



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, the 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, 2014, 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, the major fund, and the aggregate remaining fund information of Defiance City School District, Defiance County, Ohio, as of June 30, 2014, 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 Award 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 February 12, 2015, 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

February 12, 2015

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**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the Fiscal Year Ended June 30, 2014  
(Unaudited)

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, 2014. 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 2014 are as follows:

In total, net position increased \$1,805,767, which represents a 25% increase from 2013.

General receipts accounted for \$23,047,692 or 83% of all receipts and reflect the District's significant dependence on local property taxes, income taxes and unrestricted state entitlements.

The District had \$25,829,279 in disbursements related to governmental activities; only \$4,587,354 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 \$21,241,925 associated with governmental activities.

Outstanding debt decreased from \$8,755,000 to \$8,540,000, 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 is the most significant fund.

**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, 2014  
(Unaudited)  
(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 2014. 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 fund for fiscal year 2014 was the General 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, 2014  
(Unaudited)  
(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 2014 in comparison to fiscal year 2013:

Table 1 Net Position <u>Governmental Activities</u>		
	2014	2013
Equity on Pooled Cash and Cash Equivalents	\$ 8,969,962	\$ 7,164,195
Net Position		
Restricted for:		
Debt Service	\$ 473,193	\$ 469,692
Capital Projects	791,119	916,311
Other Purposes	949,623	975,772
Unrestricted	6,756,027	4,802,420
Total Net Position	\$ 8,969,962	\$ 7,164,195

For fiscal year 2014, a portion of the District's net position, \$2,219,935 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 \$6,756,027 may be used to meet the District's ongoing obligations. For fiscal year 2013, these amounts were \$2,361,775 with external restrictions, and \$4,802,420 remaining for general operations. Net Position of the Governmental Activities increased \$1,805,767, which represents a 25% increase over fiscal year 2013. The increase was due \$1.1 million in grants and entitlements over 2013 and conservative spending and attrition.

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the Fiscal Year Ended June 30, 2014  
(Unaudited)  
(Continued)

Table 2 reflects the changes in net position for fiscal year 2014 as compared to fiscal year 2013.

Table 2  
Change in Net Position  
Governmental Activities

<u>Receipts</u>	<u>2014</u>	<u>2013</u>
Program Receipts:		
Charges for Services	\$ 2,271,558	\$ 2,091,544
Operating Grants, Contributions and Interest	2,298,785	2,561,554
Capital Grants, Contributions and Interest	<u>17,011</u>	<u>1,253</u>
Total Program Receipts	<u>4,587,354</u>	<u>4,654,351</u>
General Receipts:		
Property Taxes	6,670,026	6,548,965
Income Taxes	1,647,556	1,519,976
Grants and Entitlements	14,375,158	13,271,616
Proceeds from Sale of Capital Assets	131,764	1,660
Interest	44,711	4,714
Miscellaneous	<u>178,477</u>	<u>99,249</u>
Total General Receipts	<u>23,047,692</u>	<u>21,446,180</u>
Total Receipts	<u>27,635,046</u>	<u>26,100,531</u>
 <u>Program Disbursements</u>		
Instruction		
Regular	9,069,753	8,881,680
Special	3,096,081	2,621,318
Vocational	327,635	370,512
Student Intervention Services	119,926	124,407
Other	2,329,484	2,189,245
Support Services		
Pupils	1,646,542	1,315,526
Instructional Staff	889,859	1,478,554
Board of Education	44,227	41,781
Administration	1,621,639	1,554,847
Fiscal	602,956	585,759
Operation and Maintenance of Plant	2,225,448	2,317,410
Pupil Transportation	950,143	1,129,121
Central	76,809	76,339
Operating of Non-Instructional Services	1,189,931	1,299,552
Extracurricular Activities	876,209	847,816
Capital Outlay	159,581	74,627
Debt Services	600,996	593,778
Refund of Prior Year Receipts	<u>2,060</u>	<u>-</u>
Total Disbursements	<u>25,829,279</u>	<u>25,502,272</u>
Increase in Net Position	<u>\$ 1,805,767</u>	<u>\$ 598,259</u>

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the Fiscal Year Ended June 30, 2014

(Unaudited)

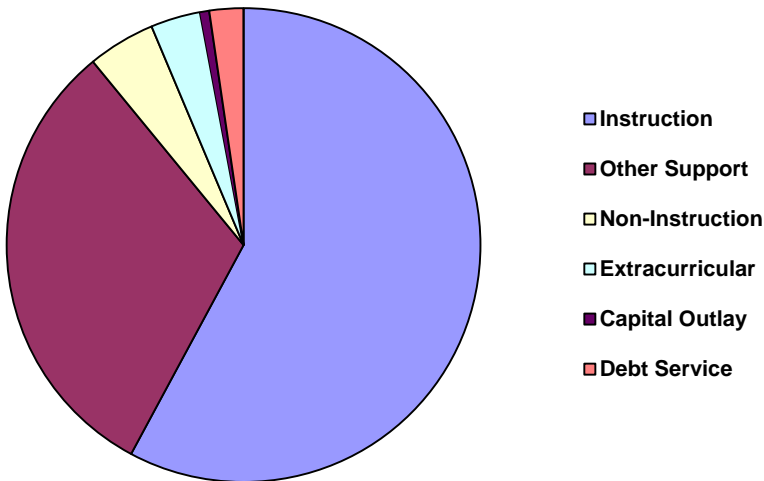
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The total disbursements of \$25,829,279 were offset by program receipts of \$4,587,354 and by general receipts of \$23,047,692. Program receipts supported 17% of the total governmental disbursements. The primary sources of general receipts for governmental activities are derived from property taxes, income taxes and grants and entitlements. These receipt sources represent 82% of total governmental receipts.

