

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

***BASIC FINANCIAL STATEMENTS
(AUDITED)***

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2018***

OHIO AUDITOR OF STATE KEITH FABER



Board of Education
Defiance City School District
629 Arabella Street
Defiance, Ohio 43512

We have reviewed the *Independent Auditor's Report* of the Defiance City School District, Defiance County, prepared by Julian & Grube, Inc., for the audit period July 1, 2017 through June 30, 2018. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

February 13, 2019

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**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

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Julian & Grube, Inc.

Serving Ohio Local Governments

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Independent Auditor's Report

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying modified cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Defiance City School District, Defiance County, Ohio, as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Defiance City School 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 modified cash accounting basis Note 2 describes. This responsibility includes determining that the modified 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 Defiance City School 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 Defiance City School District's internal control. Accordingly, we express no such 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 modified cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Defiance City School District, Defiance County, Ohio, as of June 30, 2018, and the respective changes in modified cash financial position and the budgetary comparison for the General Fund thereof for the fiscal year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

Ohio Administrative Code § 117-2-03(B) requires the Defiance City School 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. The financial statements are prepared on the modified cash basis of accounting, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

Emphasis of Matters

As discussed in Note 21 to the financial statements, during fiscal year ended June 30, 2018, the Defiance City School District had a prior period adjustment to adjust prior year disbursements in the Capital Projects Fund for capital outlay that did not meet the intent of the Board of Education.

Other Matters

Supplemental Information

Our audit was conducted to opine on the financial statements taken as a whole.

The Schedule of Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

The Schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this Schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this 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, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Information

We applied no procedures to management's discussion & analysis as listed in the table of contents. Accordingly, 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 November 8, 2018, on our consideration of the Defiance City School 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 Defiance City School District's internal control over financial reporting and compliance.



DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2018

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, 2018. 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 2018 are as follows:

In total, the net position decreased \$17,554,163, which represents a 48% decrease from 2017.

General receipts accounted for \$32,281,413 or 86% of all receipts and reflect the District's significant dependence on local property taxes, income taxes and unrestricted state entitlements.

The District had \$55,309,949 in disbursements related to governmental activities; only \$5,474,373 of these disbursements was offset by program specific charges for services and sales or restricted grants, contributions and interest. General receipts and previously unrestricted fund balances supported the remaining disbursements of \$49,835,576 associated with governmental activities.

Outstanding debt decreased from \$23,385,000 to \$23,030,000, due to normal loan payments.

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, Classroom Facilities Fund, and Capital Projects Fund are the most significant funds.

Basis of Accounting

The District has elected to present its financial statements on the modified cash basis of accounting. This modified cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The modified 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 modified cash basis of accounting.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2018**

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 2018. 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

The analysis of the District's Major Funds begins on page 9. Fund financial statements provide detailed information about the District's major funds. While the District uses many funds to account for its financial transactions, the fund financial statements focus on the District's most significant funds. The District's major governmental funds for fiscal year 2018 were the General Fund, Classroom Facilities Fund, and Capital Projects 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 modified 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 modified 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 DISCUSSION AND ANALYSIS
June 30, 2018**

The District as a Whole

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

Table 1 provides a summary of the District's net position for fiscal year 2018 in comparison to fiscal year 2017:

Table 1
Net Position
Governmental Activities

	2018	2017
Equity on pooled cash and investments	\$ 19,071,764	\$ 36,625,927
Net Position		
Restricted for:		
Capital projects	\$ 2,397,207	\$ 20,629,494
Debt service	1,050,957	1,350,358
Other purposes	1,325,870	1,144,453
Unrestricted	14,297,730	13,501,622
Total net position	\$ 19,071,764	\$ 36,625,927

For fiscal year 2018, a portion of the District's net position, \$4,774,034 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 \$14,297,730 may be used to meet the District's ongoing obligations. For fiscal year 2017, these amounts were \$23,124,305 with external restrictions, and \$13,501,622 remaining for general operations. Net Position of the Governmental Activities decreased \$17,554,163, which represents a 48% decrease over fiscal year 2017. The decrease was due to outlays for the construction of the new high school.

Table 2 reflects the changes in net position for fiscal year 2018 as compared to fiscal year 2017:

Table 2
Change in Net Position
Governmental Activities

<u>Receipts</u>	2018	2017
Program Receipts:		
Charges for services	\$ 2,591,613	\$ 2,641,612
Operating grants, contributions and interest	2,869,143	2,904,919
Capital grants, contributions and interest	13,617	18,522
Total program receipts	5,474,373	5,565,053
General receipts:		
Property taxes	7,491,146	7,401,402
Income taxes	1,837,974	1,770,055
Grants and entitlements	22,156,487	36,351,019
Proceeds from sale of capital assets	84,914	3,600
Gifts and donations	88,769	47,641
Interest	282,436	260,988

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
MANAGEMENT DISCUSSION AND ANALYSIS**

June 30, 2018

Table 2 (Continued)

	<u>2018</u>	<u>2017</u>
Insurance recoveries	126,614	120,541
Miscellaneous	213,073	185,115
Total financing sources	<u>32,281,413</u>	<u>46,140,361</u>
Total Receipts	<u>37,755,786</u>	<u>51,705,414</u>

Program Disbursements

Instruction		
Regular	12,020,434	11,415,545
Special	4,147,275	3,644,775
Vocational	423,000	402,988
Student intervention services	82,892	168,823
Other	3,234,817	3,083,753
Support Services		
Pupils	1,964,769	1,673,264
Instructional staff	800,593	831,564
Board of education	62,117	61,204
Administration	1,844,226	1,792,019
Fiscal	544,412	445,775
Operation and maintenance of plant	2,374,272	2,173,356
Pupil transportation	1,338,682	1,135,893
Central	142,085	121,162
Operating of non-instructional services	1,125,490	1,205,693
Extracurricular activities	1,006,409	1,526,240
Capital outlay	22,417,806	29,403,978
Debt services	1,745,588	1,737,513
Refund of prior year receipts	<u>35,082</u>	<u>57,841</u>
Total disbursements	<u>55,309,949</u>	<u>60,881,386</u>
Decrease in net position	<u>\$ (17, 554,163)</u>	<u>\$ (9,175,972)</u>

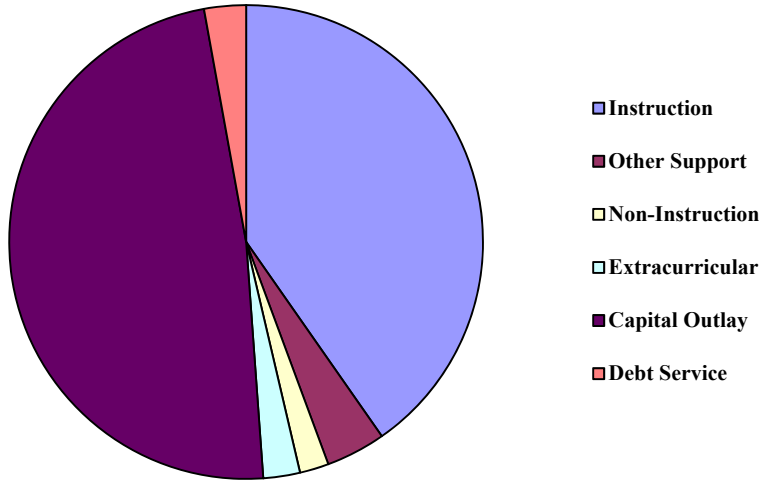
The total disbursements of \$55,309,949 were offset by program receipts of \$5,474,373 and by general receipts of \$32,281,413. Program receipts supported 10% of the total governmental disbursements. The primary sources of general receipts for governmental activities are derived from property taxes, income taxes and grants and entitlements. These receipt sources represent 83% of total governmental receipts.

