



**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2008



Mary Taylor, CPA
Auditor of State

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Defiance City School District, Defiance County, Ohio (the District), as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Ohio Administrative Code § 117-2-03 (B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

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 Defiance City School District, Defiance County, Ohio, as of June 30, 2008, and the respective changes in modified cash financial position and the budgetary comparison for the General fund thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2009, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The federal awards receipts and expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the federal awards receipts and expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Mary Taylor, CPA
Auditor of State

January 30, 2009

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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, 2008. 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.

Highlights

Highlights for fiscal year 2008 are as follows:

- In total, net assets decreased \$7,632,547, which represents a 38% decrease from 2007. The decrease is primarily attributable to the ongoing Ohio School Facilities Project.
- General receipts accounted for \$21,446,635 in receipts or 68% of all receipts and reflect the District's significant dependence on local property taxes, income taxes and unrestricted state entitlements.
- The District had \$39,173,808 in disbursements related to governmental activities; only \$10,094,626 of these disbursements was offset by program specific charges for services and sales, grants or contributions. General receipts and previously unrestricted fund balances supported the remaining disbursements of \$29,079,182 associated with governmental activities.
- The District has received payments in lieu of taxes related to tax abatement agreements with several companies that are making capital investments in the District. These payments have been placed into a permanent improvement fund. Receipts received in 2008 for payments in lieu of taxes were \$43,429.
- The District is part of the Northern Buckeye Educational Council Employee Insurance Benefits Program with member school districts located primarily in Defiance, Fulton, Henry, and Williams Counties.

Using the Basic Financial Statements

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

The statement of net assets and the statement of activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds, with all other non-major funds presented in total in a single column. For Defiance City School District, the General Fund and the OSFC Local/State Share Fund are the most significant funds.

Basis of Accounting

The District has elected to present its financial statements on a 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.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

Essentially, the only assets reported on this strictly cash receipt and disbursement basis presentation in a statement of net assets will be equity in pooled cash and cash equivalents, and investments. 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.

Reporting the School District as a Whole

The statement of net assets and the statement of activities reflect how the District did financially during fiscal year 2008. These statements report the District's *net assets* and *changes in those assets*. This change in net assets is important because it tells the reader whether the *financial* position of the 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 receipt growth, facility conditions, required educational programs, and other factors.

In the statement of net assets 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.

Reporting the School District's Most Significant Funds

Fund financial statements provide detailed information about the District's major funds. While the District uses many funds to account for its financial transactions, the fund financial statements focus on the District's most significant funds. The District's major governmental funds for fiscal year 2008 are the General Fund and OSFC Local/State Share 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 School 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. 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 Assets and Changes in Fiduciary Net Assets. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

The School 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 assets for fiscal year 2008 in comparison to fiscal year 2007:

**Table 1
Net Assets
Governmental Activities**

	2008	2007
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 12,222,331	\$ 13,254,572
Cash and Cash Equivalents with Escrow	256,818	
Investments		6,857,124
	\$ 12,479,149	\$ 20,111,696
Net Assets		
Restricted for:		
Capital Projects	\$ 10,433,443	\$ 18,188,539
Debt Service	247,027	225,586
Other Purposes	906,229	725,466
Unrestricted	892,450	972,105
	\$ 12,479,149	\$ 20,111,696

For fiscal year 2008, a portion of the District's net assets, \$11,586,699 represents resources that are subject to external restriction on how they may be used. The remaining balance of the government-wide unrestricted net assets of \$892,450 may be used to meet the District's ongoing obligations. For fiscal year 2007, these amounts were \$19,139,591 with external restrictions, and \$972,105 remaining for general operations. Net Assets of the Governmental Activities decreased \$7,632,547, which represents a 38% decrease over fiscal year 2007. The decrease is a result of the ongoing Ohio School Facilities Project.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

Table 2 reflects the changes in net assets for fiscal year 2008 as compared to fiscal year 2007.

**Table 2
Change in Net Assets
Governmental Activities**

	2008	2007
<u>Receipts</u>		
Program Receipts:		
Charges for Services	\$1,519,097	\$1,423,210
Operating Grants, Contributions, and Interest	3,975,791	3,457,073
Capital Grants and Contributions	4,599,738	7,909,353
Total Program Receipts	10,094,626	12,789,636
General Receipts:		
Property Taxes	7,133,604	7,484,704
Income Taxes	1,710,982	1,540,376
Payment in Lieu of Taxes	43,429	37,680
Grants and Entitlements	11,504,394	10,695,186
Bonds and Notes Issued	840,000	933,001
Proceeds from Sale of Capital Assets	1,351	12,870
Interest	123,565	141,804
Miscellaneous	79,306	155,138
Premium on Bonds and Notes Issued	10,004	
Total General Receipts	21,446,635	21,000,759
Total Receipts	31,541,261	33,790,395
<u>Program Disbursements</u>		
Instruction		
Regular	9,686,407	9,761,330
Special	3,244,231	2,789,269
Vocational	371,798	322,364
Other	1,722,938	1,723,231
Support Services		
Pupils	1,317,378	1,163,839
Instructional Staff	1,107,447	1,103,042
Board of Education	44,831	51,788
Administration	1,825,919	1,893,087
Fiscal	542,034	506,890
Operation and Maintenance of Plant	2,192,500	2,203,026
Pupil Transportation	812,799	912,341
Central	46,110	50,929
Food Services	996,100	870,978
Operation of Non-Instructional Services	415,689	239,842
Extracurricular Activities	828,786	747,984
Capital Outlay	12,522,877	1,860,964
Debt Service	1,495,964	1,788,773
Total Disbursements	39,173,808	27,989,677
Increase (Decrease) in Net Assets	(\$ 7,632,547)	\$ 5,800,718

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

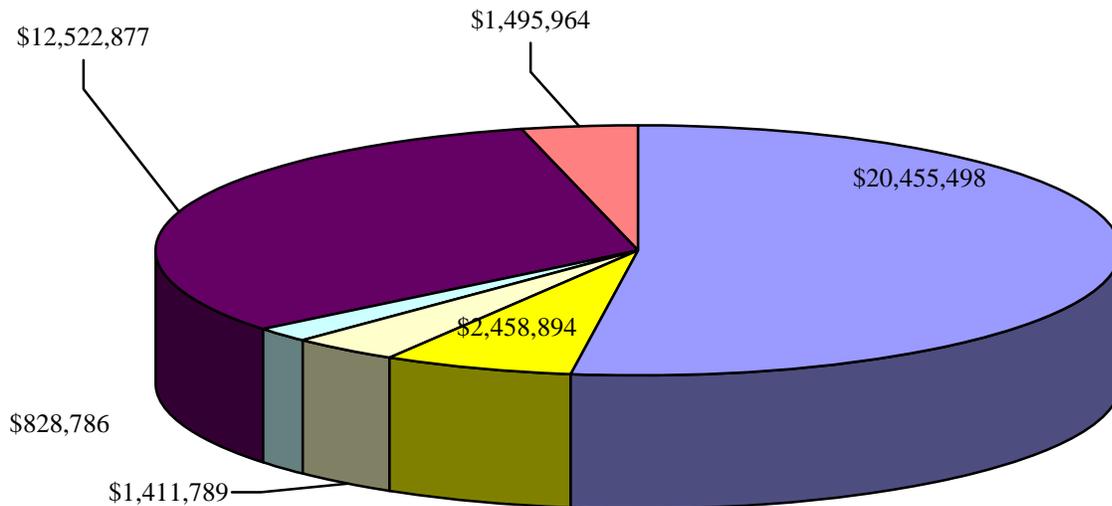
The total disbursements of \$39,173,808 were offset by program receipts of \$10,094,626 and by general receipts of \$21,446,635. Program receipts supported 25.8% of the total governmental disbursements.