The major program disbursement for governmental activities is for instruction, which accounts for 58% of all governmental disbursements. Other programs which support the instruction process, including pupils, instructional staff, and pupil transportation account for 13% of governmental disbursements. Maintenance of the District's facilities also represents a significant disbursement, 5%. Therefore, 76% 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.

**Governmental Disbursements by Types**



**Governmental Activities**

Table 3 indicates the total cost of services and the net cost of services for governmental activities for 2014 and 2013. 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, 2014  
(Unaudited)  
(Continued)

Table 3  
Governmental Activities

	Total Cost of Services 2014	Net Cost of Services 2014	Total Cost of Services 2013	Net Cost of Services 2013
Instruction:				
Regular	\$ 9,069,753	\$ 7,265,892	\$ 8,881,680	\$ 6,951,254
Special	3,096,081	2,117,832	2,621,318	1,682,346
Vocational	327,635	230,756	370,512	289,872
Student intervention				
Services	119,926	119,926	124,407	124,407
Other	2,329,484	2,329,484	2,189,245	2,189,245
Support services:				
Pupils	1,646,542	1,646,542	1,315,526	1,315,526
Instructional staff	889,859	872,447	1,478,554	1,460,807
Board of education	44,227	44,227	41,781	41,781
Administration	1,621,639	1,621,639	1,554,847	1,554,847
Fiscal	602,956	576,908	585,759	574,382
Operation and maintenance of plant	2,225,448	2,168,039	2,317,410	2,260,023
Pupil Transportation	950,143	950,143	1,129,121	1,129,121
Central	76,809	70,376	76,339	69,080
Non-Instructional Services	1,189,931	(13,334)	1,299,552	44,055
Extracurricular Activities	876,209	528,139	847,816	528,133
Capital Outlay	159,581	109,853	74,627	39,264
Debt Service	600,996	600,996	593,778	593,778
Refund of Prior Year Receipts	2,060	2,060	-	-
Total Disbursements	<u>\$ 25,829,279</u>	<u>\$ 21,241,925</u>	<u>\$ 25,502,272</u>	<u>\$ 20,847,921</u>

The dependence upon tax receipts and unrestricted state entitlements for governmental activities is demonstrated in the previous table. Approximately 81% of instruction activities, 99% of support services, and 69% of capital outlay disbursements are supported through taxes and other general receipts.

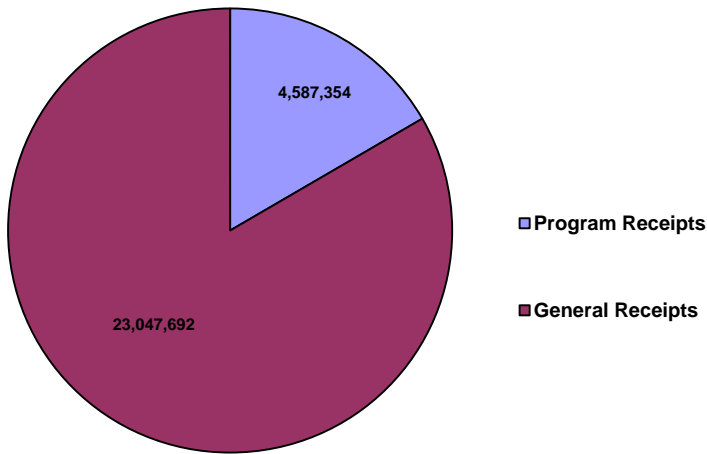
**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the Fiscal Year Ended June 30, 2014  
(Unaudited)  
(Continued)

**Governmental Activities – General vs. Program**

**Receipts**



**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 of \$27,635,046 and disbursements of \$25,829,279 in fiscal year 2014. The overall positive change for 2014 is \$1,805,767 in fund balance for the fiscal year, primarily attributable to conservative spending, attrition and \$1 million increase in intergovernmental revenues, tuition and fees.

**General Fund**

Fund balance at June 30, 2014 was \$6,756,027, including \$6,126,814 of unassigned fund balance. Unassigned fund balance comprised 91% of the total fund balance. General fund disbursements and other financing uses were \$22,189,460 or 86% 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.