The major program disbursement for governmental activities is for instruction, which accounts for 36% of all governmental disbursements. Other programs which support the instruction process, including pupils, instructional staff, and pupil transportation account for 7% of governmental disbursements. Maintenance of the District's facilities also represents a significant disbursement, 4%. Therefore, 47% of the District's disbursements are related to the primary functions of providing facilities and delivering education.

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

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
MANAGEMENT DISCUSSION AND ANALYSIS**
June 30, 2018

Governmental Disbursements by Types



Instruction, Pupil, Instructional Staff, Transportation, Operation and Maintenance of Plant (\$26,386,734)

Other Support:

Other Support Services (\$2,627,922)

Food Services and Operation of Non-Instructional Services (\$1,125,490)

Extracurricular Activities (\$1,006,409)

Capital Outlay (\$22,417,806)

Debt Service (\$1,745,588)

Governmental Activities

Table 3 indicates the total cost of services and the net cost of services for governmental activities for 2018 and 2017. 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.

Table 3
Governmental Activities

	Total Cost of Services 2018	Net Cost of Services 2018	Total Cost of Services 2017	Net Cost of Services 2017
Instruction:				
Regular	\$ 12,020,434	\$ 9,764,488	\$ 11,415,545	\$ 9,236,833
Special	4,147,275	2,934,958	3,644,775	2,206,175
Vocational	423,000	281,961	402,988	263,948
Student intervention				
Services	82,892	82,892	168,823	168,823
Other	3,234,817	3,234,817	3,083,753	3,083,753

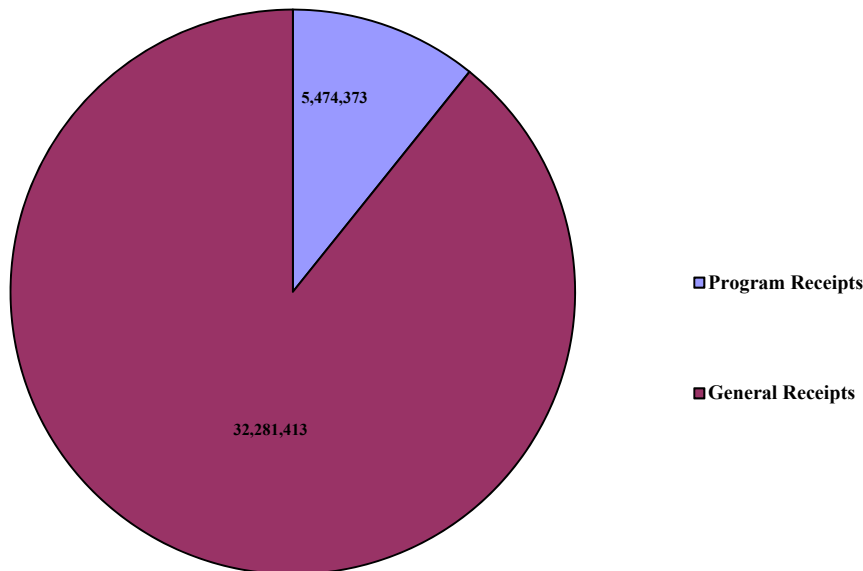
**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2018**

Table 3 (Continued)

Support services:				
Pupils	1,964,769	1,964,769	1,673,264	1,667,588
Instructional staff	800,593	798,113	831,564	813,354
Board of education	62,117	62,117	61,204	61,204
Administration	1,844,226	1,844,226	1,792,019	1,792,019
Fiscal	544,412	533,260	445,775	434,377
Operation and maintenance of plant	2,374,272	2,296,017	2,173,356	2,094,929
Pupil Transportation	1,338,682	1,338,682	1,135,893	1,135,893
Central	142,085	135,942	121,162	114,618
Non-Instructional Services	1,125,490	(106,800)	1,205,693	(11,757)
Extracurricular Activities	1,006,409	521,490	1,526,240	1,093,118
Capital Outlay	22,417,806	22,367,974	29,403,978	29,366,104
Debt Service	1,745,588	1,745,588	1,737,513	1,737,513
Refund of Prior Year Receipts	<u>35,082</u>	<u>35,082</u>	<u>57,841</u>	<u>57,841</u>
Total Disbursements	<u>\$ 55,309,949</u>	<u>\$ 49,835,576</u>	<u>\$ 60,881,386</u>	<u>\$ 55,316,333</u>

The dependence upon tax receipts and unrestricted state entitlements for governmental activities is demonstrated in the previous table. Approximately 82% of instruction activities, 99% of support services, and 99% of capital outlay disbursements are supported through taxes and other general receipts.

Governmental Activities – General vs. Program Receipts



DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2018

The District's Funds

The District's governmental funds are accounted for using the modified cash basis of accounting on the fund financial statements. Including Other Financing Sources and Uses, total governmental funds had receipts of \$37,755,786 and disbursements of \$55,309,949 in fiscal year 2018. The overall negative change for 2018 is \$17,554,163 in fund balance for the fiscal year, primarily attributable to outlays for the construction of the new high school.

General Fund

Fund balance at June 30, 2018 was \$12,300,548, including \$9,262,381 of unassigned fund balance. Unassigned fund balance comprised 75% of the total fund balance. General fund disbursements and other financing uses were \$28,506,053 or 51% of total governmental disbursements.

Classroom Facilities Fund

Fund balance at June 30, 2018 was \$1,886,705, which is a 90% decrease from the amount in FY17 of \$18,845,447 due to the increase in expenditures from the construction of the new high school.

Capital Projects Fund

Fund balance at June 30, 2018 was \$1,997,182, which is a 3% decrease from the amount in FY17 of \$2,050,972 due to completion of the outdoor complex.

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. The statement comparing the District's original and final budget and actual results, for the General Fund, is presented as part of the basic financial statements.

During fiscal year 2018, the District amended its General Fund budget as needed. Final budgeted receipts and other financing sources in the amount of \$29,600,707 were higher than the original budgeted receipts and other financing sources of \$27,523,413, which represented a 8% change. The actual receipts and other financing sources of \$29,568,601 was \$32,106 lower than the final budget amounts.

General fund original budgeted disbursements and other financing uses of \$31,322,346 were decreased to \$30,997,877, which represented a 1% change. The actual disbursements and other financing uses for fiscal year 2018 totaled \$28,970,272 which was \$2,027,605 less than the final budgeted disbursements and other financing uses, due to conservative estimates of disbursements and extreme watching over each and every expenditure.

Debt

The District's outstanding debt obligations at fiscal year-end consisted of Various Purpose and Refunding bonds of \$23,030,000. For further information regarding the District's long-term obligation, see Note 13 to the basic financial statements.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2018

Current Issues

The Defiance City School District continues to be extremely responsible in spending of the tax payer dollars and all other funds for the district. The challenges of the ever-changing economy and state funding continue to be a challenge and the district remains a strong service provider to the students of the Defiance area.

The citizens of the Defiance City Schools' community continue to show strong support of the district by passing levies when needed. The District continues to work with OFCC and meets monthly to meet current deadlines for the new 6-12 Building Project. The district was sensitive to the need to have two separate wings for the complex and there are separate entrances for grades 6-8 and grades 9-12. The location of the new school brings all students in the district together on one large campus by having a connector road linking the two buildings.

The Superintendent, Treasurer, Administrators, Staff and Board of Education continue to aggressively market the District to local and area students to increase enrollment. The all-day kindergarten services, as well as developmental kindergarten and school-wide programs to help combat the outgoing enrollment; are excellent examples of the hard-working staff. The addition of an outstanding Outdoor Complex will also increase the desire of local students to continue the stellar education they receive at Defiance City Schools.