The primary sources of general receipts for governmental activities are derived from property taxes, income taxes, grants and entitlements. These receipt sources represent 64.5% of total governmental receipts.

The major program disbursements for governmental activities are for instruction, which accounts for 38.4% of all governmental disbursements. Other programs which support the instruction process, including pupils, instructional staff, and pupil transportation account for 8.3% of governmental disbursements. Maintenance of the District's facilities also represents a significant disbursement, 5.6%. Therefore, 52.3% of the District's disbursements are related to the primary functions of providing facilities and delivering education.

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

Governmental Disbursements by Types



	Instruction, Pupil, Instruction Staff, Transportation, Operation and Maintenance of Plant (\$20,455,498)
	Other Support Services (\$2,458,894)
	Food Services and Operation of Non-Instructional Services (\$1,411,789)
	Extracurricular Activities (\$828,786)
	Capital Outlay (\$12,522,877)
	Debt Service (\$1,495,964)

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

Governmental Activities

Table 3 indicates the total cost of services and the net cost of services for governmental activities for 2008 and 2007. The statement of activities reflects the cost of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax receipts and unrestricted state entitlements.

**Table 3
Governmental Activities**

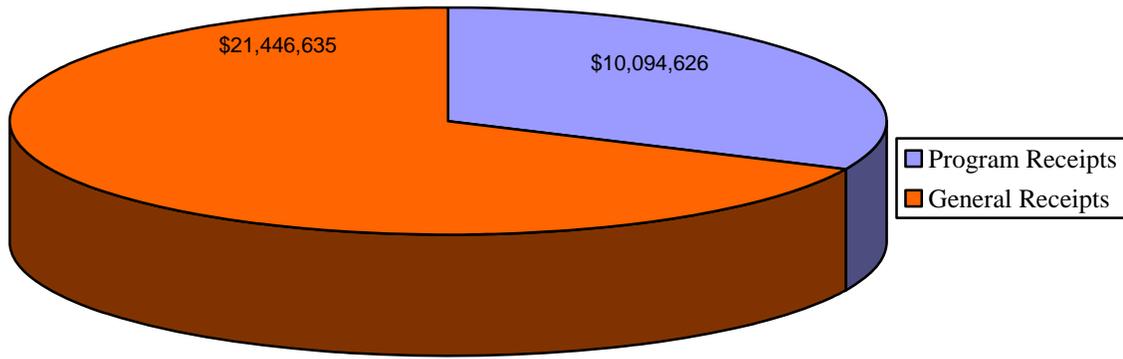
	Total Cost of Services 2008	Net Cost of Services 2008	Total Cost of Services 2007	Net Cost of Services 2007
Instruction:				
Regular	\$ 9,686,407	\$ 8,926,279	\$ 9,761,330	\$ 9,094,809
Special	3,244,231	1,373,352	2,789,269	1,100,889
Vocational	371,798	275,414	322,364	231,371
Other	1,722,938	1,663,782	1,723,231	1,668,112
Support Services:				
Pupils	1,317,378	1,153,402	1,163,839	1,020,334
Instructional Staff	1,107,447	813,821	1,103,042	843,829
Board of Education	44,831	44,831	51,788	51,788
Administration	1,825,919	1,801,572	1,893,087	1,860,037
Fiscal	542,034	449,249	506,890	452,325
Operation and Maintenance of Plant	2,192,500	2,171,500	2,203,026	2,094,601
Pupil Transportation	812,799	637,989	912,341	743,026
Central	46,110	44,837	50,929	50,929
Food Services	996,100	(149,257)	870,978	(16,279)
Non-Instructional Services	415,689	55,026	239,842	(125,536)
Extracurricular Activities	828,786	(69,826)	747,984	431,311
Capital Outlay	12,522,877	8,471,217	1,860,964	(6,020,817)
Debt Service	1,495,964	1,415,994	1,788,773	1,719,312
Total Disbursements	<u>\$39,173,808</u>	<u>\$29,079,182</u>	<u>\$27,989,677</u>	<u>\$15,200,041</u>

The dependence upon tax receipts and unrestricted state entitlements for governmental activities is demonstrated in the previous table. Over 81% of instruction activities are supported through taxes and other general receipts. Approximately 90% of Support Services disbursements are covered by general receipts. And over 67% of Capital Outlay is supported through general receipts and taxes.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

Governmental Activities - General vs. Program Receipts



The School 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 \$32,275,554 and disbursements of \$39,908,101 in fiscal year 2008. The overall negative change for 2008 is \$7,632,547 in fund balance for the fiscal year is primarily attributable to an increase in capital outlay expenditures for the construction of the new elementary school.

General Fund - Fund balance at June 30, 2008, was \$892,450, including \$694,716 of unreserved fund balance. Unreserved fund balance comprised 75.7% of the total fund balance. General fund disbursements were \$21,943,656, or 56.0% of total governmental disbursements.

OSFC Local/State Share Fund - For fiscal year 2008, fund balance decreased \$7,260,534. Proceeds from bonds were received in the prior fiscal year and used to fund the increased spending in the current year for the Ohio School Facilities Project.

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 2008, the District amended its General Fund budget as needed. Final budgeted receipts and other financing sources in the amount of \$21,874,472 were slightly above original budgeted receipts and other financing sources of \$21,796,180. This difference is mostly due to unanticipated increases in property taxes, state aid and interest.

General fund original budgeted disbursements and other financing uses of \$22,493,802 were increased to \$22,660,094. The actual disbursements and other financing uses for fiscal year 2008 totaled \$22,141,390 which was \$518,704 less than the final budgeted disbursements.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

Debt

The District's outstanding debt obligations at fiscal year end consisted of an Elementary Building bond anticipation note for \$840,000 and the OSFC Elementary Building bonds of \$9,465,000. For further information regarding the District's long-term obligation, see Note 12 to the basic financial statements.

Current Issues

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

During fiscal year 2003, the Board of Education started receiving collections of receipts on a 5-year emergency levy which was approved by voters in 2002. In May 2007, citizens of the Defiance City Schools' community strongly showed their support of the district and approved the passage of the 5-year emergency levy renewal. Unfortunately, the 5-year emergency levy renewal will not be sufficient to meet all general fund operating disbursements without having to seek additional support for operating monies prior to the renewal expiration in 2012. The necessity is largely due to the provisions of HB66 with the phase-out of the tangible personal property tax and increased operating disbursements. The type, term and size of this levy are undecided at this time. Collections continue on the current 5-year levy. Effective with the 2008-2009 school year, the Board has also approved staff reductions and realigned services from its outside providers to help reduce deficit spending of the District.

