



Dave Yost • Auditor of State

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Defiance City School District
Defiance County
629 Arabella Street
Defiance, Ohio 43512-2856

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Defiance City School District, Defiance County, Ohio (the District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Defiance City School District, Defiance County, Ohio, as of June 30, 2013, and the respective changes in cash financial position and the budgetary comparison for the General fund thereof for the year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

Ohio Administrative Code § 117-2-03 (B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Matters

Supplemental and Other Information

We audited to opine on the District's financial statements that collectively comprise its basic financial statements.

Management's Discussion and Analysis includes tables of net position, changes in net position, and governmental activities. This information provides additional analysis and is not a required part of the basic financial statements.

The Schedule of Federal Awards Receipts and Expenditures also presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

These tables and the Schedule are management's responsibility, and derive from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected these tables and the Schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling these tables and the Schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and in accordance with auditing standards generally accepted in the United States of America. In our opinion, these tables and the Schedule are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion and Analysis, and we express no opinion or any other assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2014, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

March 11, 2014

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**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

The discussion and analysis of Defiance City School District's (the District) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2013 are as follows:

In total, net position increased \$598,259, which represents a 9% increase from 2012.

General receipts accounted for \$21,446,180 or 82% of all receipts and reflect the District's significant dependence on local property taxes, income taxes and unrestricted state entitlements.

The District had \$25,502,272 in disbursements related to governmental activities; only \$4,654,351 of these disbursements was offset by program specific charges for services and sales or restricted operating and capital grants, contributions and interest. General receipts and previously unrestricted fund balances supported the remaining disbursements of \$20,847,921 associated with governmental activities.

Outstanding debt decreased from \$8,955,000 to \$8,755,000, through payments of the elementary building note and bond principal.

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 Position and the Statement of Activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a long-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 District's most significant funds, with all other non-major funds presented in total in a single column. For Defiance City School District, the General fund and the Permanent Improvement fund are the most significant funds.

Basis of Accounting

The District has elected to present its financial statements on the cash basis of accounting. This cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions.

Essentially, the only assets reported on this strictly cash receipt and disbursement basis presentation in a statement of net assets will be cash and cash equivalents. The statement of activities reports cash receipts and disbursements, or in other words, the sources and uses of cash and cash equivalents and investments. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

Reporting the District as a Whole

Statement of Net Position and Statement of Activities

The Statement of Net Position and the Statement of Activities reflect how the District did financially during fiscal year 2013. These statements report the District's net assets and changes in those assets. This change in net position is important because it tells the reader whether the financial position of the 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 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 Position and the Statement of Activities, the District discloses a single type of activity: governmental activities. All of the District's programs and services are reported here including instruction, support services, non-instructional services, extracurricular activities, food service operations, capital outlay, and debt service. These services are primarily funded by property tax revenues and from intergovernmental revenues, including Federal and State grants and other shared revenues.

Reporting the District's Most Significant Funds

Fund financial statements provide detailed information about the District's major funds. While the District uses many funds to account for its financial transactions, the fund financial statements focus on the District's most significant funds. The District's major governmental funds for fiscal year 2013 are the General fund, and the Permanent Improvement fund.

Governmental Funds – Most of the 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 a cash basis of accounting. Receipts are recognized when received in cash and disbursements are recognized when paid. The governmental fund financial statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer 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 District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the District's programs. These funds also use the cash basis of accounting.

Reporting the District's Fiduciary Responsibilities

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

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

The District as a Whole

This year's financial statements were prepared on the cash basis format.

Table 1 provides a summary of the District's net position for fiscal year 2013 in comparison to fiscal year 2012:

Table 1 Net Position <u>Governmental Activities</u>		
	2013	2012
Equity on Pooled Cash and Cash Equivalents	\$ 7,164,195	\$ 6,565,936
Net Position		
Restricted for:		
Debt Service	\$ 469,692	\$ 448,030
Capital Projects	916,311	984,202
Other Purposes	975,772	978,817
Unrestricted	4,802,420	4,154,887
Total Net Position	\$ 7,164,195	\$ 6,565,936

For fiscal year 2013, a portion of the District's net position, \$2,361,775 represents resources that are subject to external restriction on how they may be used. The remaining balance of the government-wide unrestricted net position of \$4,802,420 may be used to meet the District's ongoing obligations. For fiscal year 2012, these amounts were \$2,411,049 with external restrictions, and \$4,154,887 remaining for general operations. Net Position of the Governmental Activities increased \$598,259, which represents a 9% increase over fiscal year 2012. The increase was due to conservative spending and attrition. Overall disbursements decreased by a greater percentage (6%) than overall receipts (3%).

Table 2 reflects the changes in net position for fiscal year 2013 as compared to fiscal year 2012.

Table 2 Change in Net Position <u>Governmental Activities</u>		
	2013	2012
<u>Receipts</u>		
Program Receipts:		
Charges for Services	\$ 2,091,544	\$ 1,916,418
Operating Grants, Contributions and Interest	2,561,554	3,166,817
Capital Grants, Contributions and Interest	1,253	12,560
Total Program Receipts	4,654,351	5,095,795
General Receipts:		
Property Taxes	6,548,965	6,609,111
Income Taxes	1,519,976	1,538,326
Grants and Entitlements	13,271,616	13,264,606
Proceeds from Sale of Capital Assets	1,660	324,900
Investment Earnings	4,714	21,670

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

Miscellaneous	99,249	174,921
Total General Receipts	21,446,180	21,933,534
Total Receipts	26,100,531	27,029,329

Program Disbursements

Instruction:		
Regular	8,881,680	8,633,616
Special	2,621,318	2,833,933
Vocational	370,512	256,194
Student Intervention Services	124,407	32,967
Other	2,189,245	2,620,496
Support Services:		
Pupils	1,315,526	1,155,019
Instructional Staff	1,478,554	1,591,512
Board of Education	41,781	35,336
Administration	1,554,847	1,524,548
Fiscal	585,759	564,585
Operation and Maintenance of Plant	2,317,410	2,112,641
Pupil Transportation	1,129,121	1,040,958
Central	76,339	63,866
Operating of Non-Instructional Services	1,299,552	1,443,336
Extracurricular Activities	847,816	847,736
Capital Outlay	74,627	442,485
Debt Services	593,778	1,253,690
Refund of Prior Year Receipts		747,178
Total Disbursements	25,502,272	27,200,096
Increase (Decrease) in Net Position	\$ 598,259	\$ (170,767)

The total disbursements of \$25,502,272 were offset by program receipts of \$4,654,351 and by general receipts of \$21,446,180. Program receipts supported 18% of the total governmental disbursements. The primary sources of general receipts for governmental activities are derived from property taxes, income taxes and grants and entitlements. These receipt sources represent nearly all general receipts.

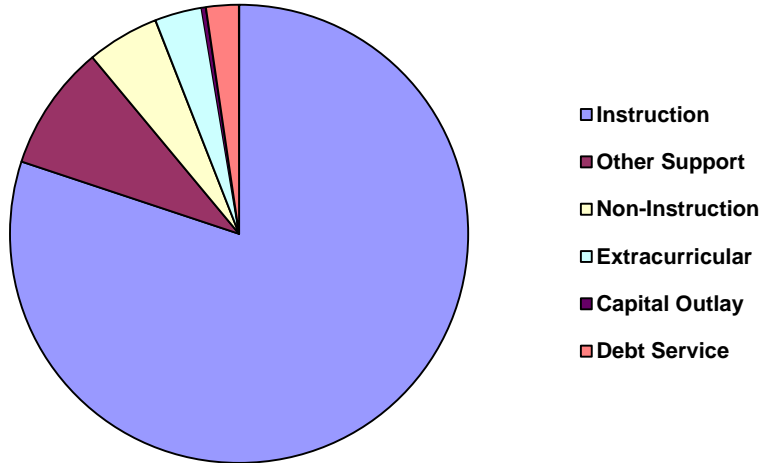
The major program disbursement for governmental activities is for instruction, which accounts for 56% of all governmental disbursements. Other programs which support the instruction process, including pupils, instructional staff, and pupil transportation account for 15% of governmental disbursements. Maintenance of the District's facilities also represents a significant disbursement, 9%. Therefore, 80% of the District's disbursements are related to the primary functions of providing facilities and delivering education.

