletic Fund, it was determined that several groups of tickets could not be properly accounted for and tickets were missing. In determining the cause of the missing tickets, it was learned that tickets were regularly stored in an area that had unlimited access by numerous personnel. The effect of this condition could conceivably cause a loss of resources to the District through theft of the tickets and their misappropriation. It is recommended that athletic event tickets be secured in an area with access only by authorized personnel and that the Ticket Manager be properly instructed as to his responsibility for safeguarding the assets entrusted to him.

**Finding 2003-3 – Reportable Condition**

During the course of our audit we determined that several organizations affiliated in various ways to the District (i.e. music boosters, parent teacher organization, athletic boosters, and tax levy committee) had established bank accounts utilizing the District's name and/or federal identification number. We determined that no District monies were associated with these accounts, and also that no prohibited activities had occurred as stated in Ohio Rev. Code Section 124.57. However, it is recommended that the District Treasurer periodically canvas the local financial institutions and confirm all bank and investment accounts that utilize the District's name and/or federal

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2003**

identification number. Any accounts identified as not owned by the District should be informed to cease and/or desist using the District's name and/or federal identification number.

**Finding 2003-4 – Reportable Condition**

During the course of our audit in relation to Cash, we noted that certain Athletic Department Cash Accounts were not timely reconciled on a monthly basis. Under the Uniform Commercial Code as adopted by the State of Ohio, the owner of a bank account has thirty days after receipt of the bank documents to notify the bank of a discrepancy in the account. Failure to properly notify the bank within the thirty day period could limit the liability of the bank for fraudulent and forged items. This could possibly result in substantial loss of funds to the District. For these reasons, we recommend that the District properly reconcile all of the bank and investment accounts under its ownership to alleviate the potential loss of District funds.

**Finding 2003-5 – Non-Compliance Citation**

Ohio Rev. Code §5705.41 (B) provides that money should not be expended unless it has been appropriated.

During the year ended June 30, 2003, the school had instances where expenditures were in excess of appropriations at the legal level of control:

Fund	Number of instances
General	44
Special Revenue	72
Enterprise	9
Agency	19
Total Instances	<u>144</u>

The treasurer should compare all requisitions to available appropriations and to available cash balances. No expenditure should be made until appropriations have been modified in compliance with the requirements of the Ohio Revised Code.

**Finding 2003-6 – Non-Compliance Citation**

Ohio Rev. Code §5705.36 requires in part that an amended certificate of available resources be obtained when a deficiency of revenue reduces available resources below the current level of appropriations.

**DEFIANCE CITY SCHOOL DISTRICT  
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2003**

At June 30, 2003, the following funds had actual receipts below the amount certified as available by the budget commission and below the amount of appropriations:

	<u>Actual Receipts</u>	<u>Estimated Receipts</u>	<u>Variances</u>
General Fund	17,297,202	17,314,286	17,084
Athletic Fund	181,821	243,400	61,579
Auxiliary Services Fund	211,028	243,163	32,135
Ohio Reads	75,084	75,500	416
Summer School Subsidy	-	10,000	10,000
Alternative Educ. Challenge Grant	27,799	30,888	3,089
Eisenhower Grant	(6,639)	53	6,692
Title VI-B	236,571	386,115	149,544
Title I	256,114	425,358	169,244
Title VI	15,652	20,362	4,710
Drug Free Schools	10,544	17,305	6,761
Title VI R Class Size Reduction	117,010	162,727	45,717
School To Work Grant	40,022	41,730	1,708
Food Service	697,318	708,515	11,197

The treasurer should monitor appropriations and actual receipts throughout the fiscal year and obtain an amended certificate as needed for compliance with the requirements of the Ohio Revised Code.

**Finding 2003-7 – Non-Compliance Citation**

Ohio Rev. Code §5705.39 requires in part that the total appropriations from each fund shall not exceed the total of the estimated revenue available for expenditure there from, as certified by the budget commission.

At June 30, 2003, the following funds had appropriations in excess of the amount certified as available by the budget commission:

<u>Fund Type/Fund</u>	<u>Estimated Resources Plus Available Balances</u>	<u>Appropriations</u>	<u>Excess</u>
Special Revenue Funds			
Food Service	\$ 700,871	\$ 725,112	\$ 24,241
Uniform School Supplies	120,211	150,360	30,149
EMIS	8,525	18,935	10,410
Title VI	19,533	19,621	88
Improving Teacher Quality	179,473	179,482	9
Debt Service Fund			
Bond Retirement	208,545	711,944	503,399

The Treasurer should monitor appropriations and estimated revenue throughout the fiscal year and obtain an amended certificate as needed for compliance with the Ohio Revised Code..

**Section III - Federal Award Findings and Questioned Costs**

The results of our tests disclosed no findings or questioned costs that are required to be reported under Circular A-133, Section.510(a).

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2003**

Finding Number	Finding Summary	Fully Corrected?	Action Taken
N/A	N/A	N/A	N/A

**DEFIANCE CITY SCHOOL DISTRICT  
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**CORRECTIVE ACTION PLAN  
YEAR ENDED JUNE 30, 2003**

<u>Finding Number</u>	<u>Planned Corrective Action</u>	<u>Anticipated Completion Date</u>	<u>Responsible Contact Person</u>
2003-1	The Treasurer will monitor the situation and take appropriate corrective action	June 30, 2004	Christopher S. Lee
2003-2	The Treasurer will monitor the situation and take appropriate corrective action	June 30, 2004	Christopher S. Lee
2003-3	The Treasurer will monitor the situation and take appropriate corrective action	June 30, 2004	Christopher S. Lee
2003-4	The Treasurer will monitor the situation and take appropriate corrective action	June 30, 2004	Christopher S. Lee
2003-5	The Treasurer will monitor the situation and take appropriate corrective action	June 30, 2004	Christopher S. Lee
2003-6	The Treasurer will monitor the situation and take appropriate corrective action	June 30, 2004	Christopher S. Lee
2003-7	The Treasurer will monitor the situation and take appropriate corrective action	June 30, 2004	Christopher S. Lee





**Auditor of State  
Betty Montgomery**

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**DEFIANCE CITY 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  
OCTOBER 18, 2004**