



**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2010



Mary Taylor, CPA
Auditor of State



Dave Yost • Auditor of State

January 13, 2011

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 10, 2011. Thus, I am certifying this audit report for release under the signature of my predecessor.

A handwritten signature in black ink that reads "Dave Yost".

DAVE YOST
Auditor of State

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**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, Ohio 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, 2010, 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, the major fund, and the aggregate remaining fund information of Defiance City School District, Defiance County, Ohio, as of June 30, 2010, and the respective changes in modified cash financial position and the budgetary comparison for the General fund 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 December 21, 2010, 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The federal awards receipts and expenditures schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The federal awards receipts and expenditures schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. 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

December 21, 2010

**Defiance City School District
Defiance County**

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
UNAUDITED

The discussion and analysis of Defiance City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2010. 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 2010 are as follows:

- In total, net assets decreased \$46,180, which represents a less than one percent decrease from 2009.
- General receipts accounted for \$22,872,802 in receipts or 83 percent of all receipts and reflect the District's significant dependence on local property taxes, income taxes and unrestricted state entitlements.
- The District had \$27,825,626 in disbursements related to governmental activities; only \$4,906,644 of these disbursements was offset by program specific charges for services and sales or restricted grants, contributions and interest. General receipts and previously unrestricted fund balances supported the remaining disbursements of \$22,918,982 associated with governmental activities.
- Outstanding debt decreased from \$10,155,000 to \$9,985,000, through payments of the elementary building note and bond principal.

Using the Basic Financial Statements

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

The Statement of Net Assets and the Statement of Activities provide information about the activities of the whole District. 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, Permanent Improvement Fund, and the Ohio School Facilities Commission ("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.

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

**Defiance City School District
Defiance County**

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
UNAUDITED

Reporting the District as a Whole

The Statement of Net Assets and the Statement of Activities reflect how the District did financially during fiscal year 2010. 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 District's Most Significant Funds

The analysis of the District's Major Funds begins on page 8. 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 2010 are the General Fund, Permanent Improvement 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 cash basis of accounting.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for some of its scholarship and trust programs. This activity is presented as a private purpose trust fund. The District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in agency funds. The District's fiduciary activities are reported in separate Statements of Fiduciary Net 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, 2010
UNAUDITED

The District as a Whole

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

Table 1 provides a summary of the District's net assets for fiscal year 2010 in comparison to fiscal year 2009:

**Table 1
Net Assets
Governmental Activities**

	2010	2009
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 6,084,533	\$ 5,839,417
Cash and Equivalents with Escrow Agents		291,296
Total Assets	\$ 6,084,533	\$ 6,130,713
Net Assets		
Restricted for:		
Capital Projects	\$ 2,285,993	\$ 3,012,404
Debt Service	359,909	309,308
Other Purposes	1,384,870	995,405
Unrestricted	2,053,761	1,813,596
Total Net Assets	\$ 6,084,533	\$ 6,130,713

For fiscal year 2010, a portion of the District's net assets, \$4,030,772 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 \$2,053,761 may be used to meet the District's ongoing obligations. For fiscal year 2009, these amounts were \$4,317,117 with external restrictions, and \$1,813,596 remaining for general operations. Net Assets of the Governmental Activities decreased \$46,180, which represents a less than one percent decrease over fiscal year 2009. 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, 2010
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Table 2 reflects the changes in net assets for fiscal year 2010 as compared to fiscal year 2009.