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the Fiscal Year Ended June 30, 2014

(Unaudited)

(Continued)

During fiscal year 2014, the District amended its General Fund budget as needed. Final budgeted receipts and other financing sources in the amount of \$23,740,973 were higher than original budgeted receipts and other financing sources of \$22,403,594, due to higher estimate of intergovernmental revenue. The actual receipts and other financing sources of \$24,004,344 was \$263,371 higher than the final budget amounts. This difference is due to conservative estimates of tax revenues and accurate reporting of EMIS data enabling collection of reimbursement for catastrophic costs for high end students.

General fund original budgeted disbursements and other financing uses of \$22,837,249 decreased to \$22,762,291, which represented a less than 1% change. The actual disbursements and other financing uses for fiscal year 2014 totaled \$22,294,569 which was \$512,722 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 \$8,540,000. 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 uncertainty in the state education budget year after year, and aging facilities. Despite these challenges, the District remains a strong service provider to the students of the Defiance area.

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 citizens of the Defiance City Schools' community strongly showed their support of the District again on May 6, 2014 with the passage of the 3.78 mills bond levy to build a new 6-12 facility for the students and community. The District is working with OFCC and is excited to begin the process July 2014.

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 past few years. The District plans to continue to increase technology to lower grade levels during the next few years. The District will participate in an ongoing 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, 2014*

	<u><b>Governmental Activities</b></u>
<b>ASSETS</b>	
Equity in Pooled Cash and Investments	<u>\$ 8,969,962</u>
<b>NET POSITION</b>	
Restricted for Debt Service	\$ 473,193
Restricted for Capital Outlay	791,119
Restricted for Other Purposes	949,623
Unrestricted	<u>6,756,027</u>
Total Net Position	<u>\$ 8,969,962</u>

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, 2014*

	Program Cash Receipts			Capital Grants and Contributions	Net (Disbursements) Receipts and Changes in Net Position
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions		
Governmental Activities					
Instruction:					
Regular	\$ 9,069,753	\$ 1,183,878	\$ 619,983	\$ -	\$ (7,265,892)
Special	3,096,081	363,904	614,345	-	(2,117,832)
Vocational	327,635	-	96,879	-	(230,756)
Student Intervention Services	119,926	-	-	-	(119,926)
Other	2,329,484	-	-	-	(2,329,484)
Support Services:					
Pupils	1,646,542	-	-	-	(1,646,542)
Instructional Staff	889,859	-	17,412	-	(872,447)
Board of Education	44,227	-	-	-	(44,227)
Administration	1,621,639	-	-	-	(1,621,639)
Fiscal	602,956	20,406	5,642	-	(576,908)
Operation and Maintenance of Plant	2,225,448	-	57,409	-	(2,168,039)
Pupil Transportation	950,143	-	-	-	(950,143)
Central	76,809	1,033	5,400	-	(70,376)
Operation of Non-Instructional Services	1,189,931	336,662	866,603	-	13,334
Extracurricular Activities	876,209	332,958	15,112	-	(528,139)
Capital Outlay	159,581	32,717	-	17,011	(109,853)
Debt Service:					
Principal	215,000	-	-	-	(215,000)
Interest and Fiscal Charges	385,996	-	-	-	(385,996)
Refund of Prior Year Receipts	2,060	-	-	-	(2,060)
<b>Totals</b>	<b><u>\$ 25,829,279</u></b>	<b><u>\$ 2,271,558</u></b>	<b><u>\$ 2,298,785</u></b>	<b><u>\$ 17,011</u></b>	<b><u>(21,241,925)</u></b>
General Receipts					
Taxes					
Income Taxes					1,647,556
Property and Other Local Taxes					6,670,026
Grants and Entitlements not Restricted to Specific Programs					14,375,158
Gifts and Donations					33,867
Investment Earnings					44,711
Miscellaneous					116,022
Proceeds from Sale of Capital Assets					131,764
Refund of Prior Year Expenditures					28,588
<b>Total General Receipts</b>					<b><u>23,047,692</u></b>
<b>Change in Net Position</b>					<b><u>1,805,767</u></b>
<b>Net Position Beginning of Year</b>					<b><u>7,164,195</u></b>
<b>Net Position End of Year</b>					<b><u>\$ 8,969,962</u></b>

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, 2014*

	<b>General Fund</b>	<b>All Other Governmental</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Current Assets			
Equity in Pooled Cash and Investments	<u>\$ 6,756,027</u>	<u>\$ 2,213,935</u>	<u>\$ 8,969,962</u>
 <b>FUND BALANCES</b>			
Restricted	\$ 400,532	\$ 2,213,935	\$ 2,614,467
Assigned	228,681	-	228,681
Unassigned	<u>6,126,814</u>	<u>-</u>	<u>6,126,814</u>
<i>Total Fund Balances</i>	<u>\$ 6,756,027</u>	<u>\$ 2,213,935</u>	<u>\$ 8,969,962</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, 2014*