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 Cheryl Swisher, CFO/Treasurer, Defiance City School District, 629 Arabella Street, Defiance, Ohio 43512-2856.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
June 30, 2018

	Governmental Activities
ASSETS	
Equity in Pooled Cash and Investments	\$ 19,071,764
NET POSITION	
Restricted for Debt Service	\$ 1,050,957
Restricted for Capital Outlay	2,397,207
Restricted for Other Purposes	1,325,870
Unrestricted	14,297,730
Total Net Position	\$ 19,071,764

See accompanying notes to the Basic Financial Statements.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	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	\$ 12,020,434	\$ 1,407,807	\$ 848,139	\$ -	\$ (9,764,488)
Special	4,147,275	377,476	834,841	-	(2,934,958)
Vocational	423,000	-	141,039	-	(281,961)
Student Intervention Services	82,892	-	-	-	(82,892)
Other	3,234,817	-	-	-	(3,234,817)
Support Services:					
Pupils	1,964,769	-	-	-	(1,964,769)
Instructional Staff	800,593	-	2,480	-	(798,113)
Board of Education	62,117	-	-	-	(62,117)
Administration	1,844,226	-	-	-	(1,844,226)
Fiscal	544,412	6,047	5,105	-	(533,260)
Operation and Maintenance of Plant	2,374,272	-	78,255	-	(2,296,017)
Pupil Transportation	1,338,682	-	-	-	(1,338,682)
Central	142,085	743	5,400	-	(135,942)
Operation of Non-Instructional Services	1,125,490	353,188	879,102	-	106,800
Extracurricular Activities	1,006,409	410,137	74,782	-	(521,490)
Capital Outlay	22,417,806	36,215	-	13,617	(22,367,974)
Debt Service:					
Principal	655,000	-	-	-	(655,000)
Interest and Fiscal Charges	1,090,588	-	-	-	(1,090,588)
Refund of Prior Year Receipts	35,082	-	-	-	(35,082)
Totals	\$ 55,309,949	\$ 2,591,613	\$ 2,869,143	\$ 13,617	(49,835,576)
General Receipts					
Taxes					
Property Taxes, Levied for General Purposes					6,358,748
Property Taxes, Levied for Debt Service					1,030,075
Property Taxes, Levied for Other					102,323
Income Taxes					1,837,974
Grants and Entitlements not Restricted to Specific Programs					22,156,487
Gifts and Donations					88,769
Investment Earnings					282,436
Miscellaneous					213,073
Other Receipts:					
Proceeds from Sale of Capital Assets					84,914
Insurance Recoveries					126,614
Total General Receipts					32,281,413
Change in Net Position					(17,554,163)
Net Position Beginning of Year					36,625,927
Net Position End of Year					\$ 19,071,764

See accompanying notes to the Basic Financial Statements.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
STATEMENT OF MODIFIED CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
June 30, 2018

	<u>General Fund</u>	<u>Classroom Facilities Fund</u>	<u>Capital Projects</u>	<u>All Other Governmental</u>	<u>Total Governmental Funds</u>
ASSETS					
Current Assets					
Equity in Pooled Cash and Investments	\$ 12,300,548	\$ 1,886,705	\$ 1,997,182	\$ 2,887,329	\$ 19,071,764
<i>Total Assets</i>	<u>\$ 12,300,548</u>	<u>\$ 1,886,705</u>	<u>\$ 1,997,182</u>	<u>\$ 2,887,329</u>	<u>\$ 19,071,764</u>
FUND BALANCES					
Restricted	\$ 20,184	\$ 1,886,705	\$ -	\$ 2,890,624	\$ 4,797,513
Committed	-	-	1,997,182	-	1,997,182
Assigned	3,017,983	-	-	-	3,017,983
Unassigned	<u>9,262,381</u>	<u>-</u>	<u>-</u>	<u>(3,295)</u>	<u>9,259,086</u>
<i>Total Fund Balances</i>	<u>\$ 12,300,548</u>	<u>\$ 1,886,705</u>	<u>\$ 1,997,182</u>	<u>\$ 2,887,329</u>	<u>\$ 19,071,764</u>

See accompanying notes to the Basic Financial Statements.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN MODIFIED CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>General Fund</u>	<u>Classroom Facilities Fund</u>	<u>Capital Projects</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
RECEIPTS					
Property and Other Local Taxes	\$ 6,358,748	\$ -	\$ -	\$ 1,132,398	\$ 7,491,146
Income Tax	1,837,974	-	-	-	1,837,974
Intergovernmental	18,742,811	3,731,263	-	2,565,173	25,039,247
Interest	93,215	120,004	13,430	55,787	282,436
Tuition and Fees	1,785,283	-	-	-	1,785,283
Rent	35,063	-	-	1,152	36,215
Extracurricular Activities	57,559	-	-	352,578	410,137
Gifts and Donations	13,913	-	-	74,856	88,769
Customer Sales					
and Services	6,790	-	-	333,082	339,872
Miscellaneous	148,586	-	-	20,112	168,698
<i>Total Receipts</i>	<u>29,079,942</u>	<u>3,851,267</u>	<u>13,430</u>	<u>4,535,138</u>	<u>37,479,777</u>
DISBURSEMENTS					
Instruction					
Regular	11,766,206	-	-	254,228	12,020,434
Special	2,927,546	-	-	1,219,729	4,147,275
Vocational	423,000	-	-	-	423,000
Student					
Intervention Services	72,574	-	-	10,318	82,892
Other	3,234,817	-	-	-	3,234,817
Support Services					
Pupils	1,916,401	-	-	48,368	1,964,769
Instructional Staff	794,904	-	-	5,689	800,593
Board of Education	62,117	-	-	-	62,117
Administration	1,838,353	-	-	5,873	1,844,226
Fiscal	519,766	-	40	24,606	544,412
Operation and					
Maintenance of Plant	2,245,092	-	-	129,180	2,374,272
Pupil Transportation	1,321,652	-	-	17,030	1,338,682
Central	140,117	-	-	1,968	142,085
Operation of Non-					
Instructional Services	-	-	-	1,125,490	1,125,490
Extracurricular Activities	626,915	-	-	379,494	1,006,409
Capital Outlay	228,836	20,810,009	67,180	1,311,781	22,417,806
Debt Service					
Principal	300,000	-	-	355,000	655,000
Interest	52,675	-	-	1,037,913	1,090,588
<i>Total Disbursements</i>	<u>28,470,971</u>	<u>20,810,009</u>	<u>67,220</u>	<u>5,926,667</u>	<u>55,274,867</u>
<i>Excess of Receipts Over</i>					
(Under) Disbursements	608,971	(16,958,742)	(53,790)	(1,391,529)	(17,795,090)
OTHER FINANCING SOURCES (USES)					
Proceeds from Sale of Capital Assets	84,914	-	-	-	84,914
Refund of Prior Year Expenditures	64,481	-	-	-	64,481
Insurance Recoveries	126,614	-	-	-	126,614
Refund of Prior Year Receipts	(35,082)	-	-	-	(35,082)
<i>Total Other Financing Sources (Uses)</i>	<u>240,927</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>240,927</u>
<i>Net Change in Fund Balances</i>	849,898	(16,958,742)	(53,790)	(1,391,529)	(17,554,163)
<i>Fund Balance at Beginning of Year (Restated)</i>	11,450,650	18,845,447	2,050,972	4,278,858	36,625,927
<i>Fund Balance at End of Year</i>	<u>\$ 12,300,548</u>	<u>\$ 1,886,705</u>	<u>\$ 1,997,182</u>	<u>\$ 2,887,329</u>	<u>\$ 19,071,764</u>