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

	2010	2009
<u>Receipts</u>		
Program Receipts:		
Charges for Services	\$ 1,819,675	\$ 1,877,013
Operating Grants, Contributions and Interest	3,064,848	3,851,672
Capital Grants, Contributions and Interest	22,121	977,238
Total Program Receipts	4,906,644	6,705,923
General Receipts:		
Property Taxes	6,707,520	6,697,806
Income Taxes	1,362,802	1,572,654
Payment in Lieu of Taxes	9,262	13,832
Grants and Entitlements	13,876,223	12,190,404
Proceeds from the Issuance of Notes	740,000	785,000
Proceeds from Sale of Capital Assets	3,075	461,234
Interest	47,131	77,100
Miscellaneous	109,599	43,626
Other Financing Sources	17,190	80,917
Total General Receipts	22,872,802	21,922,573
Total Receipts	27,779,446	28,628,496
<u>Program Disbursements</u>		
Instruction		
Regular	10,022,392	9,428,099
Special	2,932,905	2,773,865
Vocational	313,662	400,923
Student Intervention Services	65,849	
Other	1,518,529	1,608,079
Support Services		
Pupils	1,412,134	1,207,929
Instructional Staff	1,439,312	1,367,098
Board of Education	41,419	46,104
Administration	1,638,448	1,726,525
Fiscal	564,457	570,347
Business	15,000	
Operation and Maintenance of Plant	2,273,829	2,440,415
Pupil Transportation	960,509	822,520
Central	128,016	23,334
Food Services	1,120,032	1,108,616
Operation of Non-Instructional Services	324,358	362,410
Extracurricular Activities	797,122	779,876
Capital Outlay	885,664	8,911,631
Debt Service	1,371,989	1,399,161

**Defiance City School District
Defiance County**

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
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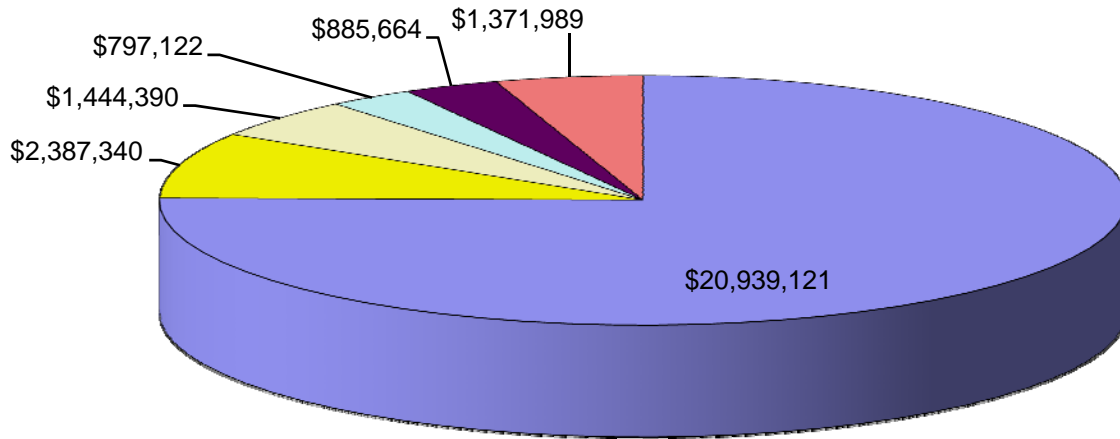
Total Disbursements	27,825,626	34,976,932
Decrease in Net Assets	<u>\$ (46,180)</u>	<u>\$(6,348,436)</u>

The total disbursements of \$27,825,626 were offset by program receipts of \$4,906,644 and by general receipts of \$22,872,802. Program receipts supported 17.6 percent of the total governmental disbursements. Capital outlay was reduced by \$8,025,967 as the District substantially completed the OSFC project in fiscal year 2010. The primary sources of general receipts for governmental activities are derived from property taxes, income taxes and grants and entitlements. These receipt sources represent 79.0 percent of total governmental receipts.