	<u>General Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>RECEIPTS</b>			
Property and Other Local Taxes	\$ 6,039,644	\$ 630,382	\$ 6,670,026
Income Tax	1,647,556	-	1,647,556
Intergovernmental	14,502,955	2,187,999	16,690,954
Interest	27,340	17,371	44,711
Tuition and Fees	1,581,747	-	1,581,747
Rent	15,860	16,858	32,718
Extracurricular Activities	60,431	272,529	332,960
Gifts and Donations	18,825	15,042	33,867
Customer Sales and Services	21,439	329,445	350,884
Miscellaneous	71,213	18,058	89,271
<i>Total Receipts</i>	<u>23,987,010</u>	<u>3,487,684</u>	<u>27,474,694</u>
<b>DISBURSEMENTS</b>			
<b>Instruction</b>			
Regular	8,576,609	493,144	9,069,753
Special	2,447,630	648,451	3,096,081
Vocational	327,635	-	327,635
Student Intervention Services	119,926	-	119,926
Other	2,329,484	-	2,329,484
<b>Support Services</b>			
Pupils	1,646,542	-	1,646,542
Instructional Staff	849,785	40,074	889,859
Board of Education	44,227	-	44,227
Administration	1,618,114	3,525	1,621,639
Fiscal	570,485	32,471	602,956
Operation and Maintenance of Plant	1,976,638	248,810	2,225,448
Pupil Transportation	950,143	-	950,143
Central	71,409	5,400	76,809
Operation of Non-Instructional Services	-	1,189,931	1,189,931
Extracurricular Activities	570,124	306,085	876,209
Capital Outlay	90,709	68,872	159,581
<b>Debt Service</b>			
Principal	-	215,000	215,000
Interest	-	385,996	385,996
<i>Total Disbursements</i>	<u>22,189,460</u>	<u>3,637,759</u>	<u>25,827,219</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>1,797,550</u>	<u>(150,075)</u>	<u>1,647,475</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from Sale of Capital Assets	131,764	-	131,764
Refund of Prior Year Expenditures	24,293	4,295	28,588
Refund of Prior Year Receipts	-	(2,060)	(2,060)
<i>Total Other Financing Sources (Uses)</i>	<u>156,057</u>	<u>2,235</u>	<u>158,292</u>
<i>Net Change in Fund Balances</i>	1,953,607	(147,840)	1,805,767
<i>Fund Balances at Beginning of Year</i>	4,802,420	2,361,775	7,164,195
<i>Fund Balances at End of Year</i>	<u>\$ 6,756,027</u>	<u>\$ 2,213,935</u>	<u>\$ 8,969,962</u>

See accompanying notes to the basic financial statements.

**DEFIANCE CITY SCHOOL DISTRICT**  
**DEFIANCE COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES**  
**IN FUND BALANCE - BUDGET (NON-GAAP BASIS) AND ACTUAL**  
**GENERAL FUND**  
*FOR THE FISCAL YEAR ENDED JUNE 30, 2014*

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>RECEIPTS</b>				
Property and Other Local Taxes	\$ 5,950,000	\$ 6,039,644	\$ 6,039,644	\$ -
Income Tax	1,520,000	1,647,556	1,647,556	-
Intergovernmental	13,736,344	14,346,167	14,502,955	156,788
Interest	10,000	21,000	27,323	6,323
Tuition and Fees	997,250	1,412,810	1,509,048	96,238
Rent	12,000	12,000	15,860	3,860
Gifts and Donations	2,000	15,300	13,255	(2,045)
Customer Sales and Services	1,000	16,496	21,439	4,943
Miscellaneous	10,000	65,000	71,207	6,207
Total Receipts	<u>22,238,594</u>	<u>23,575,973</u>	<u>23,848,287</u>	<u>272,314</u>
<b>DISBURSEMENTS</b>				
<b>Current</b>				
<b>Instruction</b>				
Regular	8,822,934	8,527,837	8,550,558	(22,721)
Special	1,953,211	2,937,912	2,463,055	474,857
Vocational	325,011	325,011	327,964	(2,953)
Student Intervention Services	90,446	90,446	119,926	(29,480)
Other	2,099,220	2,410,317	2,341,534	68,783
<b>Support Services</b>				
Pupils	1,407,186	1,395,186	1,649,304	(254,118)
Instructional Staff	959,470	987,578	860,010	127,568
Board of Education	45,918	38,717	44,633	(5,916)
Administration	2,753,692	1,740,092	1,628,768	111,324
Fiscal	570,906	572,406	571,886	520
Operation and Maintenance of Plant	2,259,818	2,200,993	2,051,278	149,715
Pupil Transportation	1,031,959	1,018,318	967,146	51,172
Central	94,128	94,128	76,454	17,674
<b>Extracurricular Activities</b>				
Academic Oriented Activities	64,168	64,168	121,139	(56,971)
Sport Oriented Activities	243,200	243,200	373,982	(130,782)
School and Public Service Co-Curricular Activities	6,867	6,867	11,223	(4,356)
<b>Capital Outlay</b>				
Building Improvement Services	61,000	61,000	42,600	18,400
Other Facilities Acquisition and Construction	48,115	48,115	48,109	6
Total Disbursements	<u>22,837,249</u>	<u>22,762,291</u>	<u>22,249,569</u>	<u>512,722</u>
Excess of Receipts Over (Under) Disbursements	<u>(598,655)</u>	<u>813,682</u>	<u>1,598,718</u>	<u>785,036</u>
<b>OTHER FINANCING SOURCES</b>				
Advances In	20,000	20,000	-	(20,000)
Proceeds from Sale of Capital Assets	135,000	135,000	131,764	(3,236)
Refund of Prior Year Expenditures	10,000	10,000	24,293	14,293
Total Other Financing Sources	<u>165,000</u>	<u>165,000</u>	<u>156,057</u>	<u>(8,943)</u>
Net Change in Cash Basis Fund Balance	(433,655)	978,682	1,754,775	776,093
Fund Balance at Beginning of Year	4,601,927	4,601,927	4,601,927	-
Prior Year Encumbrances Appropriated	132,906	132,906	132,906	-
Fund Balance at End of Year	<u>\$ 4,301,178</u>	<u>\$ 5,713,515</u>	<u>\$ 6,489,608</u>	<u>\$ 776,093</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, 2014*