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

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)

Governmental Disbursements by Types



Instruction, Pupil, Instructional Staff, Transportation, Operation and Maintenance of Plant (\$20,427,773)
Other Support:
Other Support Services (\$2,258,726)
Food Services and Operation of Non-Instructional Services (\$1,299,552)
Extracurricular Activities (\$847,816)
Capital Outlay (\$74,627)
Debt Service (\$593,778)

Governmental Activities

Table 3 indicates the total cost of services and the net cost of services for governmental activities for 2013 and 2012. The statement of activities reflects the cost of program services and the charges for services, grants, contributions and interest offsetting those services. The net cost of services identifies the cost of those services supported by tax receipts and unrestricted state entitlements.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

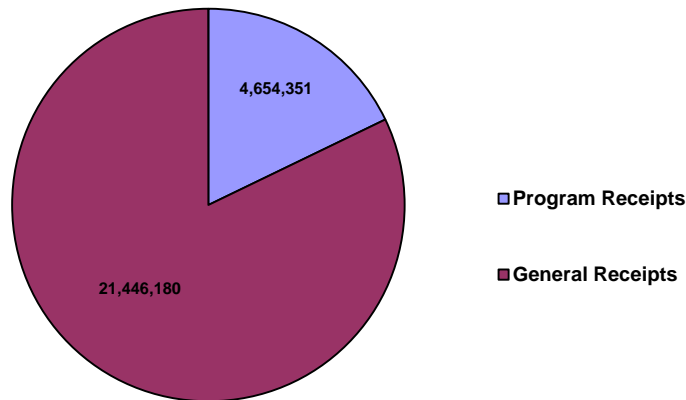
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

Table 3
Governmental Activities

	Total Cost of Services 2013	Net Cost of Services 2013	Total Cost of Services 2012	Net Cost of Services 2012
Instruction:				
Regular	\$ 8,881,680	\$ 6,951,254	\$ 8,633,616	\$ 6,556,738
Special	2,621,318	1,682,346	2,833,933	1,641,917
Vocational	370,512	289,872	256,194	222,385
Student Intervention Services	124,407	124,407	32,967	32,967
Other	2,189,245	2,189,245	2,620,496	2,620,496
Support Services:				
Pupils	1,315,526	1,315,526	1,155,019	1,155,019
Instructional staff	1,478,554	1,460,807	1,591,512	1,574,259
Board of Education	41,781	41,781	35,336	35,336
Administration	1,554,847	1,554,847	1,524,548	1,524,548
Fiscal	585,759	574,382	564,585	538,546
Operation and Maintenance of Plant	2,317,410	2,260,023	2,112,641	2,008,436
Pupil Transportation	1,129,121	1,129,121	1,040,958	1,040,958
Central	76,339	69,080	63,866	57,056
Non-Instructional Services	1,299,552	44,055	1,443,336	177,709
Extracurricular Activities	847,816	528,133	847,736	501,610
Capital Outlay	74,627	39,264	442,485	415,453
Debt Service	593,778	593,778	1,253,690	1,253,690
Refund of Prior Year Receipts			747,178	747,178
Total Disbursements	<u>\$ 25,502,272</u>	<u>\$ 20,847,921</u>	<u>\$ 27,200,096</u>	<u>\$ 22,104,301</u>

The dependence upon tax receipts and unrestricted state entitlements for governmental activities is demonstrated in the previous table. Approximately 79% of instruction activities, 99% of support services, and 53% of capital outlay disbursements are supported through taxes and other general receipts.

Governmental Activities – General vs. Program Receipts



**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

The District's Funds

The District's governmental funds are accounted for using the cash basis of accounting on the fund financial statements. Including Other Financing Sources and Uses, total governmental funds had receipts and other financing sources of \$26,125,649 and disbursements and other financing uses of \$25,527,390 in fiscal year 2013. The overall positive change for 2013 is \$598,259 in fund balance for the fiscal year, primarily attributable to conservative spending and attrition. Overall disbursements decreased by a greater percentage (6%) than overall receipts (3%).

General Fund

Fund balance at June 30, 2013 was \$4,802,420, including \$4,225,052 of unassigned fund balance. Unassigned fund balance comprised 88% of the total fund balance. For fiscal year 2013, fund balance increased \$647,533. General fund disbursements were \$21,765,882 or 85% of total governmental disbursements.

Permanent Improvement Fund

Fund balance at June 30, 2013 was \$916,311, which is entirely restricted for capital improvements. For fiscal year 2013, fund balance decreased \$67,891. Permanent Improvement fund disbursements were \$83,617, or less than 1% of total governmental disbursements.

General Fund Budgeting Highlights

The 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. The statement comparing the District's original and final budget and actual results, for the General fund, is presented as part of the basic financial statements.

During fiscal year 2013, the District amended its General fund budget as needed. Final budgeted receipts and other financing sources in the amount of \$22,256,998 were higher than original budgeted receipts and other financing sources of \$21,526,654, which did not represent a significant change. The actual receipts and other financing sources of \$22,266,175 was \$9,177 higher than the final budget amounts. This difference is due to conservative estimates of intergovernmental revenues.

General fund original budgeted disbursements and other financing uses of \$21,057,573 were increased to \$22,081,535, which represented a 5% change. The actual disbursements for fiscal year 2013 totaled \$21,748,673 which was \$332,862 less than the final budgeted disbursements and other financing uses, which did not represent a significant change.

Debt

The District's outstanding debt obligations at fiscal year-end consisted of the OSFC Elementary Building bonds of \$8,755,000. For further information regarding the District's long-term obligation, see Note 13 to the basic financial statements.

Current Issues

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

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

During fiscal year 1997, the Board of Education started receiving collections of receipts on a 5-year emergency levy which was approved by voters. The District continued receiving collections in the same amount (\$1,580,000) and in March, 2012, citizens of the Defiance City Schools' community strongly showed their support of the district and approved the passage of the 5-year emergency levy renewal. The 5-year emergency levy renewal will not be sufficient to meet all general fund operating disbursements without having to seek additional support for operating monies prior to the renewal expiration in 2012. The necessity is largely due to the provisions of HB66 with the phase-out of the tangible personal property tax and increased operating disbursements. The type, term and size of this levy are undecided at this time. Collections continue on the current 5-year levy.

The Board of Education continues to aggressively market the District to local and area students to increase enrollment. The Board has implemented every-day, all-day kindergarten services as well as developmental kindergarten and school-wide programs to help combat its outgoing enrollment. The Defiance High School is the first Ohio school to implement a one-to-one iPad program. Apple, Inc. made Defiance High School the site for their Learning Leadership Institute Program. Schools from across Ohio and the surrounding states attended this program throughout the year. The District plans to implement these same increases in technology to the eighth grade students in the 2013-2014 school year. The District will participate in an I-Pad buyback program.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to reflect the 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 Pamela Harrington, CFO/Treasurer, Defiance City School District, 629 Arabella Street, Defiance, Ohio 43512-2856.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2013**

	Governmental Activities
ASSETS	
Equity in Pooled Cash and Investments	\$ 7,164,195
NET POSITION	
Restricted for Debt Service	\$ 469,692
Restricted for Capital Outlay	916,311
Restricted for Other Purposes	975,772
Unrestricted	4,802,420
Total Net Position	\$ 7,164,195

See accompanying notes to the basic financial statements..