The community has always taken great pride in building and support of the District. In November 2005, the Board presented to the community, for the first attempt for approval, an OSFC proposal of constructing a new elementary building (Pre-K-5) and closing the four current elementary schools. General trade and contractor bids were awarded in March 2008 with site work and construction beginning later that spring. Student and staff will relocate to the new facilities in January 2009.

The Board of Education continues to aggressively market the District to local and area students to increase enrollment. The Board has implemented every-day, all-day kindergarten services as well as developmental kindergarten and school-wide programs to help combat its outgoing enrollment. The Board looks forward to highlighting the many successful programs that the District has to offer to young people in the Defiance area which will result in additional receipts to the Defiance City Schools.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the 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 Eric Beavers, CFO/Treasurer, Defiance City School District, 629 Arabella Street, Defiance, Ohio 43512.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**Statement of Net Assets - Modified Cash Basis
June 30, 2008**

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 12,222,331
Cash and Cash Equivalents with Escrow Agents	<u>256,818</u>
<i>Total Assets</i>	<u><u>\$ 12,479,149</u></u>
Net Assets	
Restricted for:	
Capital Projects	\$ 10,433,443
Debt Service	247,027
Other Purposes	906,229
Unrestricted	<u>892,450</u>
<i>Total Net Assets</i>	<u><u>\$ 12,479,149</u></u>

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, 2008**

	Cash Disbursements	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets Total
		Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants, Contributions and Interest	
Governmental Activities:					
Instruction					
Regular	\$ 9,686,407	\$ 576,762	\$ 183,366		\$ (8,926,279)
Special	3,244,231	8,002	1,862,877		(1,373,352)
Vocational Education	371,798		96,384		(275,414)
Other	1,722,938		59,156		(1,663,782)
Support Services					
Pupil	1,317,378		163,976		(1,153,402)
Instructional Staff	1,107,447		293,626		(813,821)
Board of Education	44,831				(44,831)
Administration	1,825,919		24,347		(1,801,572)
Fiscal	542,034	28,412	64,373		(449,249)
Operation and Maintenance of Plant	2,192,500		21,000		(2,171,500)
Pupil Transportation	812,799		155,612	\$ 19,198	(637,989)
Central	46,110	1,273			(44,837)
Food Services	996,100	532,608	612,749		149,257
Operation of Non-Instructional Services	415,689	107,385	253,278		(55,026)
Extracurricular Activities	828,786	264,655	105,077	528,880	69,826
Capital Outlay	12,522,877			4,051,660	(8,471,217)
Debt Service					
Principal	1,025,000		79,970		(945,030)
Interest	460,960				(460,960)
Issuance Costs	10,004				(10,004)
Total Governmental Activities	\$ 39,173,808	\$ 1,519,097	\$ 3,975,791	\$ 4,599,738	(29,079,182)
General Receipts					
Property Taxes Levied for:					
General Purposes					
					6,424,932
					102,677
					605,995
Income Taxes Levied for General Purposes					
					1,710,982
Payments in Lieu of Taxes					
					43,429
Grants and Entitlements not Restricted to Specific Programs					
					11,504,394
Proceeds from the Issuance of Notes					
					840,000
Proceeds from Sale of Capital Assets					
					1,351
Interest					
					123,565
Special					
					10,004
Miscellaneous					
					79,306
Total General Receipts					
					21,446,635
Change in Net Assets					
					(7,632,547)
Net Assets - Beginning of Year					
					20,111,696
Net Assets - End of Year					
					\$ 12,479,149

See accompanying notes to the Basic Financial Statements

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**Statement of Assets and Fund Balances - Modified Cash Basis
Governmental Funds
June 30, 2008**

	General Fund	OSFC Local/State Share Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 892,450	\$ 8,970,275	\$ 2,359,606	\$ 12,222,331
Cash and Cash Equivalents with Escrow Agents		256,818		256,818
 <i>Total Assets</i>	 \$ 892,450	 \$ 9,227,093	 \$ 2,359,606	 \$ 12,479,149
 Fund Balances				
Reserved for Encumbrances	\$ 197,734	\$ 6,080,262	\$ 759,244	\$ 7,037,240
Unreserved:				
Undesignated, Reported in:				
General Fund	694,716			694,716
Special Revenue Funds			882,719	882,719
Debt Service Funds			247,027	247,027
Capital Projects Funds		3,146,831	470,616	3,617,447
 <i>Total Fund Balances</i>	 \$ 892,450	 \$ 9,227,093	 \$ 2,359,606	 \$ 12,479,149

See accompanying notes to the Basic Financial Statements

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**Statement of Assets and Fund Balances - Modified Cash Basis
Governmental Funds
June 30, 2008**

	General Fund	OSFC Local/State Share Fund	Other Governmental Funds	Total Governmental Funds
Receipts				
Property and Other Local Taxes	\$ 6,424,932		\$ 708,672	\$ 7,133,604
Income Taxes	1,710,982			1,710,982
Payments in Lieu of Taxes			43,429	43,429
Intergovernmental	12,873,313	\$ 3,952,968	2,438,671	19,264,952
Interest	123,565	528,880	87,631	740,076
Tuition and Fees	584,764		107,385	692,149
Rent	11,994		1,418	13,412
Extracurricular Activities			258,176	258,176
Customer Sales and Services	17,691		530,905	548,596
Gifts and Donations			153,986	153,986
Miscellaneous	12,129		51,238	63,367
<i>Total Receipts</i>	<u>21,759,370</u>	<u>4,481,848</u>	<u>4,381,511</u>	<u>30,622,729</u>
Disbursements				
Current:				
Instruction				
Regular	9,521,341		165,066	9,686,407
Special	2,533,077		711,154	3,244,231
Vocational Education	371,798			371,798
Other	1,673,931		49,007	1,722,938
Support Services				
Pupil	1,148,856		168,522	1,317,378
Instructional Staff	778,390		329,057	1,107,447
Board of Education	44,831			44,831
Administration	1,801,405		24,514	1,825,919
Fiscal	519,911		22,123	542,034
Operation and Maintenance of Plant	2,171,500		21,000	2,192,500
Pupil Transportation	774,974		37,825	812,799
Central	46,110			46,110
Food Services			996,100	996,100
Operation of Non-Instructional Services			415,689	415,689
Extracurricular Activities	473,219		355,567	828,786
Capital Outlay	84,313	11,048,141	1,390,423	12,522,877
Debt Service:				
Principal			1,025,000	1,025,000
Interest			460,960	460,960
Issuance Costs			10,004	10,004
<i>Total Disbursements</i>	<u>21,943,656</u>	<u>11,048,141</u>	<u>6,182,011</u>	<u>39,173,808</u>
<i>Excess of Disbursements Over Receipts</i>	<u>(184,286)</u>	<u>(6,566,293)</u>	<u>(1,800,500)</u>	<u>(8,551,079)</u>
Other Financing Sources (Uses)				
General Obligation Bonds Issued			840,000	840,000
Premium on Bonds and Notes Issued			10,004	10,004
Proceeds from Sale of Capital Assets	1,351			1,351
Refund of Prior Year Expenditures	63,280		3,949	67,229
Transfers-In			694,241	694,241
Advances-In	40,000			40,000
Refund of Prior Year Receipts			(52)	(52)
Advances-Out			(40,000)	(40,000)
Transfers-Out		(694,241)		(694,241)
<i>Total Other Financing Sources (Uses)</i>	<u>104,631</u>	<u>(694,241)</u>	<u>1,508,142</u>	<u>918,532</u>
<i>Net Change in Fund Balances</i>	(79,655)	(7,260,534)	(292,358)	(7,632,547)
<i>Fund Balances - Beginning of Year</i>	<u>972,105</u>	<u>16,487,627</u>	<u>2,651,964</u>	<u>20,111,696</u>
<i>Fund Balances - End of Year</i>	<u>\$ 892,450</u>	<u>\$ 9,227,093</u>	<u>\$ 2,359,606</u>	<u>\$ 12,479,149</u>