	<u>Private Purpose Trust</u>	<u>Agency</u>
<b>ASSETS</b>		
Current Assets		
Equity in Pooled Cash and Investments	<u>\$ 31,218</u>	<u>\$ 66,637</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Undistributed Monies		<u>\$ 66,637</u>
<b>NET POSITION</b>		
Held in Trust for Scholarships	<u>\$ 31,218</u>	

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, 2014*

	<b><u>Private Purpose Trust</u></b>
<b>ADDITIONS:</b>	
Gifts and contributions	\$ <u>24,742</u>
<b>DEDUCTIONS:</b>	
Payments in accordance with trust agreements	<u>13,000</u>
Changes in net position	11,742
Net position beginning of year	<u>19,476</u>
Net position end of year	<u><u>\$ 31,218</u></u>

See accompanying notes to the basic financial statements.

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**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2014

**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 132 classified employees and 182 certified teaching personnel who provide services to 2,650 students and other community members. The District currently operates three instructional/ support buildings and a preschool in conjunction with the Northwest Education Service Center.

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.

These financial statements are presented on the modified 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.

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2014

**NOTE 2 – SUMMARY OF SIGNIFICANT 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 uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the 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
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:

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2014

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Governmental Funds

The District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other non-exchange transactions as governmental funds. The District's major governmental fund is the General fund.

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

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 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.

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

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2014

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

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.

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2014

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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 Investments**

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” on the financial statements.

During fiscal year 2014, 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, 2014.

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 2014 was \$27,340, which includes \$3,607 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.

**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

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2014

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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:

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.”

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2014

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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, 2014.

**O. Fund Balance**

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.

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.

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2014

**NOTE 3 – ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For 2014, the District implemented Governmental Auditing Standards Board (GASB) Statement No. 67, “*Financial Reporting of Pension Plans*” and GASB Statement No. 70, “*Accounting and Financial Reporting for Nonexchange Financial Guarantees*”.

GASB Statement No. 67 replaces the requirements of GASB Statement No. 25 and GASB Statement No. 50 as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria.

The Statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. The implementation of GASB Statement No. 67 did not have an effect on the financial statements of the District.

GASB No. 70 provides accounting and financial reporting guidance to state and local governments that offer non-exchange financial guarantees to others and for governments that receive guarantees on their obligations.

A non-exchange transaction occurs when a government gives value or benefit, such as providing a guarantee of an obligation, to another party without receiving equal value in exchange. Because no value is exchanged, the transaction is not often recorded on the financial statements of the government. However, GASB Statement No. 70 now defines circumstances that require the government to recognize a liability. The statement addresses the guarantee of an obligation by the government entity with a legally separate entity or individual, including another government, a not-for-profit organization, a private entity or blended or discretely presented component unit. The implementation of GASB Statement No. 70 did not have an effect on the financial statements of the District.

**B. Compliance**

Ohio Administrative Code, Section 117-2-03 (B), requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the District prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, 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.

Contrary to Ohio law, expenditures for ipads, computers and parking lot repravement at the District’s bus barn in the total amount of \$155,524 were made to the classroom maintenance fund. These monies can only be used to maintain and repair the elementary facility as identified in the District’s Facilities Maintenance Plan.



**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2014

**NOTE 4 – 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, 2014 for the major governmental funds and all other governmental funds are presented as follows:

<u>Fund Balance</u>	<u>General</u>	<u>All Other Governmental Funds</u>	<u>Total</u>
Restricted for:			
Debt payment		\$ 473,193	\$ 473,193
Food service operations		321,352	321,352
Regular instruction		864	864
Auxiliary services		49,772	49,772
District managed activity		87,344	87,344
Special instruction		7,464	7,464
Capital improvements	\$ 264,559	1,273,946	1,538,505
Textbooks	115,789		115,789
School bus	<u>20,184</u>		<u>20,184</u>
Total restricted	400,532	2,212,935	2,614,467
Assigned to:			
Unpaid obligations	201,142		201,142
Other purposes	<u>27,539</u>		<u>27,539</u>
Total assigned	228,681		228,681
Unassigned	<u>6,126,814</u>		<u>6,126,814</u>
Total fund balances	<u>\$ 6,756,027</u>	<u>\$ 2,212,935</u>	<u>\$ 8,969,962</u>

**NOTE 5 – 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 – Budgetary 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)	\$ 1,953,607
Outstanding encumbrances	(199,842)
Perspective difference:	
Activity of funds reclassified for for cash reporting purposes	<u>1,010</u>
Budgetary basis	<u>\$ 1,754,775</u>

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2014

**NOTE 5 – BUDGETARY BASIS OF ACCOUNTING (CONTINUED)**

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 cash basis.