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	Cash Disbursements	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contribution	Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$ 8,881,680	\$ 1,189,185	\$ 741,241		\$ (6,951,254)
Special	2,621,318	170,796	768,176		(1,682,346)
Vocational	370,512		80,640		(289,872)
Student Intervention Services	124,407				(124,407)
Other	2,189,245				(2,189,245)
Support Services:					
Pupils	1,315,526				(1,315,526)
Instructional Staff	1,478,554		17,747		(1,460,807)
Board of Education	41,781				(41,781)
Administration	1,554,847				(1,554,847)
Fiscal	585,759	5,763	5,614		(574,382)
Operation and Maintenance of Plant	2,317,410		57,387		(2,260,023)
Pupil Transportation	1,129,121				(1,129,121)
Central	76,339	1,859	5,400		(69,080)
Operation of Non-Instructional Services	1,299,552	380,297	875,200		(44,055)
Extracurricular Activities	847,816	309,534	10,149		(528,133)
Capital Outlay	74,627	34,110		\$ 1,253	(39,264)
Debt Service:					
Principal	200,000				(200,000)
Interest and Fiscal Charges	393,778				(393,778)
Totals	\$ 25,502,272	\$ 2,091,544	\$ 2,561,554	\$ 1,253	(20,847,921)
General Receipts					
Taxes					
Income Taxes					1,519,976
Property and Other Local Taxes					6,548,965
Grants and Entitlements not Restricted to Specific Programs					13,271,616
Gifts and Donations					13,724
Investment Earnings					4,714
Miscellaneous					68,711
Proceeds from Sale of Capital Assets					1,660
Refund of Prior Year Expenditures					16,814
Total General Receipts					21,446,180
Change in Net Position					598,259
Net Position Beginning of Year					6,565,936
Net Position End of Year					\$ 7,164,195

See accompanying notes to the basic financial statements.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2013

	<u>General</u>	<u>Permanent Improvement</u>	<u>All Other Governmental</u>	<u>Total Governmental Funds</u>
ASSETS				
Equity in Pooled Cash and Investments	\$ 4,802,420	\$ 916,311	\$ 1,445,464	\$ 7,164,195
FUND BALANCES				
Restricted	\$ 395,368	\$ 916,311	\$ 1,445,464	\$ 2,757,143
Assigned	182,000			182,000
Unassigned	4,225,052			4,225,052
<i>Total Fund Balances</i>	<u>\$ 4,802,420</u>	<u>\$ 916,311</u>	<u>\$ 1,445,464</u>	<u>\$ 7,164,195</u>

See accompanying notes to the basic financial statements.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	<u>General Fund</u>	<u>Permanent Improvement Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
RECEIPTS				
Property and Other Local Taxes	\$ 5,911,116		\$ 637,849	\$ 6,548,965
Income Tax	1,519,976			1,519,976
Intergovernmental	13,421,692		2,412,731	15,834,423
Interest	3,151	\$ 1,253	310	4,714
Tuition and Fees	1,394,550			1,394,550
Rent	18,481	14,472	1,157	34,110
Extracurricular Activities	64,385		245,149	309,534
Gifts and Donations	1,372		12,352	13,724
Customer Sales and Services	7,622		373,523	381,145
Miscellaneous	26,478	1	13,437	39,916
<i>Total Receipts</i>	<u>22,368,823</u>	<u>15,726</u>	<u>3,696,508</u>	<u>26,081,057</u>
DISBURSEMENTS				
Instruction				
Regular	8,392,219		489,461	8,881,680
Special	2,216,233		405,085	2,621,318
Vocational	370,512			370,512
Student Intervention Services	124,407			124,407
Other	2,110,052		79,193	2,189,245
Support Services				
Pupils	1,315,526			1,315,526
Instructional Staff	1,246,576		231,978	1,478,554
Board of Education	41,781			41,781
Administration	1,549,864		4,983	1,554,847
Fiscal	564,461	2,003	19,295	585,759
Operation and Maintenance of Plant	2,000,642	78,584	238,184	2,317,410
Pupil Transportation	1,129,121			1,129,121
Central	70,939		5,400	76,339
Operation of Non-Instructional Services			1,299,552	1,299,552
Extracurricular Activities	563,122		284,694	847,816
Capital Outlay	70,427	3,030	1,170	74,627
Debt Service				
Principal			200,000	200,000
Interest			393,778	393,778
<i>Total Disbursements</i>	<u>21,765,882</u>	<u>83,617</u>	<u>3,652,773</u>	<u>25,502,272</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>602,941</u>	<u>(67,891)</u>	<u>43,735</u>	<u>578,785</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Assets	1,660			1,660
Refund of Prior Year Expenditures	16,814			16,814
Advances In	25,118			25,118
Insurance Recoveries	1,000			1,000
Advances Out			(25,118)	(25,118)
<i>Total Other Financing Sources (Uses)</i>	<u>44,592</u>		<u>(25,118)</u>	<u>19,474</u>
<i>Net Change in Fund Balances</i>	<u>647,533</u>	<u>(67,891)</u>	<u>18,617</u>	<u>598,259</u>
<i>Fund Balances at Beginning of Year</i>	<u>4,154,887</u>	<u>984,202</u>	<u>1,426,847</u>	<u>6,565,936</u>
<i>Fund Balances at End of Year</i>	<u>\$ 4,802,420</u>	<u>\$ 916,311</u>	<u>\$ 1,445,464</u>	<u>\$ 7,164,195</u>

See accompanying notes to the basic financial statements.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES
IN FUND BALANCE - BUDGETARY BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
RECEIPTS				
Property and Other Local Taxes	\$ 5,850,000	\$ 6,450,000	\$ 5,911,116	\$ (538,884)
Income Tax	1,550,000	1,550,000	1,519,976	(30,024)
Intergovernmental	13,020,834	13,152,178	13,421,692	269,514
Interest	14,000	14,000	3,129	(10,871)
Tuition and Fees	1,029,820	1,029,820	1,310,216	280,396
Rent	9,000	9,000	18,481	9,481
Extracurricular Activities				
Gifts and Donations			2,880	2,880
Customer Sales and Services	8,000	8,000	7,622	(378)
Miscellaneous	9,000	9,000	26,471	17,471
<i>Total Receipts</i>	<u>21,490,654</u>	<u>22,221,998</u>	<u>22,221,583</u>	<u>(415)</u>
DISBURSEMENTS				
Instruction				
Regular	7,789,982	8,497,607	8,328,085	169,522
Special	2,256,953	2,290,541	2,243,753	46,788
Vocational	342,956	347,786	370,512	(22,726)
Student Intervention Services	149,675	149,675	124,407	25,268
Other	2,060,300	2,060,300	2,118,272	(57,972)
Support Services				
Pupils	1,186,484	1,195,463	1,318,169	(122,706)
Instructional Staff	1,060,839	1,257,279	1,262,800	(5,521)
Board of Education	52,005	52,005	41,966	10,039
Administration	1,577,694	1,578,194	1,551,334	26,860
Fiscal	526,402	526,402	566,525	(40,123)
Operation and Maintenance of Plant	2,335,876	2,334,876	2,052,815	282,061
Pupil Transportation	1,110,138	1,133,138	1,136,451	(3,313)
Central	95,100	95,100	73,417	21,683
Extracurricular Activities				
Academic Oriented Activities	97,082	97,082	119,564	(22,482)
Sport Oriented Activities	343,952	343,952	358,553	(14,601)
School and Public Service Co-Curricular Activities	11,635	11,635	11,623	12
Capital Outlay				
Building Improvement Services	60,500	60,500	22,318	38,182
Other Facilities Acquisition and Construction		50,000	48,109	1,891
<i>Total Disbursements</i>	<u>21,057,573</u>	<u>22,081,535</u>	<u>21,748,673</u>	<u>332,862</u>
Excess of Receipts Over Disbursements	<u>433,081</u>	<u>140,463</u>	<u>472,910</u>	<u>332,447</u>
OTHER FINANCING SOURCES				
Advances In	25,000	25,000	25,118	118
Proceeds from Sale of Capital Assets			1,660	1,660
Insurance Recoveries	1,000		1,000	1,000
Refund of Prior Year Expenditures	10,000	10,000	16,814	6,814
<i>Total Other Financing Sources</i>	<u>36,000</u>	<u>35,000</u>	<u>44,592</u>	<u>9,592</u>
<i>Net Change in Cash Basis Fund Balance</i>	<u>469,081</u>	<u>175,463</u>	<u>517,502</u>	<u>342,039</u>
Fund Balance at Beginning of Year	3,843,415	3,843,415	3,843,415	
Prior Year Encumbrances Appropriated	241,010	241,010	241,010	
<i>Fund Balance at End of Year</i>	<u>\$ 4,553,506</u>	<u>\$ 4,259,888</u>	<u>\$ 4,601,927</u>	<u>\$ 342,039</u>