See accompanying notes to the Basic Financial Statements.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET (NON-GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Original Budget	Final Budget	Actual	Variance With Final Budget
REVENUES				
Property and Other Local Taxes	\$ 5,063,761	\$ 6,358,748	\$ 6,358,748	\$ -
Income Tax	1,770,055	1,837,974	1,837,974	-
Intergovernmental	18,881,224	18,732,737	18,742,811	10,074
Interest	40,056	89,114	93,048	3,934
Tuition and Fees	1,559,463	1,761,714	1,709,148	(52,566)
Rent	15,599	34,977	35,063	86
Extracurricular Activities	-	-	-	-
Gifts and Donations	967	9,967	7,767	(2,200)
Customer Sales and Services	6,872	1,144	6,790	5,646
Miscellaneous	181,822	144,735	148,568	3,833
<i>Total Revenues</i>	<u>27,519,819</u>	<u>28,971,110</u>	<u>28,939,917</u>	<u>(31,193)</u>
EXPENDITURES				
Current Instruction				
Regular	12,328,151	11,788,026	11,696,911	91,115
Special	3,618,784	3,034,711	2,927,098	107,613
Vocational	446,711	438,156	423,085	15,071
Student Intervention Services	60,142	99,928	72,574	27,354
Other	3,185,196	3,266,768	3,251,860	14,908
Support Services				
Pupils	1,857,497	1,994,978	1,918,026	76,952
Instructional Staff	906,090	854,317	805,327	48,990
Board of Education	79,443	84,305	64,167	20,138
Administration	2,008,369	2,080,038	1,946,596	133,442
Fiscal	496,046	550,189	521,899	28,290
Operation and Maintenance of Plant	2,947,806	2,569,602	2,309,332	260,270
Pupil Transportation	1,491,260	1,382,497	1,321,802	60,695
Central	107,334	151,834	140,117	11,717
Extracurricular Activities				
Academic Oriented Activities	152,224	154,659	147,748	6,911
Sport Oriented Activities	420,734	444,276	404,199	40,077
School and Public				
Service Co-Curricular Activities	14,357	19,127	17,660	1,467
Capital Outlay				
Building Improvement Services	537,179	528,441	212,763	315,678
Other Facilities Acquisition and Construction	39,690	48,690	48,109	581
Debt Service				
Principal	300,000	300,000	300,000	-
Interest	52,920	52,920	52,675	245
<i>Total Expenditures</i>	<u>31,049,933</u>	<u>29,843,462</u>	<u>28,581,948</u>	<u>1,261,514</u>
Excess of Revenues Over (Under) Expenditures	(3,530,114)	(872,352)	357,969	1,230,321
OTHER FINANCING SOURCES (USES)				
Transfers In	-	352,675	352,675	-
Proceeds from Sale of Capital Assets	3,200	84,914	84,914	-
Insurance Recoveries	-	126,614	126,614	-
Refund of Prior Year Expenditures	394	65,394	64,481	(913)
Transfers Out	(232,379)	(1,118,381)	(353,242)	765,139
Refund of Prior Year Receipts	(40,034)	(36,034)	(35,082)	952
Total Other Financing Sources (Uses)	<u>(268,819)</u>	<u>(524,818)</u>	<u>240,360</u>	<u>765,178</u>
Net Change in Cash Basis Fund Balances	(3,798,933)	(1,397,170)	598,329	1,995,499
<i>Fund Balance at Beginning of Year (restated)</i>	11,290,280	11,290,280	11,290,280	-
<i>Prior Year Encumbrances Appropriated</i>	67,873	67,873	67,873	-
<i>Fund Balance at End of Year</i>	<u>\$ 7,559,220</u>	<u>\$ 9,960,983</u>	<u>\$ 11,956,482</u>	<u>\$ 1,995,499</u>

See accompanying notes to the Basic Financial Statements.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
STATEMENT OF FIDUCIARY NET POSITION - MODIFIED CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2018

	Private Purpose Trust	Agency
ASSETS		
Current Assets		
Equity in Pooled Cash and Investments	\$ 14,266	\$ 68,855
LIABILITIES		
Current Liabilities:		
Undistributed Monies		\$ 68,855
NET POSITION		
Held in Trust for Scholarships	\$ 14,266	

See accompanying notes to the Basic Financial Statements.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
MODIFIED CASH BASIS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	Private Purpose Trust
ADDITIONS:	
Gifts and contributions	\$ 6,214
Miscellaneous	8,000
Total additions	14,214
DEDUCTIONS:	
Payments in accordance with trust agreements	13,987
Total deductions	13,987
Changes in net position	227
Net position beginning of year	14,039
Net position end of year	\$ 14,266

See accompanying notes to the Basic Financial Statements.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

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 127 classified employees and 199 certified teaching personnel who provide services to 2,675 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 Defiance City School District, this includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the 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 State Support Team Region 1, the Educational Regional Service System, the Northern Buckeye Health Plan/OHI, and the Northern Buckeye Health Plan's Workers' Compensation Group Rating Plan. These organizations are presented in Notes 15 and 16 to the basic financial statements.

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

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are presented on the modified cash basis of accounting. The modified 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 modified cash basis of accounting. Following are the more significant of the District's accounting policies.

A. Basis of Presentation

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

Government-Wide Financial Statements

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

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

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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:

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 funds are the General Fund, the Classroom Facilities Fund, and the Capital Projects 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.

Classroom Facilities Fund – The Classroom Facilities Fund is used to account for revenues and expenditures in connection with contracts entered into by the school district and the Ohio Facilities Construction Commission for the building and equipping of classroom facilities.

Capital Projects Fund – The Capital Projects Fund is used to account for revenues and expenditures for acquisition, construction, or improvement of capital assets.

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 assets 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

The District's financial statements are prepared using the *modified* cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the District are described in the appropriate section in this note.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 modified 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.

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 when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

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, 2017 unencumbered fund balances. However, those fund balances are available for appropriations.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 Investments" on the financial statements.

During fiscal year 2018, investments included negotiable certificates of deposit, federal agency securities, mutual funds, money market accounts, treasury bonds, and STAR Ohio. Negotiable certificates of deposit and federal agency securities are reported at fair 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 has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The School District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

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 2018 was \$93,215, which includes \$167 assigned from other funds.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 modified 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 modified 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.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.”

Net position restricted for other purposes include resources primarily restricted for food service and classroom facilities and maintenance tax levy proceeds, which are 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, 2018.

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.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications can be used.

NOTE 3 – 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 modified 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.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

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 School 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, 2018 for the major governmental funds and all other governmental funds are presented as follows:

<u>Fund Balance</u>	<u>General</u>	<u>Classroom Facilities</u>	<u>Capital Projects</u>	<u>All Other Government Funds</u>	<u>Total</u>
Restricted for:					
Debt payment	\$ -	\$ -	\$ -	\$ 1,050,957	\$ 1,050,957
Food service operations	-	-	-	425,297	425,297
Regular instruction	-	-	-	864	864
Auxiliary services	-	-	-	77,234	77,234
Fiscal	-	-	-	5,400	5,400
District managed activity	-	-	-	73,711	73,711
Special instruction	-	-	-	459	459
Students	-	-	-	3	3
Capital improvements	-	1,886,705	-	1,256,699	3,143,404
School bus	<u>20,184</u>	-	-	-	<u>20,184</u>
Total restricted	<u>20,184</u>	<u>1,886,705</u>	<u>-</u>	<u>2,890,624</u>	<u>4,797,513</u>
Committed to:					
Capital improvements	-	-	1,997,182	-	1,997,182
Assigned to:					
Unpaid obligations	252,237	-	-	-	252,237
Future appropriations	2,717,582	-	-	-	2,717,582
Other purposes	<u>48,164</u>	-	-	-	<u>48,164</u>
Total assigned	<u>3,017,983</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,017,983</u>
Unassigned	<u>9,262,381</u>	<u>-</u>	<u>-</u>	<u>(3,295)</u>	<u>9,259,086</u>
Total fund balances	<u>\$ 12,300,548</u>	<u>\$ 1,886,705</u>	<u>\$ 1,997,182</u>	<u>\$ 2,887,329</u>	<u>\$ 19,071,764</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.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 5 – BUDGETARY BASIS OF ACCOUNTING (CONTINUED)