**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.

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;

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2014

**NOTE 6 – DEPOSITS AND INVESTMENTS (CONTINUED)**

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 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 investments may only be made through custodian.

**A. Investments**

Investments are reported at cost. As of June 30, 2014, the District had the following investments

Description	Cost Basis	Maturity (Years)	
		Less Than 1	1-5
Federal Home Loan Mortgage Corporation (FHLMC)	\$ 250,305	\$ 250,305	\$ -
Federal Home Loan Bank (FHLB)	149,868	-	149,868
Federal National Mortgage Association (FNMA)	604,799	150,608	454,191
Federal Farm Credit Bank (FFCB)	405,988	106,329	299,659
Negotiable Certificates of Deposit	2,043,609	200,084	1,843,525
Money Market Mutual Funds	339,889	339,889	-
STAR Ohio	1,086,833	1,086,833	-
Total Cost	<u>\$ 4,881,291</u>	<u>\$ 2,134,048</u>	<u>\$ 2,747,243</u>

**B. 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.

**C. Credit Risk**

The Money Market Mutual Fund carries a rating 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 AAA by 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  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2014

**NOTE 6 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**D. 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 (Morgan Stanley) 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.

**E. 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 Farm Credit Bank and Federal National Mortgage Association represents 5%, 8%, and 12% 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. Income tax receipts are credited 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 real 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 2014 represent the collection calendar year 2013 taxes. Real property taxes received in calendar year 2014 were levied after April 1, 2013, on the assessed values as of January 1, 2013, the lien date. Assessed values for real property taxes are established by State statute at 35% 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**  
For the Fiscal Year Ended June 30, 2014

**NOTE 8 – PROPERTY TAXES (CONTINUED)**

Public utility real and tangible personal property taxes for 2014 were levied after April 1, 2013, on the assessed values as of December 31, 2012, the lien date. Public utility real property is assessed at 35% of true value; public utility tangible personal property currently is assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

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, 2014, are available to finance fiscal year 2014 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 2014 taxes were collected are:

	2013 Second-Half Collections		2014 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/residential	\$ 187,450,150	79.45	\$ 187,315,350	78.89
Industrial/commercial	37,166,870	15.75	37,884,990	15.95
Public utility	11,311,030	4.79	12,252,400	5.16
Total assessed value	<u>\$ 235,928,050</u>	<u>100.00</u>	<u>\$ 237,452,740</u>	<u>100.00</u>
Total rate per \$1,000 of assessed valuation	\$ 47.35		\$ 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 (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**  
For the Fiscal Year Ended June 30, 2014

**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 2014, the District contracted for the following insurance coverage:

	<u>Amount of Coverage</u>
The Liberty Mutual Insurance Company:	
General Liability	
Per Occurrence	\$ 1,000,000
Total per Year	2,000,000
Umbrella Liability	
Per Occurrence	5,000,000
Total per Year	5,000,000
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 and disability benefits; annual cost-of-living adjustments; and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by 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](http://www.ohsers.org) under Forms and Publications.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District’s contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2014, 13.10% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to a statutory maximum amount of 10% for plan members and 14% for employers.

The District’s contributions to SERS for the years ended June 30, 2014, 2013 and 2012 were \$470,059, \$482,335, and \$442,930, respectively; 84% has been contributed for fiscal year 2014 and 100% for fiscal years 2013 and 2012.

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2014

**NOTE 10 – DEFINED BENEFIT PENSION PLANS (CONTINUED)**

**B. State Teachers Retirement System**

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio) 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 may 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 at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of the both DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2014, plan members were required to contribute 11% of their annual covered salaries. The District was required to contribute 14%; 13% was the portion used to fund pension obligations. For fiscal year 2013, the portion used to fund pension obligations was also 13%. 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 through June 30, 2013 (then 1% increases annually through July 1, 2016) and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2014, 2013 and 2012 were \$1,337,502, \$1,302,350, and \$1,390,060, respectively; 82% has been contributed for the fiscal year 2014 and 100% has been contributed for fiscal years 2013 and 2012.

**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, 2014, four of the Board of Education members have elected Social Security. The contribution rate is 6.2% of wages.

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2014

**NOTE 11 – POST EMPLOYMENT BENEFITS**

**A. School Employee Retirement System**

The District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14% of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2014, 14% of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than a actuarially determined amount; for 2014, this amount was \$20,250.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending of the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care for the fiscal years ended June 30, 2014, 2013, and 2012 were \$55,117, \$54,547, and \$62,468 respectively; 84% has been contributed for fiscal year 2014 and 100% for fiscal year 2013 and 2012.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2014, this actuarially required allocation was 0.76% of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2014, 2013, and 2012 was \$27,271, \$27,246, and \$26,157, respectively.