See accompanying notes to the basic financial statements.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
STATEMENT OF FIDUCIARY NET POSITION - CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2013

	Private Purpose Trust	Agency
ASSETS		
Equity in Pooled Cash and Investments	\$ 19,476	\$ 74,729
LIABILITIES		
Held on Behalf of the Students		\$ 74,729
NET POSITION		
Held in Trust for Scholarships	\$ 19,476	

See accompanying notes to the basic financial statements.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - CASH BASIS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Private Purpose Trust
ADDITIONS	
Gifts and contributions	\$ 12,800
DEDUCTIONS	
Payments in accordance with trust agreements	12,500
<i>Changes in Net Position</i>	300
Net Position at Beginning of Year	19,176
<i>Net Position at End of Year</i>	\$ 19,476

See accompanying notes to the basic financial statements.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 – DESCRIPTION OF THE DISTRICT AND REPORTING ENTITY

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

It is staffed by 131 classified employees and 184 certified teaching personnel who provide services to 2,632 students and other community members. The District currently operates three 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 District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations for which the District authorizes the issuance of debt or the levying of taxes or determines the budget if there is also the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the District.

The District's reporting entity includes non-public schools. Within the District's boundaries, the Holy Cross 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 District, as directed by the parochial schools. The activity is reflected in a special revenue fund of the District.

The District participates in jointly governed organizations and 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 Health Plan/OHI, and the Northern Buckeye Health Plan's Workers' Compensation Group Rating Plan. These organizations are presented in Notes 15 and 16 to the basic financial statements.

The District's management believes these financial statements present all activities for which the District is financially accountable.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are presented on the cash basis of accounting. The cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the District's accounting policies.

A. Basis of Presentation

The District's basic financial statements consist of government-wide financial statements, including a statement of net position 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 position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net position presents the financial condition of the governmental activities of the District at fiscal year-end. The statement of activities compares disbursements with program receipts for each program or function of the District's governmental activities. Disbursements are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the goods or services offered by the program, grants, and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program. Receipts which are not classified as program receipts are presented as general receipts of the District, with certain limited exceptions. The comparison of disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the general receipts of the District.

Fund Financial Statements

During the fiscal year, the District segregates transactions related to certain 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 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. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. Fund Accounting

The District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other non-exchange transactions as governmental funds. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the District are divided into two categories, governmental and fiduciary. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

1. Total assets, receipts, or disbursements of that individual governmental or proprietary fund are at least 10% of the corresponding total for all funds of that category or type, and

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

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

2. Total assets, receipts, or disbursements of the individual governmental fund or proprietary fund are at least 5% of the corresponding total for all governmental and proprietary funds combined.

3. The funds of the financial reporting entity are described below:

Governmental Funds

Governmental funds are those through which most governmental functions of the District are financed. The District's major funds are the General fund and Permanent Improvement 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 District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Permanent Improvement Fund – This fund is used to account for the financial resources to be used for the acquisition, construction and remodeling or repairing of major capital facilities.

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

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. 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 District under a trust agreement for individuals, private organizations, or other governments and are not available to support the District's own programs. The 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 District's agency funds account for student athletic insurance, amounts held to pay for college placement tests, and various student-managed activities.

C. Basis of Accounting

Although Ohio Administrative Code Section 117-2-03 (B) requires the District's financial report to follow generally accepted accounting principles (GAAP), the District chooses to prepare its financial statements and notes in accordance with the cash basis of accounting. This basis is a comprehensive basis of accounting other than generally accepted accounting principles.

The District recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred. The District recognizes commodities on the statements at fair value of the commodities consumed.

The District also reports long-term investments as assets, with some valued at cost and some at fair market value. See Note 2.E. for further detail.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

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

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraphs.

D. Budgetary Process

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

The legal level of budgetary control established by the Board is at the fund level for all funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education. Budgetary allocations at the function and object level within all funds, are made by the Treasurer.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in receipts 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 filed at the beginning of the fiscal year. 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.

Tax Budget

A budget of estimated cash receipts and disbursements is submitted to the County Auditor, as Secretary of the County Budget Commission, by January 20 of each year, for the period July 1 to June 30 of the following fiscal year.

Estimated Resources

The County Budget Commission certifies its actions to the District by March 1. As part of this certification, the District receives the official certificate of estimated resources which states the projected receipts of each fund. On or about July 1 this certificate is amended to include any unencumbered balances from the preceding fiscal year. Prior to June 30, the District must revise its budget so that the total contemplated disbursements from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying financial statements do not include July 1, 2011 unencumbered fund balances. However, those fund balances are available for appropriations.

Appropriations

A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation measure must be passed by October 1 of each year for the period July 1 to June 30. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

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

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 of Education during the fiscal year.

Encumbrances

The District is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation. Expenditures plus encumbrances may not legally exceed appropriations

Lapsing of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be re-appropriated.

E. Cash and Cash Equivalents

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

During fiscal year 2013, investments included negotiable certificates of deposit, federal agency securities, money market accounts, and STAR Ohio. Negotiable certificates of deposit and federal agency securities are reported at fair market value. 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, 2013.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Total interest receipts credited to the General fund during fiscal year 2013 was \$3,151, which includes \$ 585 assigned from other funds.

Investments of the District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the 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.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

F. Capital Assets

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. The financial statements do not report these assets. Depreciation is not recorded on these capital assets.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

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

G. Inventory and Prepaid Items

The District reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

H. Accumulated Leave

Certain employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the District.

I. Interfund Receivable/Payable

The District reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities on the accompanying financial statements.

J. Interfund Transactions

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies 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 cash disbursements to the funds that initially paid for them are not presented in the financial statements.

K. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as cash when received and payment of principal and interest are reported as disbursements when paid. The District's cash basis financial statements do not report liabilities for bonds and other long-term obligations. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither another financing source nor capital outlay expenditure are reported at inception. Lease payments are reported when paid.

L. Intergovernmental Receipts

Unrestricted intergovernmental receipts received on the basis of entitlement are recorded as receipts when the entitlement is received.

M. Employer Contributions to Cost-Sharing Pension Plans

The District recognizes disbursements for employer contributions to cost-sharing plans when they are paid. As described in Notes 10 and 11, the employer contributions include portions for pension benefits and for postretirement health care benefits.

N. Equity Classifications

GOVERNMENT-WIDE STATEMENTS

Equity is classified as net position, and displayed in separate components:

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

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

1. Restricted net position – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
2. Unrestricted net position – All other net position that do not meet the definition of “restricted.”

Net position restricted for other purposes include resources restricted for public school support programs, athletic programs, employee termination benefits, classroom facilities and maintenance tax levy proceeds, and federal and state grants restricted to cash disbursement for specified purposes. The District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net positions are available. There were not any positions restricted by enabling legislation as of June 30, 2013.

O. Fund Balance

FUND FINANCIAL STATEMENTS

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon use of the resources in governmental funds. The classifications are as follows:

Nonspendable – The nonspendable classification includes amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact. The “not in spendable form” includes items that are not expected to be converted to cash.

Restricted – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations or other governments, or is imposed by law through constitutional provisions.

Committed – The committed classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Board of Education. The committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts in the assigned classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General fund, assigned amounts represent intended uses established by the Board of Education.

Unassigned – Unassigned fund balance is the residual classification for the General fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

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

The District first applies restricted resources when an expenditure is incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned and then unassigned amounts had been expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications can be used.