See accompanying notes to the Basic Financial Statements

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**Statement of Cash Receipts, Disbursements and Changes in Fund Balance
Budget and Actual - Budget Basis
General Fund
For the Year Ended June 30, 2008**

	Budgeted Amounts		Actual	Positive (Negative)
	Original	Final		Variance with Final Budget
Receipts				
Property Taxes	\$ 6,465,473	\$ 6,424,931	\$ 6,424,932	\$ 1
Income Taxes	1,709,192	1,710,981	1,710,982	1
Intergovernmental	12,768,317	12,873,312	12,873,313	1
Interest	125,000	125,000	123,565	(1,435)
Tuition and Fees	576,065	584,794	584,764	(30)
Rent	11,500	11,500	11,994	494
Gifts and Donations	3,300	2,500		(2,500)
Customer Sales and Services	9,000	17,325	17,691	366
Miscellaneous	17,000	17,000	12,129	(4,871)
Total Receipts	21,684,847	21,767,343	21,759,370	(7,973)
Disbursements				
Instruction				
Regular	9,443,399	9,638,494	9,539,166	99,328
Special	2,713,002	2,563,696	2,533,077	30,619
Vocational Education	354,358	384,374	371,798	12,576
Other	1,810,522	1,816,248	1,679,731	136,517
Support Services				
Pupil	1,000,945	1,177,559	1,149,308	28,251
Instructional Staff	769,940	802,295	780,072	22,223
Board of Education	47,622	61,805	45,028	16,777
Administration	1,870,854	1,857,722	1,822,136	35,586
Fiscal	530,835	529,635	522,865	6,770
Operation and Maintenance of Plant	2,180,880	2,286,130	2,212,819	73,311
Pupil Transportation	845,989	821,545	777,851	43,694
Central	108,198	54,983	52,526	2,457
Extracurricular Activities	477,235	482,485	473,603	8,882
Capital Outlay	190,023	183,123	181,410	1,713
Total Disbursements	22,343,802	22,660,094	22,141,390	518,704
Excess of Disbursements Over Receipts	(658,955)	(892,751)	(382,020)	510,731
Other Financing Sources (Uses)				
Advances-In	40,000	40,000	40,000	
Proceeds from Sale of Capital Assets	10,000	4,500	1,351	(3,149)
Insurance Recoveries	3,333	1		(1)
Refund of Prior Year Expenditures	58,000	62,628	63,280	652
Transfers-Out	(100,000)			
Advances Out	(50,000)			
Total Other Financing Uses	(38,667)	107,129	104,631	(2,498)
Net Change in Fund Balances	(697,622)	(785,622)	(277,389)	508,233
Fund Balance - Beginning of Year	787,822	787,822	787,822	
Prior Year Encumbrances Appropriated	184,283	184,283	184,283	
Fund Balance - End of Year	\$ 274,483	\$ 186,483	\$ 694,716	\$ 508,233

See accompanying notes to the Basic Financial Statements

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**Statement of Fiduciary Net Assets - Modified Cash Basis
Fiduciary Funds
June 30, 2008**

	Private Purpose Trust	Agency
Assets		
Equity Pooled in Cash and Cash Equivalents	\$ 15,022	\$ 104,163
<i>Total Assets</i>	\$ 15,022	\$ 104,163
Net Assets		
Held in Trust for Scholarships	\$ 15,022	
Held for Student Activities		\$ 104,163
<i>Total Net Assets</i>	\$ 15,022	\$ 104,163

See accompanying notes to the Basic Financial Statements

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**Statement of Changes in Fiduciary Net Assets - Modified Cash Basis
Fiduciary Funds**

For the Fiscal Year Ended June 30, 2008

	<u>Private Purpose Trust</u>
Additions	
Gifts and Contributions	\$ 14,991
Deductions	
Payments in Accordance with Trust Agreements	<u>31,500</u>
<i>Change in Net Assets</i>	(16,509)
<i>Net Assets - Beginning of Year</i>	<u>31,531</u>
<i>Net Assets - End of Year</i>	<u><u>\$ 15,022</u></u>

See accompanying notes to the Basic Financial Statements

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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 one hundred eighteen non-certified employees and two hundred thirteen certified teaching personnel who provide services to 2,538 students and other community members. The District currently operates seven instructional/support buildings.

Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading. The primary government of the 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 that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the District, are accessible to the District and are significant in amount to the District. There are no component units of the Defiance City School District.

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

The District participates in six jointly governed organizations and two insurance pools. These organizations are the Northwest Ohio Computer Association, the Northern Buckeye Education Council, the Four County Career Center, the Northwestern Ohio Educational Research Council, Inc., the Northwest Ohio Special Education Regional Resource Center, the Northwest Ohio Regional Professional Development Center, the Northern Buckeye Education Council Employee Insurance Benefits Program, and the Northern Buckeye Education Council Workers’ Compensation Group Rating Plan. These organizations are presented in Notes 14 and 15 to the basic financial statements.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are presented on a modified cash basis of accounting. This 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. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. 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 assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-Wide Financial Statements

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

The statement of net assets presents the financial condition of the governmental activities of the District at fiscal year end. The statement of activities presents a comparison between disbursements and 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 and grants, contributions, and interest that are restricted to meeting the operational or capital requirements of 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 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. Nonmajor 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
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

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:

- a. Total assets, receipts, or disbursements of that individual governmental or proprietary fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. Total assets, receipts, or disbursements of the individual governmental fund or proprietary fund are at least 5 percent of the corresponding total for all governmental and proprietary funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

The District classifies fund financed primarily from taxes, intergovernmental receipts (e.g. grants), and other non-exchange transactions as governmental funds. The District's major funds are the General Fund and OSFC Local/State Share 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.

OSFC Local/State Share Fund - This fund accounts for the specific receipts to be used for the new school building project.