The major program disbursement for governmental activities is for instruction, which accounts for 53.4 percent of all governmental disbursements. Other programs which support the instruction process, including pupils, instructional staff, and pupil transportation account for 13.7 percent of governmental disbursements. Maintenance of the District's facilities also represents a significant disbursement, 8.2 percent. Therefore, 75.3 percent 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, Instructional Staff, Transportation, Operation and Maintenance of Plant (\$20,939,121)
■ Other Support Services (\$2,387,340)
■ Food Services and Operation of Non-Instructional Services (\$1,444,390)
■ Extracurricular Activities (\$797,122)
■ Capital Outlay (\$885,664)
■ Debt Service (\$1,371,989)

**Defiance City School District
Defiance County**

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
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Governmental Activities

Table 3 indicates the total cost of services and the net cost of services for governmental activities for 2010 and 2009. The statement of activities reflects the cost of program services and the charges for services, grants, contributions and interest offsetting those services. The net cost of services identifies the cost of those services supported by tax receipts and unrestricted state entitlements.

**Table 3
Governmental Activities**

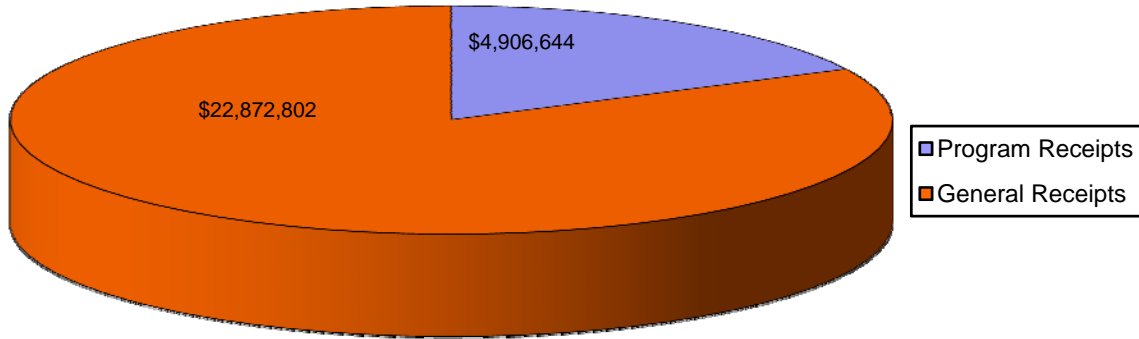
	Total Cost of Services 2010	Net Cost of Services 2010	Total Cost of Services 2009	Net Cost of Services 2009
Instruction:				
Regular	\$ 10,022,392	\$ 8,525,679	\$ 9,428,099	\$ 8,266,579
Special	2,932,905	2,293,711	2,773,865	853,803
Vocational	313,662	221,690	400,923	262,829
Student Intervention	65,849			
Services		36,917		
Other	1,518,529	1,518,529	1,608,079	1,542,107
Support Services:				
Pupils	1,412,134	1,265,438	1,207,929	1,184,925
Instructional Staff	1,439,312	1,072,437	1,367,098	1,111,485
Board of Education	41,419	41,419	46,104	46,104
Administration	1,638,448	1,629,543	1,726,525	1,714,352
Fiscal	564,457	526,848	570,347	534,990
Business	15,000	(915)		
Operation and Maintenance				
of Plant	2,273,829	2,215,559	2,440,415	2,351,829
Pupil Transportation	960,509	960,509	822,520	689,399
Central	128,016	118,850	23,334	20,913
Food Services	1,120,032	(260,735)	1,108,616	(72,219)
Non-Instructional Services	324,358	32,858	362,410	26,864
Extracurricular Activities	797,122	499,585	779,876	456,803
Capital Outlay	885,664	849,071	8,911,631	7,975,370
Debt Service	1,371,989	1,371,989	1,399,161	1,304,876
Total Disbursements	<u>\$27,825,626</u>	<u>\$22,918,982</u>	<u>\$34,976,932</u>	<u>\$28,271,009</u>

The dependence upon tax receipts and unrestricted state entitlements for governmental activities is demonstrated in the previous table. Approximately 84.6 percent of instruction activities, 77.1 percent of support services, and 95.9 percent of capital outlay disbursements are supported through taxes and other general receipts.