NOTE 3 – ACCOUNTABILITY

Change in Accounting Principles

For fiscal year 2013, the District has implemented GASB Statement No. 62, “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements.”

GASB Statement No. 62 codifies accounting and financial reporting guidance contained in pre-November 30, 1989 FASB and AICPA pronouncements in an effort to codify all sources of GAAP for state and local governments so that they derive from a single source. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the District.

For fiscal year 2013, the District implemented Governmental Accounting Standard Board (GASB) Statement No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred inflows of Resources, and Net Position.” GASB Statement No. 63 identifies net position, rather than net assets, as the residual of all other elements presented in a statement of financial position. This change was incorporated in the District fiscal year 2013 financial statements; however, there was no effect on beginning net position/fund balance.

NOTE 4 – BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budget Basis presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The following table summarizes the adjustments necessary to reconcile to cash basis statements to the budget basis statements for the General fund.

<u>Net Change in Fund Balance</u>	<u>General Fund</u>
Cash basis (as reported)	\$ 647,533
Outstanding encumbrances	(132,906)
Perspective difference:	
Activity of funds reclassified for for cash reporting purposes	2,875
Budgetary basis	<u>\$ 517,502</u>

As part of Governmental Accounting Standards Board Statement No. 54, “Fund Balance Reporting”, certain funds which are legally budgeted in separate special revenue funds (uniform school supplies and public school support funds) are considered part of the General fund on the cash basis.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

NOTE 5 – FUND BALANCE

Fund balance can be classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in governmental funds.

The constraints placed on fund balance at June 30, 2013 for the major governmental funds and all other governmental funds are presented as follows:

<u>Fund Balance</u>	<u>General</u>	<u>Permanent Improvement</u>	<u>All Other Governmental Funds</u>	<u>Total</u>
Restricted for:				
Debt payment			\$ 469,692	\$ 469,692
Food service operations			256,499	256,499
Regular instruction			864	864
Auxiliary services			70,257	70,257
District managed activity			94,687	94,687
Special instruction			64,097	64,097
Capital improvements	\$ 105,269	\$ 916,311	489,368	1,510,948
Textbooks	269,915			269,915
School bus	<u>20,184</u>			<u>20,184</u>
Total restricted	395,368	916,311	1,445,464	2,757,143
Assigned to:				
Unpaid obligations	154,565			154,565
Other purposes	<u>27,435</u>			<u>27,435</u>
Total assigned	182,000			182,000
Unassigned	<u>4,225,052</u>			<u>4,225,052</u>
Total fund balances	<u>\$ 4,802,420</u>	<u>\$ 916,311</u>	<u>\$ 1,445,464</u>	<u>\$ 7,164,195</u>

NOTE 6 – DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits 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 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.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

NOTE 6 – DEPOSITS AND INVESTMENTS – (Continued)

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;
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% 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 or Ohio Local Governments;
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); and
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 monies 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 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 year end, the County had \$3,476 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents".

A. Deposits

Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to it. Protection of District cash and deposits is provided by the Federal Deposit Insurance Corporation as well as qualified securities pledged by the institution holding the assets. The District has no deposit policy for custodial risk beyond the requirements of state statute. By law, financial institutions

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

NOTE 6 – DEPOSITS AND INVESTMENTS - (Continued)

must collateralize uninsured public deposits. The face value of the pooled collateral must equal at least 105% of public funds deposited.

Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

The carrying amount of the District's deposits was \$ 1,008,585 and the bank balance was \$ 1,316,422. Although all state statutory requirements for the deposit of money have been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

B. Investments

Investments are reported at cost. As of June 30, 2013, the District had the following investments:

Description	Fair Market Value	Maturity (Years)	
		Less Than 1	1-5
Federal Home Loan Mortgage Corporation (FHLMC)	\$ 502,322	\$ 250,270	\$ 252,053
Federal Home Loan Bank (FHLB)	279,031	130,535	148,496
Federal National Mortgage Association (FNMA)	605,803		605,803
Federal Farm Credit Bank (FFCB)	382,485		382,485
Negotiable Certificates of Deposit	773,176	79,982	693,193
Money Market Mutual Funds	214,806	214,806	
STAR Ohio	<u>3,488,716</u>	<u>3,488,716</u>	
Total Cost	<u>\$ 6,246,339</u>	<u>\$ 4,164,309</u>	<u>\$ 2,082,030</u>

C. Interest Rate Risk

The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. Interest rate risk arises because potential purchase of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The District's policy indicates that the investments must mature within five years, unless matched to a specific obligation or debt of the District.

D. Credit Risk

The Money Market Mutual funds carry ratings of Aaa by Moody's and AAA by Standard and Poor's. Federal Home Loan Mortgage Corporation, Federal Home Loan Bank, Federal National Mortgage Association, and Federal Farm Credit Bank carries a rating of AAA by Moody's and AA+ by Standard and Poor's. STAR Ohio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market mutual fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. The District has no investment policy that would further limit its investment choices.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

NOTE 6 – DEPOSITS AND INVESTMENTS - (Continued)

E. Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investments in Federal Home Loan Bank and Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, and Federal Farm Credit Bank are exposed to custodial credit risk as they are uninsured, unregistered, and held by the counterparty's trust department or agent in the District's name. The negotiable certificates of deposit are exposed to custodial credit risk in that they are uninsured, unregistered and held by a counterparty (Multibank Securities) but not in the District's name. The District has no investment policy dealing with custodial credit risk beyond the requirements of State statute which prohibit payment for investments prior to the delivery of the securities representing the investments to the treasurer or qualified trustee.

F. Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer, however State statute limits investments in commercial paper and bankers' acceptances to 25% of the interim monies available for investment at any one time. The District's investments in Federal Home Loan Mortgage Corporation, Federal Home Loan Bank, Federal National Mortgage Association, and Federal Farm Credit Bank represent 8%, 4%, 10%, and 6%, respectively, of the District's total investments.

NOTE 7 – INCOME TAXES

The District levies a voted tax of 0.5% 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 District after withholding amounts for administrative fees and estimated refunds. In the fiscal year ending June 30, 2013, the District credited income tax receipts of \$1,519,976 to the General fund.

NOTE 8 – PROPERTY TAXES

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

Property taxes include amounts levied against all property, public utility property, and tangible personal (used in business) property located in the area served by the District. Real property tax revenues received in calendar year 2013 represent the collection calendar year 2012 taxes. Real property taxes received in calendar year 2013 were levied after April 1, 2012, on the assessed values as of January 1, 2012, 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.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

NOTE 8 – PROPERTY TAXES – (Continued)

Public utility property tax revenue received in calendar year 2013 represents collections of calendar year 2012 taxes. Public utility real and tangible personal property taxes received in calendar year 2012 became a lien December 31, 2010, were levied after April 1, 2011 and are collected in 2012 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The District receives property taxes from Defiance and Paulding Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2013, are available to finance fiscal year 2013 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which fiscal year 2013 taxes were collected are:

	2012 Second-Half Collections		2013 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/residential	\$ 187,492,000	79.42	\$ 187,450,150	79.45
Industrial/commercial	37,919,990	16.06	37,166,870	15.75
Public utility	10,658,770	4.52	11,311,030	4.80
Total assessed value	<u>\$ 236,070,760</u>	<u>100.00</u>	<u>\$ 235,928,050</u>	<u>100.00</u>
Total rate per \$1,000 of assessed valuation	\$ 50.30		\$ 47.35	

NOTE 9 – RISK MANAGEMENT

A. Employee Insurance Benefits Program

The District participates in the Optimal Health Initiative Consortium (OHI), a public entity shared risk pool consisting of educational entities within Defiance, Fulton, Henry, and Williams Counties and other eligible governmental entities. The District pays monthly premiums to the OHI for the benefits offered to its employees including medical, dental, vision, and life insurance. The OHI 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.