**B. State Teachers Retirement System**

The District contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888)227-7877.

Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2014, STRS Ohio allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2014, 2013, and 2012 were \$102,885, \$100,181, and \$106,928 respectively; 83% has been contributed for fiscal year 2014 and 100% for fiscal years 2013 and 2012.



**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2014

**NOTE 12 – OTHER EMPLOYEE BENEFITS**

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](http://www.ohsers.org) under Employers/Audit Resources.

Compensated Absences

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

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred 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 fifty-nine 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 2014 were as follows:

<u>Name of Debt</u>	<u>Interest Rate</u>	<u>Balance 06/30/13</u>	<u>Reductions</u>	<u>Balance 06/30/14</u>	<u>Due Within One Year</u>
Elementary Building					
Serial Bonds	3.25–4.25%	\$ 4,735,000	\$ 215,000	\$ 4,520,000	\$ 230,000
Term Bonds	4.5–4.625%	4,020,000	-	4,020,000	-
Total Governmental			-		
Long Term Obligations		<u>\$ 8,755,000</u>	<u>\$ 215,000</u>	<u>\$ 8,540,000</u>	<u>\$ 230,000</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.

**DEFIANCE CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2014

**NOTE 13 – LONG-TERM OBLIGATIONS (CONTINUED)**

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.

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, 2014 are as follows:

<u>Ending June 30,</u>	2006 OSFC Elementary <u>Building Bond</u>	<u>Interest</u>	<u>Total</u>
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	230,000	329,490	559,490
2020-2024	1,475,000	1,484,521	2,959,521
2025-2029	2,345,000	1,063,074	3,408,074
2030-2034	<u>3,475,000</u>	<u>423,720</u>	<u>3,898,720</u>
Total	<u>\$ 8,540,000</u>	<u>\$ 4,735,603</u>	<u>\$ 13,275,603</u>

The District's overall debt margin was \$13,303,940 with an unvoted debt margin of \$237,453 at June 30, 2014.

**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.

**DEFIANCE CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2014

**NOTE 14 – SET ASIDE REQUIREMENTS (CONTINUED)**

	Capital Acquisition
Current year set aside requirement	\$ 436,336
Current year offsets	(436,336)
Cash balance carried forward to FY 2014	-
Total restricted assets	\$ -

**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, and Williams Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member 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 2014, the District paid \$73,035 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 is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of five representatives from the Northwest Ohio Educational Service Center – one each from the counties of Defiance, Fulton, Henry, and Williams and one additional representative; one representative from each of the city school districts; one representative from each of the exempted village school districts. The Four County Career Center possesses its own budgeting and taxing authority. To obtain financial information write to the Four County Career Center, 22-900 State Route 34, Archbold, Ohio 43502.

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2014

**NOTE 15 – JOINTLY GOVERNED ORGANIZATIONS (CONTINUED)**

**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.

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.

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2014

**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 \$1,830,383 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.

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**

**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, 2014.

**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 36, 48 and 60 months beginning in December 2010, October 2011, April 2012, May 2012, February 2013, May 2013, August 2013, and December 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:

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2014

**NOTE 18 – LEASES (CONTINUED)**

<u>Fiscal Year</u>	<u>Amount</u>
2015	\$ 418,172
2016	394,868
2017	269,753
2018	6,528
2019	<u>654</u>
Total	<u>\$ 1,089,975</u>

**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 2014, the Foundation contributed \$13,755 to the District for miscellaneous grant reimbursements.

**NOTE 20 – SUBSEQUENT EVENT**

On August 28, 2014, the District issued \$16,020,000 in voted general obligation bonds for the purpose of paying the local share of the construction of a school facility for grades 6 through 12 under the State of Ohio Classroom Facilities Assistance Program. Also an additional, \$2,985,000 in general obligation bonds were issued to refund a portion of the 2006 OSFC Elementary Building bond issue.

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

<b>FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>	<b>Expenditures</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<i>Passed Through Ohio Department of Education</i>			
<u>Child Nutrition Cluster:</u>			
School Breakfast Program - Cash Assistance	10.553	\$120,143	\$120,143
National School Lunch Program	10.555		
Cash Assistance		607,605	607,605
Non-Cash Assistance (Food Distribution)		89,064	89,064
Total National School Lunch Program		<u>696,669</u>	<u>696,669</u>
Total U.S. Department of Agriculture		<b><u>816,812</u></b>	<b><u>816,812</u></b>
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<i>Passed Through Ohio Department of Education</i>			
<u>Special Education Cluster:</u>			
Special Education Grants to States	84.027	561,440	609,049
Special Education Preschool Grants	84.173	18,427	18,427
Total Special Education Cluster		<u>579,867</u>	<u>627,476</u>
Title I Grants to Local Education Agencies	84.010	556,994	493,714
English Language Acquisition State Grants	84.365	2,985	2,985
Improving Teacher Quality State Grants	84.367	90,819	106,650
ARRA - Race-to-the-Top Incentive Grants, Recovery Act	84.395	2,800	2,800
Total U.S. Department of Education		<b><u>1,233,465</u></b>	<b><u>1,233,625</u></b>
<b>Total Federal Awards Expenditures</b>		<b><u><u>\$2,050,277</u></u></b>	<b><u><u>\$2,050,437</u></u></b>

*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, 2014**

**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 Districts 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 amounts passed through to subrecipients was \$21,412.