**Defiance City School District
Defiance County**

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
UNAUDITED

Governmental Activities - General vs. Program Receipts



The District's Funds

The District's governmental funds are accounted for using the modified cash basis of accounting on the fund financial statements. Including Other Financing Sources and Uses, total governmental funds had receipts of \$27,790,679 and disbursements of \$27,836,859 in fiscal year 2010. The overall negative change for 2010 is \$46,180 in fund balance for the fiscal year, primarily attributable to continued large capital outlay disbursements for the construction of the new elementary school.

General Fund - Fund balance at June 30, 2010 was \$2,053,761, including \$1,954,581 of unreserved fund balance. Unreserved fund balance comprised 95.2 percent of the total fund balance. General fund disbursements and other financing uses were \$21,513,161, or 77.3 percent of total governmental disbursements.

Permanent Improvement Fund – Fund balance at June 30, 2010 was \$652,202 of which the entire balance was unreserved as of year-end. For fiscal year 2010, fund balance increased \$11,173. Permanent Improvement fund disbursements were \$13,864, or less than one percent of total governmental disbursements.

OSFC Local/State Share Fund – Fund balance at June 30, 2010 was \$1,511,542, including \$1,433,399 of unreserved fund balance. Unreserved fund balance comprised 94.8 percent of the total fund balance. OSFC Local/State Share fund disbursements were \$449,320, or 1.6 percent of total governmental disbursements.

General Fund Budgeting Highlights

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

During fiscal year 2010, the District amended its General Fund budget as needed. Final budgeted receipts and other financing sources in the amount of \$21,769,733 were slightly above original budgeted receipts and other financing sources of \$21,302,483, which did not represent a significant change. This difference is mostly due to unanticipated increases in property taxes.

General fund original budgeted disbursements and other financing uses of \$22,628,816 were decreased to \$22,288,703, which did not represent a significant change. The actual disbursements and other

**Defiance City School District
Defiance County**

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
UNAUDITED

financing uses for fiscal year 2010 totaled \$21,612,341 which was \$676,362 less than the final budgeted disbursements and other financing uses, which did not represent a significant change.

Debt

The District's outstanding debt obligations at fiscal year-end consisted of an Elementary Building bond anticipation note for \$740,000 and the OSFC Elementary Building bonds of \$9,245,000. For further information regarding the District's long-term obligation, see Note 11 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. The 5-year emergency levy renewal will not be sufficient to meet all general fund operating disbursements without having to seek additional support for operating monies prior to the renewal expiration in 2012. The necessity is largely due to the provisions of HB66 with the phase-out of the tangible personal property tax and increased operating disbursements. The type, term and size of this levy are undecided at this time. Collections continue on the current 5-year levy.

The Board of Education continues to aggressively market the District to local and area students to increase enrollment. The Board has implemented every-day, all-day kindergarten services as well as developmental kindergarten and school-wide programs to help combat its outgoing enrollment. The 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 District's Financial Management

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

**Defiance City School District
Defiance County
Statement of Net Assets - Modified Cash Basis
June 30, 2010**

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 6,084,533</u>
 Net Assets	
Restricted for:	
Capital Projects	\$ 2,285,993
Debt Service	359,909
Other Purposes	1,384,870
Unrestricted	<u>2,053,761</u>
 <i>Total Net Assets</i>	 <u><u>\$ 6,084,533</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, 2010