B. Workers' Compensation Group Program

The District participates in the Northern Buckeye Health Plan, Northern Division of OHI Workers' Compensation Group Rating Plan (NBHP), Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool. The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the 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. The Executive Director of the NBHP coordinates the management and administration of the program.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

NOTE 9– RISK MANAGEMENT - (Continued)

C. Comprehensive

The 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 2013, the District contracted for the following insurance coverage:

	Amount of Coverage
The Netherlands Insurance Company:	
General Liability	
Per Occurrence	\$ 1,000,000
Total per Year	2,000,000
Umbrella Liability	
Per Occurrence	10,000,000
Total per Year	10,000,000
Building and contents	88,692,807
Cincinnati Insurance:	
Boiler Insurance	20,000,000
The Netherlands 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.

NOTE 10 – DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (“SERS”), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits; annual cost-of-living adjustments; and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS’ website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute 14% of annual covered payroll. 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 Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year 2013, the allocation to pension and death benefits is 13.10%. The remaining .90% of the 14.00% employer contribution rate is allocated to the Health Care and Medicare B Funds.

The District’s contributions to SERS for the years ended June 30, 2013, 2012 and 2011 were \$482,335, \$442,930, and \$469,029, respectively; 84% has been contributed for fiscal year 2013 and 100% for fiscal years 2012 and 2011.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

NOTE 10 – DEFINED BENEFIT PENSION PLANS - (Continued)

B. State Teachers Retirement System

Plan Description - State Teachers Retirement System of Ohio (STRS Ohio) is a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that can be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

Plan Options – New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more year of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%.

Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

NOTE 10 – DEFINED BENEFIT PENSION PLANS - (Continued)

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65 whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3% of the original base amount for DB Plan participants.

The DB and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A DB or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

For the fiscal year ended June 30, 2013, plan members were required to contribute 10% of their annual covered salaries. The District was required to contribute 14%; 13% was the portion used to fund pension obligations.

The District's required contributions for pension obligations for the fiscal years ended June 30, 2013, 2012 and 2011 were \$1,302,350, \$1,390,060, and \$1,465,919, respectively; 82% has been contributed for the fiscal year 2013 and 100% has been contributed for fiscal years 2012 and 2011.

C. Social Security

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, 2013, four of the Board of Education members have elected Social Security.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

NOTE 10 – DEFINED BENEFIT PENSION PLANS - (Continued)

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

NOTE 11 – POST EMPLOYMENT BENEFITS

A. State Teachers Retirement System

Plan Description - STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan; a self-directed Defined Contribution Plan, and a Combined Plan that is a hybrid of the Defined Benefit Plan and the Defined Contribution Plan. Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent *Comprehensive Annual Financial Report* by visiting www.strsoh.org or by requesting a copy by calling toll-free 1-888-227-7877.

Funding Policy - Pursuant to Chapter 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care for the years ended June 30, 2013, 2012 and 2011. The 14% employer contribution rate is the maximum rate established under Ohio law.

The District's contributions for post-employment health care for fiscal years ended June 30, 2013, 2012 and 2011 were \$100,181, \$106,928 and \$112,763, respectively. 83% has been contributed for fiscal year 2012 and 100% has been contributed for the fiscal years 2012 and 2011.

B. School Employees Retirement System

Medicare Part B Plan

In addition to a cost-sharing multiple-employer defined benefit pension plan, SERS administers two postemployment benefit plans, the Medicare Part B Plan and the Health Care Plan. The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2013 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

NOTE 11 – POST EMPLOYMENT BENEFITS – (Continued)

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2013, the actuarially required allocation was .74%. The District's contributions for the fiscal years ended June 30, 2013, 2012 and 2011 were \$27,246, \$26,157, and \$30,183, which equaled the required contributions each year.

Health Care Plan

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMO's, PPO's and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2013, the health care allocation was .16%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2013, the minimum compensation level was established at \$20,525. The surcharge added to the unallocated portion of the 14% employer contribution is the total amount assigned to the Health Care Fund. The District's contributions assigned to health care fund for the fiscal years ended June 30, 2013, 2012, and 2011 were \$54,547, \$62,468, and \$101,183, respectively.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The financial reports of SERS' Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

NOTE 12 – OTHER EMPLOYEE BENEFITS

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.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

NOTE 12 – OTHER EMPLOYEE BENEFITS – (Continued)

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 fifty-six days for all employees. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of sixty-four days for all employees.

Health Care Benefits

The District provides medical, dental, vision, and life insurance to most employees through the Optimal Health Initiative Consortium Insurance Benefits Program.

NOTE 13 – LONG-TERM OBLIGATIONS

Changes in the District's long-term obligations during fiscal year 2013 were as follows:

<u>Name of Debt</u>	<u>Interest Rate</u>	<u>Balance 06/30/12</u>	<u>Reductions</u>	<u>Balance 06/30/13</u>	<u>Due Within One Year</u>
Elementary Building					
Serial Bonds	3.25–4.25%	\$ 4,935,000	\$ 200,000	\$ 4,735,000	\$ 215,000
Term Bonds	4.50–4.625%	<u>4,020,000</u>	<u> </u>	<u>4,020,000</u>	<u> </u>
Total Governmental					
Long Term Obligations		<u>\$ 8,955,000</u>	<u>\$ 200,000</u>	<u>\$ 8,755,000</u>	<u>\$ 215,000</u>

2006 OSFC Elementary Building Bond – The District issued \$9,710,000 in voted general obligation bonds for constructing, improving, making additions to school buildings and related site development, and retiring notes previously issued for such purposes. The bonds were issued on March 27, 2006. The bond issue included serial and term bonds in the amounts of \$5,690,000 and \$4,020,000, respectively. The bonds will be retired with a voted property tax levy from the debt service fund.

2006 Serial Bonds – The Current Interest Bonds were issued for a twenty-two fiscal year periods with final maturity on December 1, 2027. The remaining principal amount to be redeemed as of June 30, 2013, is \$4,735,000.

2006 Term Bonds – The Term Bonds maturing on December 1, 2029 are subject to mandatory sinking fund redemption at redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1, 2028 for \$545,000. The remaining \$580,000 principal amount of the Bonds due December 1, 2029 is to be paid at stated maturity.

The Term Bonds maturing on December 1, 2031 are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1, 2030 for \$655,000. The remaining \$690,000 principal amount of the Bonds due December 1, 2031 is to be paid at stated maturity.

The Term Bonds maturing on December 1, 2033 are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1, 2032 for \$730,000. The remaining \$820,000 principal amount of the Bonds due December 1, 2033, is to be paid at stated maturity.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

NOTE 13 – LONG-TERM OBLIGATIONS – (Continued)

The Bonds maturing on or after December 1, 2016 are subject to redemption at the option of the District, either in whole or in part, in such order as the District shall determine, on any date on or after June 1, 2016, at a redemption price equal to the following percentages of the principal amount redeemed plus, in each case, accrued interest to the date fixed for redemption.

Payment requirements to retire general obligation debt at June 30, 2013 are as follows:

<u>Ending June 30,</u>	<u>2006 OSFC Elementary Building Bond</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 215,000	\$ 385,996	\$ 600,996
2015	230,000	377,653	607,653
2016	280,000	366,340	646,340
2017	305,000	351,715	656,715
2018	200,000	339,090	539,090
2019-2023	1,360,000	1,543,705	2,903,705
2024-2028	2,145,000	1,162,804	3,307,804
2029-2033	3,200,000	575,331	3,775,331
2034	<u>820,000</u>	<u>18,962</u>	<u>838,962</u>
Total	<u>\$ 8,755,000</u>	<u>\$ 5,121,596</u>	<u>\$ 13,876,596</u>

The District's overall debt margin was \$12,941,163 with an unvoted debt margin of \$237,847 at June 30, 2013.

NOTE 14 – SET ASIDE REQUIREMENTS

The District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula 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 describes the change in the year-end set-aside amounts for textbooks and capital acquisition. Disclosure of this information is required by State statute.