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

<u>Net Change in Fund Balance</u>	<u>General Fund</u>
Modified cash basis (as reported)	\$ 849,898
Outstanding encumbrances	(252,032)
Perspective difference:	
Activity of funds reclassified for for cash reporting purposes	463
Budgetary basis	\$ 598,329

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;

DEFIANCE CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 6 – DEPOSITS AND INVESTMENTS (CONTINUED)

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 and with certain limitations bonds and other obligations of political subdivisions of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
7. The State Treasurer's investment pool (STAR Ohio); and
8. 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;

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Defiance City School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$1,149,902 of the School District's bank balance of \$1,399,902 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

The School District has no deposit policy for custodial risk beyond the requirements of State Statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 6 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments

Investments are reported at fair value. As of June 30, 2018, the District had the following investments:

<u>Description</u>	<u>Fair Value</u>	<u>Maturity (Years)</u>	
		<u>Less Than 1</u>	<u>1-5</u>
Federal Home Loan Mortgage Corporation (FHLMC)	\$ 737,342	\$ -	\$ 737,342
Federal National Mortgage Association (FNMA)	99,823	99,823	-
US Treasury Bonds	150,000	150,000	-
MSILF Mutual Fund	366,998	366,998	-
Negotiable Certificates of Deposit	4,935,150	1,282,049	3,653,101
Money Market Mutual Funds/Cash	5,551,339	5,551,339	-
STAR Ohio	6,207,636	6,207,636	-
Total	<u>\$ 18,048,288</u>	<u>\$ 13,657,845</u>	<u>\$ 4,390,443</u>

C. Interest Rate Risk

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

D. Credit Risk

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

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 6 – DEPOSITS AND INVESTMENTS (CONTINUED)

E. Custodial Credit Risk

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

F. Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer, however State statute limits investments in commercial paper and bankers' acceptances to 25% of the interim monies available for investment at any one time. The District's investments in Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation represents 1% and 4%, 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, 1992, 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 and public utility property located in the area served by the District. Real property tax revenues received in calendar year 2018 represent the collection calendar year 2017 taxes. Real property taxes received in calendar year 2018 were levied after April 1, 2017, on the assessed values as of January 1, 2017, 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
June 30, 2018

NOTE 8 – PROPERTY TAXES (Continued)

Public utility real and tangible personal property taxes for 2018 were levied after April 1, 2017, on the assessed values as of December 31, 2016, 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, 2018, are available to finance fiscal year 2019 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 2018 taxes were collected are:

	2017 Second-Half Collections		2018 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/residential	\$ 191,766,790	77.86	\$ 203,701,510	77.92
Industrial/commercial	38,347,310	15.57	40,813,220	15.61
Public utility	16,192,560	6.57	16,910,260	6.47
Total assessed value	<u>\$ 246,306,660</u>	<u>100.00</u>	<u>\$ 261,424,990</u>	<u>100.00</u>
Total rate per \$1,000 of assessed valuation	\$ 48.90		\$ 49.20	

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
June 30, 2018

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 2018, the District contracted for the following insurance coverage:

	Amount of Coverage
The Liberty Mutual Insurance Company:	
General Liability	
Per Occurrence	\$ 1,000,000
Total per Year	2,000,000
Umbrella Liability	
Per Occurrence	10,000,000
Total per Year	10,000,000
Building and contents	123,869,037
The Liberty Mutual 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

Pensions are a component of exchange transactions - between an employer and its employees - of salaries and benefits for employee services. Pensions are provided to an employee - on a deferred-payment basis – as part of the total compensation package offered by an employer for employee services each financial period.

The net pension liability represents the District’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the District’s obligation for this liability to annually required payments. The District cannot control benefit terms or the manner in which pensions are financed; however, the District does receive the benefit of employees’ services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholding from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018**

NOTE 10 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

Plan Description – School Employees Retirement System (SERS)

Plan Description – the District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before <u>August 1, 2017*</u>	Eligible to Retire on or after <u>August 1, 2017</u>
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit or Age 55 with 25 years of service credit	Age 62 with 10 years of service credit or Age 60 with 25 years of service credit

*Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2018, the allocation to pension, death benefits, and Medicare B was 13.5 percent. The remaining .5 percent was allocated to the Health Care Fund.

The District’s contractually required contribution to SERS was \$607,775 for the fiscal year 2018.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 10 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

Plan Description – State Teachers Retirement System (STRS)

Plan Description – the District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307.

The DB Plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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 both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

New members who choose the DC Plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

**DEFIANCE CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018**

NOTE 10 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become 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.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2018, plan members were required to contribute 14 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was \$1,786,356 for fiscal year 2018.

Net Pension Liability

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability			
Pension Liability	\$ 6,373,141	\$24,986,716	\$31,359,857
Proportion of the Net Pension Liability Prior Measurement Date	0.1074409%	0.10153035%	
Proportion of the Net Pension Liability Current Measurement Date	<u>0.1066674%</u>	<u>0.10518413%</u>	
Change in Proportionate Share	<u>(0.0007735%)</u>	<u>0.00365378%</u>	

Actuarial Assumptions – SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement NO. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 10 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee’s entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2017, are presented below:

Wage Inflation	3.00 Percent
Future Salary Increases, including Inflation	3.50 percent to 18.2 percent
COLA or Ad Hoc COLA	2.5 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

Prior to 2017, an assumption of 3 percent was used for COLA or Ad Hoc COLA.

For 2017, the mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates, and 110 percent of female rates. Mortality among disabled members were based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

The most recent experience study was completed for the five-year period ended June 30, 2015.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS’ *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating an arithmetic-weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	<u>10.00</u>	3.00
Total	<u>100.00</u> %	

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018**

NOTE 10 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

Discount Rate The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
The District's proportionate share of the net pension liability	\$ 8,844,265	\$ 6,373,141	\$4,303,072

Actuarial Assumptions – STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2017 actuarial valuation, compared with July 1, 2016 are presented below:

	July 1, 2017	July 1, 2016
Inflation	2.50 percent	2.75 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation	7.75 percent, net of investment expenses, including inflation
Payroll Increases	3.00 percent	3.50 percent
Cost-of-Living Adjustment	0.00 percent, effective July 1, 2017	2.00 percent simple applied as follows: for members retiring before August 1, 2013, 2.00 percent per year, for members retiring August 1, 2013, or later, 2.00 percent COLA commences on fifth anniversary of retirement date.

For the July 1, 2017 actuarial valuation, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016. Preretirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 10 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

For the July 1, 2016 actuarial valuation, mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022 – Scale AA) for Males and Females. Males’ ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above.

Actuarial assumptions used in the July 1, 2017 valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016. Actuarial assumptions used in the June 30, 2016 valuation are based on the results of an actuarial experience study effective July 1, 2012.

STRS’ investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	<u>1.00</u>	2.25
Total	<u>100.00</u> %	

*10-Year geometric nominal returns, which include the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS; investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

Discount Rate The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included.

Based on those assumptions, STRS’ fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2017.