	Cash Disbursements	Charges for Services and Sales	Program Cash Receipts		Net (Disbursements) Receipts and Changes in Net Assets
			Operating Grants, Contributions and Interest	Capital Grants, Contributions and Interest	Total
Governmental Activities:					
Instruction					
Regular	\$ 10,022,392	\$ 785,432	\$ 711,281		\$ (8,525,679)
Special	2,932,905	182,880	456,314		(2,293,711)
Vocational Education	313,662		91,972		(221,690)
Student Intervention Services	65,849		28,932		(36,917)
Other	1,518,529				(1,518,529)
Support Services					
Pupil	1,412,134		146,696		(1,265,438)
Instructional Staff	1,439,312		366,875		(1,072,437)
Board of Education	41,419				(41,419)
Administration	1,638,448		8,905		(1,629,543)
Fiscal	564,457	29,671	7,938		(526,848)
Business	15,000	15,915			915
Operation and Maintenance of Plant	2,273,829	1,021	57,249		(2,215,559)
Pupil Transportation	960,509				(960,509)
Central	128,016	2,307	6,859		(118,850)
Food Services	1,120,032	476,526	904,241		260,735
Operation of Non-Instructional Services	324,358	94,622	196,878		(32,858)
Extracurricular Activities	797,122	216,829	80,708		(499,585)
Capital Outlay	885,664	14,472		\$ 22,121	(849,071)
Debt Service					
Principal	910,000				(910,000)
Interest	444,799				(444,799)
Issuance Costs	17,190				(17,190)
Total Governmental Activities	\$ 27,825,626	\$ 1,819,675	\$ 3,064,848	\$ 22,121	(22,918,982)

General Receipts

Property Taxes Levied for:	
General Purposes	6,027,041
Debt Service	583,972
Building Maintenance	96,507
Income Taxes Levied for General Purposes	1,362,802
Payments in Lieu of Taxes	9,262
Grants and Entitlements not Restricted to Specific Programs	13,876,223
Proceeds from the Issuance of Notes	740,000
Proceeds from Sale of Capital Assets	3,075
Interest	47,131
Premium/Accrued Interest on Bonds Issued	17,190
Miscellaneous	109,599
Total General Receipts	22,872,802
Change in Net Assets	(46,180)
Net Assets - Beginning of Year	6,130,713
Net Assets - End of Year	\$ 6,084,533

Defiance City School District
Defiance County
Statement of Assets and Fund Balances - Modified Cash Basis
Governmental Funds
June 30, 2010

	General Fund	Permanent Improvement Fund	OSFC Local/State Share Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$ 2,053,761	\$ 652,202	\$ 1,511,542	\$ 1,867,028	\$ 6,084,533
Fund Balances					
Reserved for Encumbrances	\$ 99,180		\$ 78,143	\$ 86,364	\$ 263,687
Unreserved:					
Undesignated, Reported in:					
General Fund	1,954,581				1,954,581
Special Revenue Funds				1,322,477	1,322,477
Debt Service Funds				359,909	359,909
Capital Projects Funds		\$ 652,202	1,433,399	98,278	2,183,879
Total Fund Balances	\$ 2,053,761	\$ 652,202	\$ 1,511,542	\$ 1,867,028	\$ 6,084,533

See accompanying notes to the Basic Financial Statements.

Defiance City School District
Defiance County
Statement of Cash Receipts, Disbursements and Changes in Fund Balances - Modified Cash Basis
Governmental Funds
For the Fiscal Year Ended June 30, 2010