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 assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the 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 prepares receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred.

The District also reports long-term investments as assets at fair value. See Note 2.E. for further detail.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

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

As a result of the use of this 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 paragraph.

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. 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, 2007, unencumbered fund balances. However, those fund balances are available for appropriations.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

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. Encumbrances at year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds.

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 reappropriated.

E. Cash and Cash Equivalents

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

During fiscal year 2008, investments included negotiable and nonnegotiable certificates of deposit, Agency bonds and STAROhio. Nonnegotiable certificates of deposit are reported at cost. Negotiable certificates of deposit and Agency bonds are reported at fair market value. STAROhio is an investment pool, managed by the State Treasurer’s Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio’s share price, which is the price the investment could be sold for on June 30, 2008.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

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

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 District, on the modified cash basis of accounting, during fiscal year 2008 was \$740,076. For the fund statements, \$123,565 interest was credited to the General Fund, which included approximately \$6,849 assigned from other funds, \$528,880 credited to the OSFC Local/State Share Fund and \$ 87,631 was recorded in non-major governmental funds.

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

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 Leaves

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

During the course of normal operations, the District has numerous transactions between funds. The most significant include transfers of resources from one fund to another fund through which resources are to be expended are recorded as transfers.

K. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as cash when received and payment of principal and interest are reported as disbursements when paid. The District's cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Lease payments are reported when paid.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

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

L. Intergovernmental Receipts

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

M. Employer Contributions to Cost-Sharing Pension Plans

The District recognizes disbursements for employer contributions to cost-sharing plans when they are paid. As described in Notes 9 and 10, 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 assets, and displayed in separate components:

- a. Restricted net assets – Consists of net assets 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.
- b. Unrestricted net assets – All other net assets that do not meet the definition of “restricted.”

Net assets restricted for other purposes include resources restricted for public school support programs, athletic programs, employee termination benefits, classroom facilities and maintenance tax levy proceeds, and federal and state grants restricted to cash disbursement for specified purposes. The District’s policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available. There were not any assets restricted by enabling legislation as of June 30, 2008.

FUND FINANCIAL STATEMENTS

Governmental fund equity is classified as fund balance. The District records reservations for portions of fund balances which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves are established for encumbrances.

O. Budgetary Basis

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance ‘ Budget and Actual ‘ Budgetary Basis presented for the general fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (cash basis).

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

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

The encumbrances outstanding at year end (budgetary basis) amounted to:

General Fund	\$197,734
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P. Donated Commodities

The commodities of the District's food service program are recorded as receipts and disbursements during the fiscal year they were received.

NOTE 3 – 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 deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts, including passbook accounts.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio Local Governments;

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 3 – DEPOSITS AND INVESTMENTS – (Continued)

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAROhio).
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time.
8. Under limited circumstances corporate debt interest rated in either of the two highest rated classifications by at least two nationally recognized rating agencies.

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

Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of District cash and deposits is provided by the Federal Deposit Insurance Corporation as well as qualified securities pledged by the institution holding the assets. The District has no deposit policy for custodial risk beyond the requirements of state statute. By law, financial institutions must collateralize uninsured public deposits. The face value of the pooled collateral must equal at least 105 percent of public funds deposited.

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

The carrying amount of the District's deposits was \$6,451,054 and the bank balance was \$6,558,447. At year end, \$4,758,775 of the District's bank balance was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institutions trust department or agent, but not in the District's name. Although all state statutory requirements for the deposit of money has been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

As of June 30, 2008, the District has \$900 in undeposited cash on hand. This amount is included in cash and cash equivalents.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 3 – DEPOSITS AND INVESTMENTS – (Continued)

Investments

Investments are reported at fair value. As of June 30, 2008, the District had the following investments:

	Fair Value	% of Total	Maturity (Months)	
			1-6	≥ 6
Multibank Securities Negotiable Certificates of Deposit	\$ 393,000	6.39%		\$ 393,000
Reliance Financial Services Negotiable Certificates of Deposit	1,571,000	25.56%	\$ 1,081,000	490,000
Reliance Financial Services Money Market	1,634,396	26.59%	1,634,396	
Fifth Third Money Market	331,428	5.39%	331,428	
FFCB	50,016	0.81%	50,016	
FHLB	1,296,815	21.10%	509,733	787,082
FNMA	250,532	4.08%	50,532	200,000
FHLMC	200,234	3.26%	50,234	150,000
PEFCO	100,250	1.63%	100,250	
Star Ohio	98,488	1.60%	98,488	
Star Ohio- OSFC	220,221	3.58%	220,221	
Total Fair Value	<u>\$ 6,146,380</u>	<u>100.00%</u>	<u>\$ 4,126,298</u>	<u>\$ 2,020,082</u>

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.

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 Deferral Farm Credit Banks, FHLB, FNMA, FHLMC, PEFCO, and 5/3 and Reliance Financial Services Money Market Funds 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. All of the District's investments in negotiable securities purchased through Multi-Bank Securities and Reliance Investment Services are covered by federal depository insurance and are not exposed to custodial credit risk. 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.

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. More than 5 percent of the District's investments are in Federal Home Loan Bank. This investment is 21.10 of the District's total investments for the amounts listed above.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 4 – INCOME TAXES

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

NOTE 5 – PROPERTY TAXES

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years through 2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of the prior December 31. For 2007, tangible personal property is assessed at 12.5% for property. This percentage will be reduced to 6.25% for 2008 and zero for 2009.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, 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.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

The 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, 2008, are available to finance fiscal year 2008 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 5 – PROPERTY TAXES – (Continued)

The assessed values upon which fiscal year 2008 taxes were collected are:

	<u>2007 Second-Half Collections</u>		<u>2008 First-Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential	\$ 186,929,400	75.31%	\$ 189,152,020	77.26%
Industrial/Commercial	35,906,130	14.46%	37,419,060	15.29%
Public Utility	14,058,868	5.66%	11,454,840	4.67%
Tangible Personal Property	<u>11,334,860</u>	<u>4.57%</u>	<u>6,821,460</u>	<u>2.78%</u>
Total Assessed Value	<u>\$ 248,229,258</u>	<u>100.00%</u>	<u>\$ 244,847,380</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$ 43.80		\$ 50.38	

NOTE 6 – PAYMENTS IN LIEU OF TAXES

According to State law, the District has entered into agreements with a number of property owners under which the District has granted property tax abatements to those property owners. The property owners have agreed to make payments to the District which reflect all or a portion of the property taxes which the property owners would have paid if their taxes had not been abated. The property owners' contractual promises to make these payments in lieu of taxes generally continue until the agreement expires. Payments in lieu of taxes for fiscal year 2008 amounted to \$43,429.