DEFIANCE CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 10 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

Sensitivity of the District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the District’s proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.45 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current rate:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
The District’s proportionate share of the net pension liability	<u>\$ 35,817,606</u>	<u>\$ 24,986,716</u>	<u>\$15,863,313</u>

NOTE 11 - DEFINED BENEFIT OPEB PLANS

Net OPEB Liability

For fiscal year 2018, Governmental Accounting Standards Board (GASB) Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions” was effective. This GASB pronouncement had no effect on beginning net position as reported June 30, 2017, as the net OPEB liability is not reported in the accompanying financial statements. The net OPEB liability has been disclosed below.

OPEB is a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. OPEB are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

The net OPEB liability represents the School District’s proportionate share of each OPEB plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan’s fiduciary net position. The net OPEB liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting these estimates annually.

The Ohio Revised Code limits the School District’s obligation for this liability to annually required payments. The School District cannot control benefit terms or the manner in which OPEB are financed; however, the School District does receive the benefit of employees’ services in exchange for compensation including OPEB.

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

DEFIANCE CITY SCHOOL DISTRICT
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NOTE 11 - DEFINED BENEFIT OPEB PLANS (CONTINUED)

Plan Description - School Employees Retirement System (SERS)

Health Care Plan Description - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Chapter 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, 0.5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was \$23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the School District's surcharge obligation was \$26,301.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School District's contractually required contribution to SERS was \$80,309 for fiscal year 2018.

Plan Description - State Teachers Retirement System (STRS)

Plan Description - The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 11 - DEFINED BENEFIT OPEB PLANS (CONTINUED)

Funding Policy - Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to post-employment health care.

Net OPEB Liability

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The School District's proportion of the net OPEB liability was based on the School District's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net OPEB liability prior measurement date	0.1079593%	0.1051841%	
Proportion of the net OPEB liability current measurement date	<u>0.10795930%</u>	<u>0.10518410%</u>	
Change in proportionate share	<u>0.00000000%</u>	<u>0.00000000%</u>	
Proportionate share of the net OPEB liability	\$ 2,897,344	\$ 4,103,897	\$ 7,001,241

Actuarial Assumptions - SERS

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

**DEFIANCE CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018**

NOTE 11 - DEFINED BENEFIT OPEB PLANS (CONTINUED)

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2017, are presented below:

Wage inflation	3.00 percent
Future salary increases, including inflation	3.50 percent to 18.20 percent
Investment rate of return	7.50 percent net of investments expense, including inflation
Municipal bond index rate:	
Measurement date	3.56 percent
Prior measurement date	2.92 percent
Single equivalent interest rate, net of plan investment expense, including price inflation:	
Measurement date	3.63 percent
Prior measurement date	2.98 percent
Medical trend assumption:	
Medicare	5.50 to 5.00 percent
Pre-Medicare	7.50 to 5.00 percent

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

The most recent experience study was completed for the five-year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 11 - DEFINED BENEFIT OPEB PLANS (CONTINUED)

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	<u>100.00 %</u>	

Discount Rate - The discount rate used to measure the total OPEB liability at June 30, 2017 was 3.63 percent. The discount rate used to measure total OPEB liability prior to June 30, 2017 was 2.98 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the State statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.56 percent, as of June 30, 2017 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates - The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.63%) and higher (4.63%) than the current discount rate (3.63%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.5% decreasing to 4.0%) and higher (8.5% decreasing to 6.0%) than the current rate.

	<u>1% Decrease (2.63%)</u>	<u>Current Discount Rate (3.63%)</u>	<u>1% Increase (4.63%)</u>
School District's proportionate share of the net OPEB liability	\$ 3,498,212	\$ 2,897,344	\$ 2,420,749

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DEFIANCE COUNTY
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NOTE 11 - DEFINED BENEFIT OPEB PLANS (CONTINUED)

	1% Decrease (6.5 % decreasing to 4.0 %)	Current Trend Rate (7.5 % decreasing to 5.0 %)	1% Increase (8.5 % decreasing to 6.0 %)
School District's proportionate share of the net OPEB liability	\$ 2,350,978	\$ 2,897,344	\$ 3,620,469

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2017, actuarial valuation are presented below:

Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment rate of return	7.45 percent, net of investment expenses, including inflation
Payroll increases	3 percent
Cost-of-living adjustments (COLA)	0.0 percent, effective July 1, 2017
Blended discount rate of return	4.13 percent
Health care cost trends	6 to 11 percent initial, 4.5 percent ultimate

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Since the prior measurement date, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

DEFIANCE CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 11 - DEFINED BENEFIT OPEB PLANS (CONTINUED)

Also, since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. Subsequent to the current measurement date, the date for discontinuing remaining Medicare Part B premium reimbursements was extended to January 2020.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Rate of Return *
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
 Total	 <u>100.00 %</u>	

* 10 year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actual rate of return, without net value added by management.

Discount Rate - The discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. The OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2037. Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected benefit payments through the fiscal year ending June 30, 2036 and the Bond Buyer 20-year municipal bond rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 11 - DEFINED BENEFIT OPEB PLANS (CONTINUED)

Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rate - The following table represents the net OPEB liability as of June 30, 2017, calculated using the current period discount rate assumption of 4.13 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.13 percent) or one percentage point higher (5.13 percent) than the current assumption. Also shown is the net OPEB liability as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
School District's proportionate share of the net OPEB liability	\$ 5,509,415	\$ 4,103,897	\$ 2,993,078

	1% Decrease	Current Trend Rate	1% Increase
School District's proportionate share of the net OPEB liability	\$ 2,851,211	\$ 4,103,897	\$ 5,752,577

NOTE 12 – OTHER EMPLOYEE BENEFITS

Compensated Absences

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

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.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 13 – LONG-TERM OBLIGATIONS

Changes in the District’s long-term obligations during fiscal year 2018 were as follows:

	<u>Interest Rate</u>	<u>Balance 06/30/17</u>	<u>New Issues</u>	<u>Reductions</u>	<u>Balance 06/30/18</u>	<u>Due Within One Year</u>
2014 Various Purpose Bonds						
Serial Bonds	1.5-5.0%	\$ 8,250,000	\$ -	\$ 315,000	\$ 7,935,000	\$ 370,000
Term Bonds	5.0%	3,595,000	-	-	3,595,000	-
Term Bonds	5.0%	6,635,000	-	-	6,635,000	-
2015 Refunding Bonds						
Serial Bonds	1.0-4.0%	4,115,000	-	40,000	4,075,000	40,000
Capital Appreciation Bonds	8.90%	175,000	-	-	175,000	-
Term Bonds	3.25%	615,000	-	-	615,000	-
Total Governmental						
Long Term Obligations		<u>\$ 23,385,000</u>	<u>\$ -</u>	<u>\$ 355,000</u>	<u>\$ 23,030,000</u>	<u>\$ 410,000</u>

2014 Various Purpose Bonds – On August 28, 2014, the District issued \$19,005,000 in voted general obligation bonds for constructing, improving, making additions to school buildings and related site development, and retiring bonds previously issued for such purposes. The bond issue included serial and term bonds in the amounts of \$8,775,000 and \$10,230,000, respectively. The bonds will be retired with a voted property tax levy from the debt service fund.

2014 Serial Bonds – The Current Interest Bonds were issued for a twenty-fiscal year period with final maturity on December 1, 2034. The remaining principal amount to be redeemed as of June 30, 2018, is \$7,935,000.

2014 Term Bonds - The Term Bonds maturing on December 1, 2039 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, 2035 for \$615,000, December 31, 2036 for \$695,000, December 1, 2037 for \$735,000 and December 31, 2038 for \$775,000. The remaining \$775,000 principal amount of the Bonds due December 1, 2039 is to be paid at stated maturity.