	General Fund	Permanent Improvement Fund	OSFC Local/State Share Fund	Other Governmental Funds	Total Governmental Funds
Receipts					
Property and Other Local Taxes	\$ 6,027,041			\$ 680,479	\$ 6,707,520
Income Taxes	1,362,802				1,362,802
Payments in Lieu of Taxes		\$ 9,262			9,262
Intergovernmental	13,183,911		\$ 20,473	3,671,508	16,875,892
Interest	47,131	1,303	332	6,319	55,085
Tuition and Fees	963,052			94,622	1,057,674
Rent	15,212	14,472		3,816	33,500
Extracurricular Activities				235,208	235,208
Customer Sales and Services	16,765			472,385	489,150
Gifts and Donations				72,784	72,784
Miscellaneous	8,936			11,223	20,159
<i>Total Receipts</i>	<u>21,624,850</u>	<u>25,037</u>	<u>20,805</u>	<u>5,248,344</u>	<u>26,919,036</u>
Disbursements					
Current:					
Instruction					
Regular	9,241,571			780,821	10,022,392
Special	2,489,445			443,460	2,932,905
Vocational Education	313,662				313,662
Student Intervention Services	11,686			54,163	65,849
Other	1,505,545			12,984	1,518,529
Support Services					
Pupil	1,265,767			146,367	1,412,134
Instructional Staff	1,088,327			350,985	1,439,312
Board of Education	41,419				41,419
Administration	1,629,580			8,868	1,638,448
Fiscal	500,420			64,037	564,457
Business				15,000	15,000
Operation and Maintenance of Plant	1,635,674			638,155	2,273,829
Pupil Transportation	934,733			25,776	960,509
Central	103,425			24,591	128,016
Food Services				1,120,032	1,120,032
Operation of Non-Instructional Services				324,358	324,358
Extracurricular Activities	527,289			269,833	797,122
Capital Outlay	196,195	13,864	449,320	226,285	885,664
Debt Service:					
Principal				910,000	910,000
Interest				444,799	444,799
Issuance Costs	17,190				17,190
<i>Total Disbursements</i>	<u>21,501,928</u>	<u>13,864</u>	<u>449,320</u>	<u>5,860,514</u>	<u>27,825,626</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>122,922</u>	<u>11,173</u>	<u>(428,515)</u>	<u>(612,170)</u>	<u>(906,590)</u>
Other Financing Sources (Uses)					
General Obligation Bonds Issued				740,000	740,000
Premium on Bonds Issued	17,190				17,190
Proceeds from Sale of Capital Assets	3,075				3,075
Refund of Prior Year Disbursements	108,211			25	108,236
Advances-Out	(3,142)				(3,142)
Refund of Prior Year Receipts	(8,091)				(8,091)
Advances-In				3,142	3,142
<i>Total Other Financing Sources (Uses)</i>	<u>117,243</u>			<u>743,167</u>	<u>860,410</u>
<i>Net Change in Fund Balances</i>	240,165	11,173	(428,515)	130,997	(46,180)
<i>Fund Balances - Beginning of Year</i>	<u>1,813,596</u>	<u>641,029</u>	<u>1,940,057</u>	<u>1,736,031</u>	<u>6,130,713</u>
<i>Fund Balances - End of Year</i>	<u>\$ 2,053,761</u>	<u>\$ 652,202</u>	<u>\$ 1,511,542</u>	<u>\$ 1,867,028</u>	<u>\$ 6,084,533</u>