NOTE 7 – INTERFUND TRANSFERS AND ADVANCES

During fiscal year 2008, the District made transfers between funds as follows:

	<u>Transfers-In</u>	<u>Transfers-Out</u>	<u>Advances-In</u>	<u>Advances Out</u>
Governmental:				
General Fund			\$ 40,000	
Fund 010		\$ 694,241		
All Other Governmental Funds	\$ 694,241			\$ 40,000
Total Governmental	<u>\$ 694,241</u>	<u>\$ 694,241</u>	<u>\$ 40,000</u>	<u>\$ 40,000</u>

During fiscal year 2008, the Food Services Fund repaid a previous advance of \$40,000 to the General Fund and the OSFC Elem-Local Share Fund transferred \$694,241 to the Building Fund.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 8 – RISK MANAGEMENT

The District participates in the Northern Buckeye Education Council Employee Insurance Benefits Program (the “Program”), a public entity shared risk pool consisting of educational entities within Defiance, Fulton, Henry, Lucas, Williams, and Wood Counties. The District pays monthly premiums to the Northern Buckeye Education Council for the benefits offered to its employees including medical, dental, vision, and life insurance. The Northern Buckeye Education Council is responsible for the management and operations of the Program. The agreement for the Program provides for additional assessments to all participants if the premiums are insufficient to pay the program costs for the fiscal year. Upon withdrawal from the Program, a participant is responsible for any claims not processed and paid and any related administrative costs.

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

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 2008, the District contracted for the following insurance coverage:

Indiana Insurance Company:	Amount of Coverage
General Liability	
Per Occurrence	\$ 1,000,000
Total per Year	2,000,000
Umbrella Liability	
Per Occurrence	5,000,000
Total per Year	5,000,000
Building and contents	63,974,762
Cincinnati Insurance:	
Boiler Insurance	20,000,000
Indiana 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.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 9 – DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS’ Retirement Board. The District’s contributions to SERS for the years ended June 30, 2008, 2007 and 2006 were \$352,740, \$324,162 and \$293,004, respectively; 61 percent has been contributed for fiscal year 2008 and 100 percent for the fiscal years 2007 and 2006.

B. State Teachers Retirement System

The District participates in the State Teachers Retirement System of Ohio (“STRS Ohio”), a cost-sharing, multiple-employer defined benefit pension plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a publicly-available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio website 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. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to allocate their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment accounts. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 9 – DEFINED BENEFIT PENSION PLANS – (Continued)

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

For the fiscal year ended June 30, 2008, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2007 (the latest information available), the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employer contributions.

The District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2008, 2007, and 2006, were \$1,778,959, \$1,584,300 and \$1,524,087, respectively; 87 percent has been contributed for fiscal year 2008 and 100 percent for the fiscal years 2007 and 2006. Contributions to the DC and Combined Plans for fiscal year 2007 were \$4,117 made by the District and \$14,962 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2008, three of the Board of Education members have elected Social Security.

NOTE 10 – POST EMPLOYMENT BENEFITS

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. Of the 14 percent employer contribution rate, 1 percent of covered payroll was allocated to post-employment health care for the years ended June 30, 2008, 2007, and 2006. The District's contributions for fiscal years ended June 30, 2008, 2007, and 2006, were \$127,068, \$113,164 and \$108,863, respectively.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2007 (the latest information available), the balance in the Fund was \$4.1 billion. For the fiscal year ended June 30, 2007, net health care costs paid by STRS Ohio were \$265,558,000 and STRS Ohio had 122,934 eligible benefit recipients.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 10 – POST EMPLOYMENT BENEFITS – (Continued)

In addition to a cost-sharing multiple-employer defined benefit pension plan, SERS administers two postemployment benefit plans, the Medicare Part B Plan and the Health Care Plan. The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999, Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2007 was \$93.50; SERS' reimbursement to retirees was \$45.50. The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2007 (the latest information available), the actuarially required allocation was .68 percent. The District's contributions for the year ended June 30, 2008, were \$22,459, which equaled the required contributions for the year.

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMO's, PPO's and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 401(h). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. At June 30, 2007, the health care allocation was 3.32 percent. The actuarially required contribution (ARC), as of the December 31, 2006, annual valuation (the latest information available), was 11.50 percent of covered payroll. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities of the plan over a period not to exceed thirty years. The District's contributions for the years ended June 30, 2008, 2007, and 2006, were \$147,798, \$136,985 and \$129,291, respectively.

An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2 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 2007 (the latest information available), the minimum compensation level was established at \$35,800.

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

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

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 11 – OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

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

B. Health Care Benefits

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

NOTE 12 – LONG-TERM OBLIGATIONS

Changes in the District's long-term obligations during fiscal year 2008 were as follows:

Name of Debt	Interest Rate	Balance at 6/30/07	Additions	Reductions	Balance at 6/30/08	Due Within One Year
Elementary Building Note	4.20%		\$840,000		\$840,000	
Elementary Building Note	4.60%	\$925,000		(\$925,000)		
2006 OSFC Elementary Building Bond						
Serial Bonds	3.25-4.25%	5,545,000		(100,000)	5,445,000	\$95,000
Term Bonds	4.5-4.625%	4,020,000			4,020,000	
Total Governmental Long-term Obligations		<u>\$ 10,490,000</u>	<u>\$ 840,000</u>	<u>(\$1,025,000)</u>	<u>\$10,305,000</u>	<u>\$95,000</u>

Elementary Building Note - During fiscal year 2007, the District obtained an Elementary Building Note in the amount of \$925,000 with stated interest of 4.60 percent. This note was repaid upon maturity during fiscal year 2008.

Elementary Building Note – During fiscal year 2008, the District obtained a note in the amount of \$840,000 with stated interest of 4.20 percent. This note is a rollover of a bond anticipation note originally issued in 2006 and was used to fund the OSFC project. The entire note plus interest will mature January, 2009.

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

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 12 – LONG-TERM OBLIGATIONS – (Continued)

2006 Serial Bonds - The Current Interest Bonds were issued for a twenty-two fiscal year periods with final maturity on December 1, 2027. The remaining principal amount to be redeemed as of June 30, 2008, is \$5,445,000.

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

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

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

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

Payment requirements to retire general obligation debt at June 30, 2008, are as follows:

Fiscal Year Ending June 30,	2006 OSFC Elementary Building Bond	Elementary Building Note	Interest	Total
2009	\$ 95,000	\$ 840,000	\$ 414,871	\$ 1,349,871
2010	125,000		410,746	535,746
2011	140,000		405,778	545,778
2012	150,000		400,340	550,340
2013	200,000		393,778	593,778
2014-2018	1,230,000		1,820,794	3,050,794
2019-2023	1,360,000		1,543,705	2,903,705
2024-2028	2,145,000		1,162,804	3,307,804
2029-2033	3,200,000		575,331	3,775,331
2034	820,000		18,963	838,963
Total	<u>\$ 9,465,000</u>	<u>\$ 840,000</u>	<u>\$7,147,110</u>	<u>\$17,452,110</u>

The District's overall debt margin was \$11,978,291 with an unvoted debt margin of \$244,847 at June 30, 2008.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 13 – STATUTORY RESERVES

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

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2008.