The Term Bonds maturing on December 1, 2046 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, 2040 for \$815,000, December 31, 2041 for \$855,000, December 1, 2042 for \$900,000, December 31, 2043 for \$945,000, December 1, 2044 for \$990,000 and December 31, 2045 for \$1,040,000. The remaining \$1,090,000 principal amount of the Bonds due December 1, 2046 is to be paid at stated maturity.

2015 Refunding Bonds – On May 11, 2015, the District issued \$4,990,000 in voted general obligation bonds for retiring bonds previously issued. The bond issued included serial, capital appreciation and term bonds in the amounts of \$4,200,000, \$175,000 and \$615,000, respectively. The bonds will be retired with a voted property tax levy from the debt service fund.

2015 Serial Bonds – The Current Interest Bonds were issued for a nineteen-fiscal year period with final maturity on December 1, 2033. The remaining principal amount to be redeemed as of June 30, 2018, is \$4,075,000.

DEFIANCE CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 13 – LONG-TERM OBLIGATIONS (CONTINUED)

2015 Capital Appreciation Bonds – The Capital Appreciation Bonds will mature December 31, 2027. Interest on the bonds will accrue from the date of delivery until maturity at the stated interest. Interest on the Capital Appreciation Bonds will compound semiannually, but will be payable only at maturity.

2015 Term Bonds – The Term Bonds maturing on December 1, 2026 are subject to mandatory sinking fund redemption at redemption price of 100% of the principal amount to be redeemed, plus accrued interest to date of redemption, on December 1, 2023 for \$45,000, December 31, 2024 for \$45,000 and December 31, 2025 for \$50,000. The remaining \$475,000 principal amount of the bonds due December 1, 2026 is to be paid at stated maturity.

Payment requirements to retire general obligation debt at June 30, 2018 are as follows:

<u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$410,000	\$1,031,813	\$1,441,813
2020	420,000	1,024,176	1,444,176
2021	440,000	1,015,176	1,455,176
2022	520,000	997,951	1,517,951
2023	560,000	972,376	1,532,376
2024-2028	3,300,000	4,759,708	8,059,708
2029-2033	5,230,000	3,555,464	8,785,464
2034-2038	3,965,000	2,471,582	6,436,582
2039-2043	4,120,000	1,547,750	5,667,750
2044-2047	<u>4,065,000</u>	<u>418,625</u>	<u>4,483,625</u>
Total	<u>\$23,030,000</u>	<u>417,794,621</u>	<u>\$40,824,621</u>

NOTE 14 – SET ASIDE REQUIREMENTS

The District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year-end. These amounts must be carried forward and used for the same purposes in future years.

The following cash basis information describes the change in the year-end set-aside amounts for textbooks and capital acquisition. Disclosure of this information is required by State statute.

	<u>Capital</u>
	<u>Acquisition</u>
Current year set aside requirement	\$ 457,526
Current year offsets	(457,526)
Cash balance carried forward to FY 2018	-
Set-aside cash balance as of June 30, 2018	<u>\$ -</u>

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

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 2018, the District paid \$128,334 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, Connie Nicely, who serves as Treasurer, 22-900 State Route 34, Archbold, Ohio 43502.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 15 – JOINTLY GOVERNED ORGANIZATIONS (CONTINUED)

D. State Support Team Region 1

The State Support Team Region 1 (the "SSTR1") 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 SSTR1 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 State Support Team Region 1, 2275 Collingwood Blvd., Toledo, Ohio 43620.

E. Educational Regional Service System

The Educational Regional Services System (System) is a jointly governed organization among the school districts located in Defiance, Fulton, Hancock, Henry, Lucas, Ottawa, Paulding, Putnam, Sandusky, Seneca, Van Wert, Williams, and Wood Counties. House Bill 115 established the System and required the creation of a coordinated, integrated and aligned system to support state and school district efforts to improve school effectiveness and student achievement.

The System is a 16-region system consisting of a State Regional Alliance Advisory Board, an advisory council and 5 specialized subcommittees for each of the 16 regions, a fiscal agent for each region, educational service centers, special education regional resource centers, data acquisition sites, and other regional service providers. The 34-member State Regional Alliance Advisory Board is not a policymaking body. Members are to receive no compensation. The Board's duties are to promote communication and coordination among the State Board of Education, the Department of Education, fiscal agents, advisory councils, and customers of the System. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from the Educational Service Center of Lake Erie West, 2275 Collingwood, Toledo, Ohio 43620.

NOTE 16 – GROUP PURCHASING POOLS

A. Employee Insurance Benefits Program

The District participates in a group health insurance pool through the Northern Buckeye Health Plan (NBHP), Northwest Division of Optimal Health Initiative Consortium (OHI) Insurance Benefits Program. NBHP is a joint self-insurance arrangement created pursuant to the authority vested in Ohio Rev. Code Section 9.833. NBHP is a public entity shared risk pool consisting of educational entities located in Defiance, Fulton, Henry, and Williams Counties. NBHP is governed by OHI and its participating members.

The District contributed a total of \$3,193,697 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.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 16 – GROUP PURCHASING POOLS (Continued)

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 group was formed to create a workers' compensation group rating plan which would allow employers to group together to achieve a potentially lower premium rate than they may otherwise be able to acquire as individual employers. NBH has created a workers' compensation group rating and risk management program which will potentially reduce the workers' compensation premiums for the District.

NBHP has retained Sheakley Uniservice as the servicing agent to perform administrative, actuarial cost control, claims, and safety consulting services and unemployment claims services for program participants

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, 2018.

Litigation

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

Foundation Funding

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the School District, which can extend past the fiscal year-end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2018 Foundation funding for the School District; therefore, the financial statement impact is not determinable at this time.

NOTE 18 – LEASES

The District has entered into several leases for RICOH workroom equipment, copiers, printers and a duplicator and stand with Marlin Leasing. These leases are in terms of 60 months beginning in December 2013, August 2014, and January 2018.

The District has also entered into a lease agreement with Hewlett-Packard Financial Services in June 2017 for Chrome Books. The lease is for a term of three years.

The District has also entered into a lease agreement with Kansas City Bank in September 2016 for Chrome Books. The lease is for a term of three years.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 8 – LEASES (CONTINUED)

The District has also entered into several leases for busses with Deland Public Financing and TCF Financing. These leases are in terms of 48 months beginning in July 2016 and April 2018.

The District has entered into a lease with the State Bank and Trust Company to provide for the construction, enlarging, improving, furnishing and equipping of school facilities. The lease is for a term of four years with seven annual renewal periods and one eighth renewal period of five months.

Future lease payments are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2019	\$ 739,844
2020	583,093
2021	437,873
2022	394,026
2023	381,932
2024	<u>369,471</u>
Total	<u>\$ 2,906,239</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 2018, the Foundation contributed \$14,421 to the District for miscellaneous grant reimbursements.

NOTE 20 – CONTRACTUAL COMMITMENTS

As of June 30, 2017, the District has commitments with the following companies for the construction project.

<u>Contractor</u>	<u>Amount Remaining On Contract</u>
Beilharz Architects Inc.	\$ 226,238
Four Seasons Construction, LLC	48,336
Regency Construction Services, Inc.	22,669
Rudolph Libbe, Inc.	<u>472,409</u>
Total	<u>\$ 769,652</u>

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 21 – RESTATEMENT OF FUND BALANCES

For fiscal year 2018, the District adjusted prior year disbursements in the Capital Projects Fund for capital outlay that did not meet the intent of the Board of Education.

	General Fund	Capital Projects Fund
	<u> </u>	<u> </u>
Fund balance at June 30, 2017	\$ 11,757,385	\$ 1,744,237
Adjustments to capital outlay	<u>(306,735)</u>	<u>306,735</u>
Restated fund balance at June 30, 2017	<u>\$ 11,450,650</u>	<u>\$ 2,050,972</u>

The Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – General Fund was also restated.