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 Fiscal Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Receipts				
Property Taxes	\$ 5,509,864	\$ 6,027,041	\$ 6,027,041	
Income Taxes	1,450,000	1,362,802	1,362,802	
Intergovernmental	13,214,434	13,192,532	13,183,911	\$ (8,621)
Interest	75,000	55,000	47,131	(7,869)
Tuition and Fees	945,218	965,955	963,052	(2,903)
Rent	14,427	14,427	15,212	785
Customer Sales and Services	14,000	14,000	16,765	2,765
Gifts and Donations	500	500		(500)
Miscellaneous	9,000	9,000	8,936	(64)
<i>Total Receipts</i>	<u>21,232,443</u>	<u>21,641,257</u>	<u>21,624,850</u>	<u>(16,407)</u>
Disbursements				
Current:				
Instruction				
Regular	9,400,775	9,340,518	9,253,383	87,135
Special	2,547,862	2,567,857	2,491,045	76,812
Vocational Education	365,443	351,974	313,662	38,312
Student Intervention Services	17,320	13,103	11,686	1,417
Other	1,527,372	1,511,867	1,511,865	2
Support Services				
Pupil	1,395,378	1,307,320	1,266,987	40,333
Instructional Staff	1,188,060	1,145,426	1,088,418	57,008
Board of Education	73,754	55,549	42,482	13,067
Administration	1,725,799	1,694,230	1,631,451	62,779
Fiscal	548,928	503,821	500,770	3,051
Operation and Maintenance of Plant	1,948,417	1,867,572	1,696,773	170,799
Pupil Transportation	952,059	997,673	938,172	59,501
Central	122,923	111,619	109,301	2,318
Extracurricular Activities	529,963	538,553	527,719	10,834
Capital Outlay:				
Building Improvement Services	208,231	205,089	152,095	52,994
Other Facilities Acquisition and Construction	48,109	48,109	48,109	
Debt Service:				
Issuance Costs	17,190	17,190	17,190	
<i>Total Disbursements</i>	<u>22,617,583</u>	<u>22,277,470</u>	<u>21,601,108</u>	<u>676,362</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(1,385,140)</u>	<u>(636,213)</u>	<u>23,742</u>	<u>659,955</u>
Other Financing Sources (Uses)				
Premium on Bonds and Notes Issued	17,190	17,190	17,190	
Proceeds from Sale of Capital Assets	3,075	3,075	3,075	
Refund of Prior Year Disbursements	49,775	108,211	108,211	
Advances Out	(3,142)	(3,142)	(3,142)	
Refund of Prior Year Receipts	(8,091)	(8,091)	(8,091)	
<i>Total Other Financing Sources (Uses)</i>	<u>58,807</u>	<u>117,243</u>	<u>117,243</u>	
Net Change in Fund Balances	(1,326,333)	(518,970)	140,985	659,955
Fund Balance - Beginning of Year	1,379,496	1,379,496	1,379,496	
Prior Year Encumbrances Appropriated	434,100	434,100	434,100	
Fund Balance - End of Year	\$ 487,263	\$ 1,294,626	\$ 1,954,581	\$ 659,955

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, 2010

	Private Purpose Trust	Agency
Assets		
Equity Pooled in Cash and Cash Equivalents	\$ 16,514	\$ 109,228
Net Assets		
Held in Trust for Scholarships	\$ 16,514	
Held for Student Activities		\$ 109,228
<i>Total Net Assets</i>	\$ 16,514	\$ 109,228

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, 2010

	<u>Private Purpose Trust</u>
Additions	
Gifts and Contributions	\$ 15,933
Deductions	
Payments in Accordance with Trust Agreements	<u>15,000</u>
<i>Change in Net Assets</i>	933
<i>Net Assets - Beginning of Year</i>	<u>15,581</u>
<i>Net Assets - End of Year</i>	<u>\$ 16,514</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, 2010

NOTE 1 – DESCRIPTION OF THE DISTRICT AND REPORTING ENTITY

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

It is staffed by 132 non-certified employees and 201 certified teaching personnel who provide services to 2,706 students and other community members. The District currently operates three instructional/support buildings.

Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For 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 and 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 Holy Cross Catholic School, St. John Lutheran School, and the Seventh Day Adventist School are operated as private schools. Current State legislation provides funding to the parochial schools. The monies are received and disbursed on behalf of the parochial schools by the Treasurer of the District, as directed by the parochial schools. The activity is reflected in a special revenue fund of the District.

The District participates in 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 13 and 14 to the basic financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**Defiance City School District
Defiance County**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. Fund Accounting

The District classified funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other non-exchange transactions as governmental funds. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the District are divided into two categories, governmental and fiduciary.

A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

- 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:

**Defiance City School District
Defiance County**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental Funds

Governmental funds are those through which most governmental functions of the District are financed. The District's major funds are the General Fund, Permanent Improvement 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.

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

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

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

As a result of the use of the 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.

**Defiance City School District
Defiance County**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. 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, 2009 unencumbered fund balances. However, those fund balances are available for appropriations.

Appropriations

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

The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board of Education during the fiscal year.

**Defiance City School District
Defiance County**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Encumbrances

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

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 2010, investments included negotiable certificates of deposit, agency bonds, money market accounts, and STAROhio. Negotiable certificates of deposit and agency bonds are reported at cost. 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, 2010.