	<u>Capital Acquisition</u>
Current year set aside requirement	\$ 436,063
Current year offsets	(436,063)
Cash balance carried forward to FY 2013	<u> </u>
Total restricted assets	<u>\$ </u>

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

NOTE 15 – JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Computer Association

The 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 2013, the District paid \$139,664 to NWOCA for various services. Financial information can be obtained from Robin Pfund, who serves as Treasurer, 209 Nolan Parkway, Archbold, Ohio 43502.

B. Northern Buckeye Education Council

The Northern Buckeye Education Council (the “NBEC”) was established in 1979 to foster cooperation among educational entities located in Defiance, Fulton, Henry, and Williams Counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected board consisting of two representatives from each of the four counties in which the member educational entities are located. The Board is elected from an assembly consisting of a representative from each participating educational entity. Financial information can be obtained from the Northern Buckeye Education Council, Robin Pfund, who serves as Treasurer, 209 Nolan Parkway, Archbold, Ohio 43502.

C. Four County Career Center

The Four County Career Center (“FCCC”) is a distinct political subdivision of the State of Ohio which provides vocational education to students. FCCC 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. FCCC possesses its own budgeting and taxing authority. The degree of control exercised by the District is limited to its representation on the Board. Financial information can be obtained from the Four County Career Center, Jennifer Bonner, who serves as Treasurer, 22-900 State Route 34, Archbold, Ohio 43502.

D. Northwestern Ohio Educational Research Council, Inc.

The Northwestern Ohio Educational Research Council, Inc. (the “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.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

NOTE 15 – JOINTLY GOVERNED ORGANIZATIONS - (Continued)

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., 441 E. Market St., Celina, Ohio 45822.

E. Northwest Ohio Special Education Regional Resource Center

The Northwest Ohio Special Education Regional Resource Center (the "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 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 RPDC 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 district is limited to its representation on the Board. Financial information can be obtained from the Northwest Ohio Regional Professional Development Center, 414 Emerald Street, 2nd Floor, Toledo, Ohio 43602.

NOTE 16 – GROUP PURCHASING POOLS

A. Employee Insurance Benefits Program

Optimal Health Initiative Consortium (OHI) Insurance Benefits Program (the Pool) is a public entity shared risk pool consisting of educational entities located in Defiance, Fulton, Henry, and Williams Counties. The Pool is governed by OHI and its participating members.

The District contributed a total of \$2,286,204 to Northern Buckeye Health Plan, Northwest Division of OHI for all employee insurance plans. Financial information for the period can be obtained from Jenny Jostworth, Treasurer, at 10999 Reed Hartman Highway, Suite 304E, Cincinnati, Ohio 45242.

B. Workers' Compensation Group Rating Plan

The District participates in a group-rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

NOTE 16 – GROUP PURCHASING POOLS - (Continued)

The Northern Buckeye Health Plan, Northern Division of OHI (NBHP) Workers' Compensation Group Rating Plan (WCGRP) is an insurance purchasing pool. The WCGRP is governed by the Northern Buckeye Health Plan and the participating members of the WCGRP. The Executive Director of the NBHP coordinates the management and administration of the program.

NOTE 17 – CONTINGENCIES

A. Federal and State Grants

The 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 are 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 District at June 30, 2013.

B. Litigation

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

NOTE 18 – LEASES

The District has entered into several leases for RICOH workroom equipment, copiers, printers and a duplicator and stand with Marlin Leasing. These leases are in terms of 60 months beginning in September 2008, October 2008, August 2009, October 2010, June 2011, February 2012, March 2012, and September 2013.

The District has also entered into a lease agreement with Apple Financial Services in July 2013 for Apple I-Pads. The lease is for a term of four years.

The District has also entered into several leases for busses with Blue Bird Capital. These leases are in terms of 48 months beginning in September 2011, April 2013, and July 2013.

Future lease payments are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2014	\$ 296,805
2015	293,470
2016	270,585
2017	228,933
2018	<u>2,616</u>
Total	<u>\$ 1,092,409</u>

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

NOTE 19 – DEFIANCE CITY SCHOOLS FOUNDATION

The Defiance City School Foundation (the Foundation) is a non-profit organization established to solicit funds from the general public to maintain, develop, increase, and extend the facilities and services of the Defiance City School. It also provides educational service opportunities to its students, staff, and faculty. The Foundation is governed by a Board of Trustees which is appointed by the Board of Education. The Board of Trustees possess its own contracting and budgeting authority, hires and fires personnel, and does not depend on the District for operational subsidies. In 2013, the Foundation contributed \$15,513 to the District for miscellaneous grant reimbursements.

NOTE 20 - RELATED PARTY TRANSACTIONS

Wes Moats, a Board Member, owns Mark Moats Ford, Inc.. In 2013, the District purchased two athletic vans totaling \$40,865 from Mark Moats Ford through the State Purchasing Program, which the District is a member. The vans were approved at arm's length, with full knowledge by District officials, of Mr. Moats' interest, and Mr. Moats took no part in the deliberation or decision by District officials with respect to the vans.

NOTE 21 – COMPLIANCE

Contrary to Ohio law, an expenditure for a Voter Survey Research Project in the amount of \$15,000 to the permanent improvements fund. This expenditure does not meet the definition of a "permanent improvement." The financial statements have been adjusted to correct this misstatement.

NOTE 22 – INTERFUND ADVANCES

During the year ended June 30, 2013, the Title I Grant fund repaid a prior year advance of \$9,182 and the Title II-A Grant repaid a prior year advance of \$15,936 to the General fund.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Education:</i>			
<u>Child Nutrition Cluster:</u>			
School Breakfast Program - Cash Assistance	10.553	\$113,002	\$113,002
National School Lunch Program			
Cash Assistance	10.555	601,327	601,327
Non- Cash Assistance (Food Distribution)		172,370	172,370
Total National School Lunch Program		<u>773,697</u>	<u>773,697</u>
Total U.S. Department of Agriculture		<u>886,699</u>	<u>886,699</u>
U.S. DEPARTMENT OF EDUCATION			
<i>Passed Through Ohio Department of Education:</i>			
<u>Special Education Cluster:</u>			
Special Education Grants to States	84.027	478,175	432,500
Special Education Preschool Grants	84.173	19,089	19,089
Total Special Education Cluster		<u>497,264</u>	<u>451,589</u>
English Language Acquisition State Grants	84.365	3,730	3,730
Title II-D Technology Grant	84.318	50	50
Education Jobs Fund	84.410	62,729	62,729
ARRA - Race-to-the-Top Incentive Grants, Recovery Act	84.395	7,050	7,050
Title I Grants to Local Educational Agencies	84.010	589,239	642,964
Improving Teacher Quality State Grants	84.367	141,141	108,003
Total U.S. Department of Education		<u>1,301,203</u>	<u>1,276,115</u>
Total Federal Awards Receipts and Expenditures		<u>\$2,187,902</u>	<u>\$2,162,814</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports the Defiance City School District (the District's) federal award programs' receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

NOTE B - SUBRECIPIENTS

The District passes certain federal awards received from Ohio Department of Education to other governments or not-for-profit agencies (subrecipients). As Note A describes, the District reports expenditures of Federal awards to subrecipients when paid in cash.

As a subrecipient, the District has certain compliance responsibilities, such as monitoring its subrecipients to help assure they use these subawards as authorized by laws, regulations, and the provisions of contracts or grant agreements, and that subrecipients achieve the award's performance goals. The amount passed through to subrecipients was \$22,819.

NOTE C - CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE D – FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the fair value. The District allocated donated food commodities to the program that benefitted from the use of those donated food commodities.

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Dave Yost • Auditor of State

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

Defiance City School District
Defiance County
629 Arabella Street
Defiance, Ohio 43512-2856

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Defiance City School District, Defiance County, Ohio, (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 11, 2014, wherein we noted the District uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings and questioned costs we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2013-002 described in the accompanying schedule of findings and questioned costs to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial

statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2013-001 and 2013-002.

Entity's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

March 11, 2014



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Defiance City School District
Defiance County
629 Arabella Street
Defiance, Ohio 43512-2856

To the Board of Education:

Report on Compliance for Each Major Federal Program

We have audited Defiance City School District, Defiance County, Ohio (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the District's major federal programs for the year ended June 30, 2013. The *Summary of Audit Results* in the accompanying schedule of findings and questioned costs identifies the District's major federal programs.