**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 entitlement value. The District allocated donated food commodities to the program that benefitted from the use of those donated food commodities.





# 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, the 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, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 12, 2015, 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.

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 a 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 internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider significant deficiencies in internal control. We consider findings 2014-001 and 2014-002 to be significant deficiencies.

***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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2014-003.

***District's Response to Findings***

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the District's responses and, accordingly, we express no opinion on them.

***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

February 12, 2015



# 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's (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 Defiance City School District's major federal programs for the year ended June 30, 2014. The *Summary of Auditor's Results* in the accompanying schedule of findings 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 each of 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.

### ***Opinion on Each Major Federal Program***

In our opinion, Defiance City School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2014.

One Government Center, Suite 1420, Toledo, Ohio 43604-2246  
Phone: 419-245-2811 or 800-443-9276 Fax: 419-245-2484  
[www.ohioauditor.gov](http://www.ohioauditor.gov)

**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.

*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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.



**Dave Yost**  
Auditor of State

Columbus, Ohio

February 12, 2015

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2014**

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unmodified
<b>(d)(1)(ii)</b>	<b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unmodified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510(a)?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Title I Grants to Local Educational Agencies CFDA - #84.010, School Breakfast Program CFDA- #10.553 and National School Lunch Program CFDA - #10.555.
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	No

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

**FINDING NUMBER 2014-001**

**Significant Deficiency – Review of Draft Financial Statements**

Accurate financial reporting is the responsibility of the Treasurer and Board of Education, and is essential to ensure the information provided to the readers of the financial statements accurately reflects the District's activity.

On the budgetary statement the original budget amount for the Regular Instruction expenditures line item account was incorrect. It was \$597,738 greater than what it should be (the approved amounts).

An adjustment was made to the budgetary statement presentation.

We recommend management review the draft financial statements and disclosure information prior to submission to auditors.

**Officials' Response:**

The Treasurer will review the draft financial statements and disclosure information prior to submitting to the auditors for accuracy. Time will be allocated for a complete review of all information.

**FINDING NUMBER 2014-002**

**Noncompliance Citation – Significant Deficiency**

**Ohio Rev. Code § 5705.10(I)** requires money paid into a fund shall be used only for the purposes for which the fund is established.

The District established a maintenance fund to account for an additional tax levied for the maintenance of the elementary facility. These monies can only be used to maintain and repair the completed facilities as identified in the District's Facilities Maintenance Plan (the Plan).

The District expended \$155,524 from the maintenance fund for the purchase of ipads and computers for classroom use at the elementary building (\$145,592) and parking lot paving at the District's bus barn facility (\$9,932). These expenditures are not allowable expenses according to the Plan.

Adjustments were made to the District's records to move the expenditure for the parking lot paving at the bus barn to the General fund. The ipads and computers purchased were moved to the General and Permanent Improvements funds, \$45,000 and \$100,592, respectively. These adjustments were also made to the financial statements.

We recommend the District review all maintenance fund expenditures to verify the expenditures are in accordance with the Plan.

**Officials' Response:**

The Treasurer will review the Maintenance Plan for allowable expenditures and make any needed adjustments to comply with Ohio law.

**FINDING NUMBER 2014-003**

**Noncompliance Citation**

**Ohio Rev. Code § 117.38** provides that 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 Admin. Code § 117-2-03 (B)**, which further clarifies the requirements of Ohio Revised Code § 117.38, requires the District to file annual financial reports which are prepared using generally accepted accounting principles (GAAP).

For fiscal year 2014, the District prepared financial statements on a cash basis of accounting in a format similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34. This presentation differs from accounting principles generally accepted in the United States of America (GAAP). There would be variances on the financial statements between the District's accounting practice and GAAP, while presumably material, cannot be reasonably determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

We recommend the District take the necessary steps to ensure the financial report is prepared 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.

<b>3. FINDINGS FOR FEDERAL AWARDS</b>
---------------------------------------

**None**

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .315 (b)  
JUNE 30, 2014**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2013-001	Ohio Rev. Code §117.38 and Ohio Admin. 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 2014-003 in this report.
2013-002	Ohio Rev. Code § 5705.10 for expenditure charged from improper fund.	No	Not Corrected. Reissued as finding 2014-002 in this report.
2013-003	2 CFR Part 225, Attachment B, §8(h)(4) – Direct salaries charged to Child Nutrition Cluster did not have documentary support.	Yes	
2013-004	2 CFR Part 225 – Indirect costs charged to Child Nutrition Cluster exceeded indirect cost rate.	Yes	





# Dave Yost • Auditor of State

**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  
FEBRUARY 17, 2015**