	Textbooks	Capital Improvements
Balance June 30, 2007	\$ (1,240,825)	
Current Year Set Aside Requirement	367,471	\$ 367,471
Qualifying Expenditures	(628,134)	(298,480)
Current Year Offsets		
Not Available for Carryover		(115,980)
Balance June 30, 2008	(1,501,488)	(46,989)
Prior Years Offsets Available for Carryover		(10,180,257)
Amount available as an offset to FY09		\$ (10,180,257)
Amount Carried Forward to FY09	\$ (1,501,488)	

The District had qualifying expenditures during the fiscal year that reduced the textbooks set aside amount below zero. This amount may be used to reduce the set aside requirement in future fiscal years. For capital improvements, only the extra amount as a result of capital disbursements from bond or note proceeds may be used to reduce the set aside reserve of future years.

NOTE 14 – JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Computer Association

The District is a participant in the Northwest Ohio Computer Association (NWOCA), which is a computer consortium. NWOCA is an association of educational entities within the boundaries of Defiance, Fulton, Henry, Lucas, Williams, and Wood Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member educational entities.

The NWOCA Assembly consists of the superintendent from each participating educational entity and a representative from the fiscal agent. The Assembly elects the governing council of two representatives from each of the six counties in which member educational entities are located and the representative from the member educational entity serving as fiscal agent for NWOCA. The degree of control exercised by any participating educational entity is limited to its representation on the Governing Council. During fiscal year 2008, the District paid \$68,608 to NWOCA for various services. Financial information can be obtained from Robin Fund, who serves as Treasurer, 22-900 State Route 34, Archbold, Ohio 43502.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 14 – JOINTLY GOVERNED ORGANIZATIONS – (Continued)

B. Northern Buckeye Education Council

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among educational entities located in Defiance, Fulton, Henry, Lucas, Williams, and Wood Counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected board consisting of two representatives from each of the six counties in which the member educational entities are located. The Board is elected from an assembly consisting of a representative from each participating educational entity. Financial information can be obtained from the Northern Buckeye Education Council, Robin Fund, who serves as Treasurer, 22-900 State Route 34, Archbold, Ohio 43502.

C. Four County Career Center

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

D. Northwestern Ohio Educational Research Council, Inc.

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials, and provide opportunities for training. The NOERC serves a twenty-five county area in Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village Districts, five local Districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education.

Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., Box 456, Ashland, Ohio 44805.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 14 – JOINTLY GOVERNED ORGANIZATIONS – (Continued)

E. Northwest Ohio Special Education Regional Resource Center

The Northwest Ohio Special Education Regional Resource Center (SERRC) is a jointly governed organization formed to provide services to families, educators, and agencies regarding educational law and curriculum and instruction for students with disabilities. The SERRC serves a thirteen county area in Northwest Ohio. The Governing Board consists of superintendents from each of the cooperating Districts, the fiscal agent superintendent, two parents of children with disabilities, one superintendent of a county board of MR/DD, one representative from a chartered non-public school, one representative from the University of Toledo, one representative from Bowling Green State University, one representative from a community school, and any other representatives from other agencies as designated by the Governing Board or the Ohio Department of Education. The degree of control exercised by any participating District is limited to its representation on the Board. Financial information can be obtained from Dave Michel, Eastwood Local School District, 4800 Sugar Ridge Road, Pemberville, Ohio 43450.

F. Northwest Ohio Regional Professional Development Center

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

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

NOTE 15 – GROUP PURCHASING POOLS

A. Northern Buckeye Education Council Employee Insurance Benefits Program

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

B. Northern Buckeye Education Council Workers’ Compensation Group Rating Plan

The District participates in a group rating plan for workers’ compensation as established under Section 4123.29 of the Ohio Revised Code. The Northern Buckeye Education Council Workers’ Compensation Group Rating Plan (the “Plan”) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool. The Plan is governed by the Northern Buckeye Education Council and the participants of the Plan. The Executive Director of the NBEC coordinates the management and administration of the Plan. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 16 - CONTINGENCIES

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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2008.

NOTE 17 – CONTRACTUAL COMMITMENTS

At June 30, 2008, the District had the following outstanding contractual commitments for the building construction project:

<u>Contractor/Vendor</u>	<u>Unpaid Amount</u>	<u>Description</u>
C.R. Hunt, Inc.	\$ 12,666	Softball complex/walkway paving
Mel Lanzer Company	3,577,765	Additional Kindergarten Rooms/General trades
Beilhart Architects, Inc	107,641	Design Services
Brint Electric, Inc.	758,296	Electrical systems/work
Fitzenrider, Inc.	925,506	Plumbing/HVAC work
FSE	27,460	Comm Services - Elem. Bldg. Project
Jackson & Sons	62,760	Geothermal well field work
Miller Contracting Group	592,943	Site work service for new elementary
Leever Glass Sales	9,680	Replacement windows
Touchstone CPM	483,129	Construction manager service-elem. OSFC Project
Arco, Inc	226,488	Equipment Contract
Vulcan Enterprises, Inc.	57,281	Fire suppression system/work

NOTE 18 - LEASES

The District has entered into a lease for RICOH workroom equipment with Marlin Leasing. The lease is for a term of 60 months beginning in July 2006. The lease includes a total of 20 quarterly payments of \$5,688 each.

The District has also entered into a lease with Cardinal Bus Sales for an 84-passenger bus. The lease is for a term of 4 years and includes a total of 4 annual payments of \$20,060 each. The District paid \$20,060 toward this lease during fiscal year 2008.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 18 – LEASES – (Continued)

Future lease payments are as follows:

<u>Year</u>	<u>Amount</u>
2009	\$42,812
2010	42,812
2011	42,812
Total	<u>\$128,436</u>

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2008**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Education:</i>			
<u>Child Nutrition Cluster:</u>			
<u>Non-cash Assistance (Food Distribution):</u>			
National School Lunch Program	10.555	\$ 397,136	\$ 397,136
<u>Cash Assistance:</u>			
National School Lunch Program	10.555	115,970	115,970
Total National School Lunch Program		<u>513,106</u>	<u>513,106</u>
School Breakfast Program	10.553	77,508	77,508
Total Nutrition Cluster		<u>590,614</u>	<u>590,614</u>
Total U.S. Department of Agriculture		<u>590,614</u>	<u>590,614</u>
U.S. DEPARTMENT OF HUMAN SERVICES			
<i>Passed Through Ohio Department of MRDD:</i>			
Medical Assistance Program (CAFS)	93.778	<u>6,992</u>	
U.S. DEPARTMENT OF EDUCATION			
<i>Passed Through Ohio Department of Education:</i>			
Title I Grants to Local Educational Agencies	84.010	499,045	514,880
Special Education Grants to States	84.027	723,088	732,952
Safe and Drug Free Schools and Communities State Grant	84.186	12,939	11,874
State Grants for Innovative Programs	84.298	7,775	6,968
Education Technology State Grants	84.318	5,698	5,698
Improving Teacher Quality State Grants	84.367	125,768	124,696
Total Department of Education		<u>1,374,313</u>	<u>1,397,068</u>
Totals		<u>\$ 1,971,919</u>	<u>\$ 1,987,682</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2008**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) summarizes activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE C – FOOD DONATION PROGRAM

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair value of the commodities received.