SUPPLEMENTARY INFORMATION

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2018

FEDERAL GRANTOR

<i>Pass Through Grantor</i> Program Title _____	Federal CFDA Number _____	Passed Through to Subrecipients	Total Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Education:</i>			
<u>Child Nutrition Cluster:</u>			
School Breakfast Program – Cash Assistance	10.553	\$ _____ -	\$ _____ 134,524
National School Lunch Program			
Cash Assistance	10.555	-	577,337
Non-Cash Assistance (Food Distribution)	10.555	_____ -	_____ 108,053
Total National School Lunch Program		_____ -	_____ 685,390
Total child nutrition cluster		_____ -	_____ 819,914
Total U.S. Department of Agriculture		_____ -	_____ 819,914
U. S. DEPARTMENT OF EDUCATION			
<i>Passed Through Ohio Department of Education:</i>			
Title I Grants to Local Educational Agencies	84.010	_____ -	_____ 498,086
<u>Special Education Cluster:</u>			
Special education grants to states	84.027	-	635,806
Special education preschool grants	84.173	_____ 15,310	_____ 15,310
Total special education cluster		_____ 15,310	_____ 651,116
21 st Century Community Learning Centers	84.287	_____ -	_____ 155,967
English Language Acquisition State Grant	84.365	_____ 1,389	_____ 1,389
Supporting Effective Instruction State Grants	84.367	_____ -	_____ 84,907
Student Support and Academic Enrichment	84.424	_____ -	_____ 12,571
Total U.S. Department of Education		_____ 16,699	_____ 1,404,036
Total Expenditures of Federal Awards		\$ _____ 16,699	\$ _____ 2,223,950

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2CFR 200.510(b)(6)
For the Fiscal Year Ended June 30, 2018

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Defiance City School District, Defiance County, Ohio (the School District's) under programs of the federal government for the fiscal year ended June 30, 2018. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School District, it is not intended to and does not present the financial position, changes in net position, of the School District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The School District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE C – SUBRECIPIENTS

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

As a subrecipient, the School 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.

NOTE D – 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 School District assumes it expends federal monies first.

NOTE E – FOOD DONATION PROGRAM

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



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**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

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 modified cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Defiance City School District, Defiance County, Ohio, as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Defiance City School District's basic financial statements and have issued our report thereon dated November 8, 2018, wherein we noted the Defiance City School District uses a special purpose framework other than generally accepted accounting principles. In addition, we noted as discussed in Note 21, the Defiance City School District had a prior period adjustment to adjust prior year disbursements in the Capital Projects Fund for capital outlay that did not meet the intent of the Board of Education.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Defiance City School 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 Defiance City School 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 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 Defiance City School District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2018-002 to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the Defiance City School 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 2018-001.

Defiance City School District's Response to Findings

The Defiance City School District's responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not subject the Defiance City School District's responses to the auditing procedures applied in the audit of the financial statements 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 Defiance City School District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Defiance City School District's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Julian & Grube, Inc.
November 8, 2018



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Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance

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

To the Board of Education:

Report on Compliance for each Major Federal Program

We have audited the Defiance City School District's compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect each of the Defiance City School District's major federal programs for the fiscal year ended June 30, 2018. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the Defiance City School District's major federal programs.

Management's Responsibility

The Defiance City School District's Management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the Defiance City School District's compliance for each of the Defiance City School 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance 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 Defiance City School 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 each of the Defiance City School District's major programs. However, our audit does not provide a legal determination of the Defiance City School District's compliance.

Opinion on Each Major Federal Program

In our opinion, the 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 fiscal year ended June 30, 2018.

Report on Internal Control Over Compliance

The Defiance City School 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 Defiance City School 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 the Uniform Guidance, 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 Defiance City School 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 over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



Julian & Grube, Inc.
November 8, 2018

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2018**

1. SUMMARY OF AUDITOR'S RESULTS		
<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unmodified
<i>(d)(1)(ii)</i>	<i>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</i>	Yes
<i>(d)(1)(ii)</i>	<i>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iii)</i>	<i>Was there any reported material noncompliance at the financial statement level (GAGAS)?</i>	Yes
<i>(d)(1)(iv)</i>	<i>Were there any material internal control weaknesses reported for major federal programs?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any significant deficiencies in internal control reported for major federal programs?</i>	No
<i>(d)(1)(v)</i>	<i>Type of Major Programs' Compliance Opinion</i>	Unmodified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under 2 CFR §200.516(a)?</i>	No
<i>(d)(1)(vii)</i>	<i>Major Programs (listed):</i>	Title I Grants to Local Educational Agencies, CFDA #84.010 Special Education Cluster
<i>(d)(1)(viii)</i>	<i>Dollar Threshold: Type A/B Programs</i>	Type A: >\$750,000 Type B: all others
<i>(d)(1)(ix)</i>	<i>Low Risk Auditee under 2CFR § 200.520?</i>	No

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2018**

2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2018-001

Noncompliance

Ohio Revised Code Section 117.38 provides each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Revised Code Section 117.38. Ohio Administrative Code Section 117-2-03(B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America (GAAP).

The School District prepares its financial statements in accordance with the modified cash-basis of accounting in a report format similar to the requirements of Governmental Accounting Standards Board Statement 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. This presentation differs from (GAAP).

There would be variances on the financial statements between this accounting practice and GAAP that, while presumably material, cannot be reasonably determined at this time. Failure to prepare proper GAAP financial statements may result in the District being fined or other administrative remedies.

The School District should prepare its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Finding Number	2018-002
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Material Weakness - Financial Statement Presentation:

Accurate financial reporting is required in order to provide management and citizens with objective and timely information to enable well-informed decisions.

Certain adjustments were made to prior year audited balances and current year Hinkle filing financial statement and notes to the financial statements.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2018**

2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
Finding Number	2018-002 - (Continued)

The audited financial statements and School District records have been adjusted for the misstatements identified during the audit.

We recommend that the School District implement additional control procedures that enable management to timely record information/transactions in their accounting system as well as prevent or detect and correct potential misstatements in the financial statements prior to filing.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None

DEFIANCE CITY SCHOOLS

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BOARD OF EDUCATION

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 President
Mrs. Christine Oberlin
 Vice President
Mrs. Cheryl Swisher
 CFO/Treasurer

Mr. Michael R. Struble
 Superintendent

BOARD OF EDUCATION

Mr. Mark Klein
 Member
Mr. Garry Rodenberger
 Member
Mr. Stephen K. Snavely
 Member

CORRECTIVE ACTION PLAN
2 CFR 200.511(c)
JUNE 30, 2018

<u>Finding Number</u>	<u>Planned Corrective Action</u>	<u>Anticipated Completion Date</u>	<u>Responsible Contact Person</u>
2018-001	Management believes reporting on a basis of accounting other than generally accepted accounting principles (GAAP) is more cost efficient.	N/A	Cheryl Swisher, CFO/Treasurer
2018-002	Management will evaluate its current internal controls regarding financial statement presentation and proceed with any modifications necessary to help improve this area of internal controls.	August 15, 2019	Cheryl Swisher, CFO/Treasurer

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
2 CFR 200.511(b)
JUNE 30, 2018**

Finding Number	Year Initially Occurred	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2017-001	2007	<u>Noncompliance</u> : Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(B) required the District to prepare its annual financial report in accordance with GAAP, however, the District prepared its annual financial report with the cash basis of accounting in a report format similar to the requirements in GASB Statement No. 34.	No	Repeated as finding 2018-001

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OHIO AUDITOR OF STATE
KEITH FABER



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 26, 2019**