Management's Responsibility

The District's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the District's compliance for the District's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect 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 our audit provides a reasonable basis for our compliance opinion on the District's major programs. However, our audit does not provide a legal determination of the District's compliance.

Basis for Qualified Opinion on the Nutrition Cluster Program

As described in findings 2013-003 and 2013-004 in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding Allowable Costs and Cost Principles applicable to its Nutrition Cluster major federal program. Compliance with this requirement is necessary, in our opinion, for the District to comply with requirements applicable to this program.

Qualified Opinion on Nutrition Cluster Program

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on the Nutrition Cluster Program* paragraph, Defiance City School District, Defiance County, complied, in all material respects, with the requirements referred to above that could directly and materially affect its *Nutrition Cluster Program* for the year ended June 30, 2013.

Unmodified Opinion on the Other Major Federal Program

In our opinion, the District complied in all material respects with the requirements referred to above that could directly and materially affect its other major federal program identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Therefore, we cannot assure we have identified all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2013-003 and 2013-004 to be material weaknesses.

This report only describes the scope of our internal control compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

March 11, 2014

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DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2013

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	Yes
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Modified – Nutrition Cluster Unmodified – Special Education Cluster
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	Nutrition Cluster: – School Breakfast Program CFDA #10.553 and National School Lunch Program CFDA #10.555 Special Education Cluster: Special Education Grants to States CFDA #84.027 and Special Education Preschool Grants CFDA #84.173
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

FINDING NUMBER 2013-001

Noncompliance Citation

Ohio Revised Code § 117.38 provides each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office.

Ohio Administrative Code § 117-2-03(B) which further clarifies the requirements of Ohio Revised Code § 117.38, requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the District prepares its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles accepted in the United States of America. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District. As such, we recommend the District prepare its annual financial report in accordance with generally accepted accounting principles.

Officials' Response:

Management believes reporting on a basis of accounting other than generally accepted accounting principles (GAAP) is more cost efficient.

FINDING NUMBER 2013-002

Noncompliance Citation / Material Weakness

Ohio Revised Code § 5705.10 states money paid into any fund shall be used only for the purposes for which such fund is established.

Ohio Revised Code § 5701.01 (E) defines "Permanent improvement" as any property, asset, or improvement with an estimated life or usefulness of five years or more, including land and interests therein, and reconstructions, enlargements, and extensions thereof having an estimated life or usefulness of five years or more.

The District has established a Permanent Improvement fund and charged an expenditure for a Voter Survey Research Project in the amount of \$15,000 to this fund. This expenditure does not meet the definition of a "permanent improvement."

The financial statements and accounting records have been adjusted to correct this misstatement.

We recommend the District review all expenditures charged to funds with restricted monies to ensure expenditures charged meet the purpose for which these funds were established.

Officials' Response:

We did not receive a response from Officials to this finding.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	2013-003
CFDA Title and Number	Nutrition Cluster – CFDA # 10.553 and 10.555
Federal Award Number/Year	2013
Federal Agency	United States Department of Agriculture
Pass-Through Agency	Ohio Department of Agriculture

Noncompliance / Questioned Cost / Material Weakness

Allowable Cost and Cost Principles

2 CFR Part 225, Attachment B, Section 8 (h) (4) provides where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 8.h.(5). Documentary support will be required where employees work on:

- (a) More than one Federal award,
- (b) A Federal award and a non-Federal award,
- (c) An indirect cost activity and a direct cost activity,
- (d) Two or more indirect activities which are allocated using different allocation bases, or
- (e) An unallowable activity and a direct or indirect cost activity.

In 2013, a portion of the elementary, middle, and high school principals' payroll costs for cafeteria monitoring, in the total amount of \$89,036, were charged to the District's Child Nutrition Cluster grant.

There were no personnel activity reports or equivalent documentation available to support the allocation; therefore, the payroll costs would not qualify as an allowable cost to the Child Nutrition Cluster grant.

The District should establish specific procedures by which each employee working on multiple activities or multiple federal programs will complete personnel activity reports or equivalent documentations (i.e., time and effort logs or time sheets) on a timely basis. The personnel activity reports should document the date and hours worked on the Child Nutrition Cluster grant and include credible signatures by the employee and respective supervisor.

Officials' Response:

The District will establish procedures to ensure employees working on multiple federal awards or cost objectives complete semi-annual certifications.

Finding Number	2013-004
CFDA Title and Number	Nutrition Cluster – CFDA # 10.553 and 10.555
Federal Award Number/Year	2013
Federal Agency	United States Department of Agriculture
Pass-Through Agency	Ohio Department of Agriculture

Noncompliance / Questioned Costs / Material Weakness

Allowable Costs and Cost Principles

2 CFR Part 225 defines an indirect cost as a cost that can be allocated to multiple programs or other cost objectives. United State Department of Agriculture Child Nutrition Reauthorization 2010: Indirect Cost Guidance for State Agencies and School Food Authorities states a school district may charge indirect costs such as utility expenditures to a federal program provided the District develops and submits an indirect cost rate proposal (ICRP) and enters into an indirect cost rate agreement with the Ohio Department of Education.

An ICRP is a schedule documenting the formulation of the District’s indirect cost rate and direct cost base and request for the establishment of an indirect cost methodology with the Ohio Department of Education. The District cannot claim reimbursement for indirect cost until the Ohio Department of Education assigns methodology on the District’s ICRP and enters into an indirect cost rate agreement with the District. The indirect cost rate agreement expires annually. The District must use the most current approved rate for each fiscal year.

In 2013, utility costs comprising of electric, water, sewer, and natural gas costs in the total amount of \$36,335 were charged to the District’s Child Nutrition Cluster grant. The District obtained approval from the Ohio Department of Education for its 2013 indirect cost plan and indirect cost rate (1.01%); however, the District did not utilize this indirect cost rate when allocating utility costs to the Child Nutrition Cluster grant. In addition, the District did not allocate its utility costs on total Child Nutrition Cluster fund disbursements which is the correct cost basis. As a result, a total of \$25,418 of the utility costs allocated would not qualify as an allowable cost to the Child Nutrition Cluster grant.

In order to ensure indirect utility costs qualify as allowable costs to the Child Nutrition Cluster grant, we recommend the District utilize the indirect cost rate approved by the Ohio Department of Education and utilize total Child Nutrition Cluster fund disbursements as a cost basis to allocate utility costs.

Officials’ Response:

The District will utilize the correct indirect cost rate for future audits.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315C
JUNE 30, 2013**

Finding Number	Planned Corrective Action	Anticipated / Completion Date	Responsible Contact Person
2013-003	Management will consult with the Ohio Department of Education to resolve this issue.	FY 2014	Pam Harrington, CFO/Treasurer
2013-004	Management will consult with the Ohio Department of Education to resolve this issue.	FY 2014	Pam Harrington, CFO/Treasurer

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2013**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2012-001	Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03 (B) – For not preparing its annual financial report in accordance with generally accepted accounting principles.	No	Not Corrected. Reissued as finding 2013-001 in this report.
2012-002	2 CFR Part 225 (formerly Office of Management and Budget (OMB) Circular A-87) and 2 CFR Part 225 Appendix (B)(8) (g) – Severance paid out of Education Jobs fund without an approved Indirect Cost Rate Plan (ICRP)	Yes	



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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURE

Defiance City School District
Defiance County
629 Arabella Street
Defiance, Ohio 43215-2856

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Defiance City School District, Defiance County, Ohio (the District) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

We noted the Board amended its anti-harassment policy at its meeting on May 9, 2012 to include prohibiting harassment, intimidation, or bullying of any student "on a school bus" or by an "electronic act".

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board 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 "Dave Yost".

Dave Yost
Auditor of State

March 11, 2014

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www.ohioauditor.gov

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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
APRIL 1, 2014**