NOTE D- TRANSFERS

The District generally must spend Federal assistance within 15 months of receipt (funds must be obligated by June 30th and spent by September 30th). However, with ODE's approval, a District can transfer unspent Federal assistance to the succeeding year, thus allowing the District a total of 27 months to spend the assistance. Schools can document this by using special cost centers for each year's activity, and transferring the amounts ODE approves between the cost centers. During fiscal year 2008, the Ohio Department of Education (ODE) authorized the following transfers:

CFDA Number	Program Title	Pass-Through Entity Number (or Grant Year)	Transfers Out	Transfers In
84.010	Title I Grants to Local Educational Agencies	2007	\$ 25,979	
84.010	Title I Grants to Local Educational Agencies	2008		\$ 25,979
84.027	Special Education Grants to States	2007	626	
84.027	Special Education Grants to States	2008		626
84.298	State Grants for Innovative Programs	2007	167	
84.298	State Grants for Innovative Programs	2008		167
84.367	Improving Teacher Quality State Grants	2007	495	
84.367	Improving Teacher Quality State Grants	2008		495
Totals			\$ 27,267	\$ 27,267

NOTE E - COMMUNITY ALTERNATIVE FUNDING SYSTEM (CAFS)

The District received \$6,992 of CAFS money during fiscal year 2008. These funds relate to settlements for CAFS services provided during prior years.



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' 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, OH 43512

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Defiance City School District, Defiance County, (the District) as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 30, 2009, wherein, we noted the District uses a comprehensive accounting basis other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

One Government Center / Suite 1420 / Toledo, OH 43604-2246
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484
www.auditor.state.oh.us

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2008-003.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe the significant deficiency described above is not a material weakness.

We also noted certain internal control matters that we reported to the District's management in a separate letter dated January 30, 2009.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2008-001 and 2008-002.

We also noted certain noncompliance matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated January 30, 2009.

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

We intend this report solely for the information and use of the audit committee, management, Board of Education, federal awarding agencies, and pass-through entities. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

January 30, 2009



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

To the Board of Education:

Compliance

We have audited the compliance of Defiance City School District, Defiance County, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to its major federal programs for the year ended June 30, 2008. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the Defiance City School District, Defiance County, complied, in all material respects, with the requirements referred to above that apply to its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that the District's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

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 that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We intend this report solely for the information and use of the audit committee, management, Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

January 30, 2009

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2008**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

FINDING NUMBER 2008-001

Noncompliance Citation

Ohio Revised Code § 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code §117-2-03 further clarifies the requirements of Ohio Revised Code § 117.38.

Ohio Administrative Code §117-2-03(B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. For fiscal year 2008, the District prepared financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the modified basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit certain assets, liabilities, fund equities, and disclosures, that while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38 the District may be fined and subject to various other administrative remedies for its failure to file the required financial report. Failure to report on a GAAP basis compromises the District's ability to evaluate and monitor the overall financial condition of the District.

We recommend the District take the necessary steps to ensure the financial report is prepared in accordance with generally accepted accounting principles.

Officials Response: Per Board Resolution 07-139 approved June 25, 2007; the Board authorized financial statements to be prepared in a GAAP like format beginning with fiscal year 2007. The Board's decision was based upon cost and time efficiencies for a practice that does not seem beneficial to the District.

FINDING NUMBER 2008-002

Finding For Recovery Repaid under Audit

The District utilizes volunteers to sell tickets during athletic events. The funds collected from such sales are then turned over to the Jerry Buti, Athletic Director. The Athletic Director then deposits the funds with the District's Treasurer. On September 6, 2007, the high school soccer game reported total collections of \$385 on the ticket sales report. The amount actually deposited was \$255, leaving a shortage in collections that could not be accounted for.

In accordance with the foregoing facts, and pursuant to the ORC § 117.28, a Finding for Recovery for public money due but not collected is hereby issued against Jerry Buti, Athletic Director, in the amount of one hundred and thirty dollars (\$130) , and in favor of the Defiance City School District's Athletic Fund.

**FINDING NUMBER 2008-002
(Continued)**

Officials Response: As stated to the audit team on site, I agree that we had a problem with this particular event. However, I do not believe the District is at fault of any illegal and wrong doing but merely poor paperwork and accounting. As both Ms. Thomas (athletic secretary) and Mr. Buti have stated, the discrepancy is in the determination of what the total ticket sales were. It is blatantly obvious that adult tickets were used for both adults and students which cause a problem since there is a difference in price for both. To further complicate matters, we are unsure if multiple tickets were tore in error. In addition, the amount that was deposited is very similar to deposits for this same sporting event that occurred on dates prior to and after this particular event. The District has admitted that there was not a thorough enough "investigation" done at the time the discrepancy was encountered. All of these issues have been addressed and procedures have been changed.

In summary, I do not feel this is an actual finding for recovery issue since how do we truly know what the shortage is. However, I do support a managerial non-compliance citation that should be (and again, has been) immediately addressed. With the aforementioned, I understand that we have the legal obligation to collect the shortage and deposit to the athletic fund. The funds will be collected and the athletic fund will be made whole.

The finding was repaid under audit by Jerry Buti, on January 29, 2009, on receipt #290847 in the amount of \$130.

FINDING NUMBER 2008-003

Significant Deficiency

Sale Project Potential Forms

Sales project potential forms were not completed for fund raisers. Prom ticket sales, Homecoming ticket sales, and Chicago Candy fundraisers did not have any supporting documentation to support revenue collected. Monies collected for these projects amounted to \$30,975 out of a total of \$52,298 agency fund revenues. Failure to complete sales project forms could result in errors or irregularities not being detected during the normal course of operations. The forms should be used as a source for approval of all fund raisers, completing the estimated portion of the form and having it approved by the appropriate District personnel prior to starting a fund raiser. At the end of the fund raiser the actual portion of the form should be completed and reconciled to the funds paid into the District Treasurer. Actual amounts should also be reconciled to the estimated amounts with any discrepancies appropriately explained. In addition, all activities should maintain records to support the amounts recorded on the sales project potential form. All fundraising activities and revenue collection should be supported with proper record keeping to indicate source of revenue and to ensure all revenue collected was deposited with the District.

Officials Response: A handbook outlining procedures for items such as; fundraisers, prom ticket sales etc. is currently under creation and review. The handbook will assist advisors, coaches and personnel involved with such activities to follow all required procedures and maintain compliance. This will be implemented beginning with the 2009-2010 school year which will allow the CFO/Treasurer time to meet with the parties involved and provide an in-service of the procedures and process.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
Finding 2007-001	Revised Code § 117.38-filing of reports on a Non-GAAP basis	No	Not Corrected. Reissued as finding 2008-001 in this report.
Finding 2007-002	Revised Code § 5705.39-appropriations exceeded estimated resources	Yes	



Mary Taylor, CPA
Auditor of State

DEFIANCE CITY SCHOOL DISTRICT

DEFIANCE COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 19, 2009**