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 cash basis of accounting, during fiscal year 2010 was \$55,085. For the fund statements, \$47,131 interest was credited to the General Fund, of which \$31,222 was credited from other funds.

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

F. Capital Assets

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

G. Inventory and Prepaid Items

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

**Defiance City School District
Defiance County**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Accumulated Leave

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

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 8 and 9, 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.”

**Defiance City School District
Defiance County**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2010.

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" - Budget Basis presented for the general fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The 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).

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

General Fund	\$99,180
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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.

Q. Receipts and Disbursements

Program Receipts

In the Statement of Activities, receipts that are derived directly from each activity or from parties outside the District's taxpayers are reported as program receipts. The District has the following program receipts: charges for services and sales, interest, operating and capital grants and contributions.

All other governmental receipts are reported as general. All taxes are classified as general receipts even if restricted for a specific purpose.

Disbursements

Governmental activities include the District's programs and services, including instruction, support services, operation and maintenance of plant (buildings), pupil transportation, extracurricular activities, and food service operations.

**Defiance City School District
Defiance County**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Implementation of New Accounting Policies

For the year ended June 30, 2010, the District has implemented GASB Statement No. 51, “*Accounting and Financial Reporting for Intangible Assets*,” GASB Statement No. 53, “*Accounting and Financial Reporting for Derivative Instruments*,” and GASB Statement No. 58, “*Accounting and Financial Reporting for Chapter 9 Bankruptcies*.”

GASB Statement No. 51 establishes standards of accounting and financial reporting for intangible assets for all state and local governments. Inconsistencies in the accounting and financial reporting for intangible assets, particularly in the areas of recognition, initial measurement, and amortization, have occurred in practice due to the absence of sufficiently specific authoritative guidance that addresses these questions. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments.

GASB Statement No. 58 provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code.

Implementation of these GASB Statements did not affect the presentation of the financial statements of the District.

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;

**Defiance City School District
Defiance County**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

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;
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.

**Defiance City School District
Defiance County**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

The carrying amount of the District's deposits was \$405,704 and the bank balance was \$593,238. At year-end, none 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, 2010 the District has \$900 in undeposited cash on hand. This amount is included in cash and cash equivalents.

Investments

Investments are reported at cost. As of June 30, 2010, the District had the following investments:

Description	Cost Basis	Maturity (Years)	
		< 1	1-5
Federal Home Loan Mortgage Corp.	\$ 650,000		\$ 650,000
Federal Home Loan Bank	630,000		630,000
Negotiable Certificates of Deposit	394,000	\$ 99,000	295,000
Money Market Mutual Funds	1,445,713	1,445,713	
STAROhio	2,683,958	2,683,958	
Total Cost	<u>\$ 5,803,671</u>	<u>\$ 4,228,671</u>	<u>\$ 1,575,000</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.

Credit Risk

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

Custodial Credit Risk

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

**Defiance City School District
Defiance County**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

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 percent 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, Federal Home Loan Mortgage Corporation, and STAROhio. These investments are 11 percent, 11 percent, and 46 percent of the District's total investments for the amounts listed above.

NOTE 4 – INCOME TAXES

The District levies a voted tax of 0.5 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

Tangible personal property tax revenues received in calendar year 2010 (other than public utility property) represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

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 the 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 2006 – 2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

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.

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, 2010, are available to finance fiscal year 2010 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, 2010

NOTE 5 – PROPERTY TAXES (CONTINUED)

The assessed values upon which fiscal year 2010 taxes were collected are:

	<u>2009 Second-Half Collections</u>		<u>2010 First-Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential	\$ 196,787,850	80.54%	\$197,899,870	79.26%
Industrial/Commercial	38,082,740	15.59%	41,819,630	16.75%
Public Utility	9,471,410	3.87%	9,954,710	3.99%
Total Assessed Value	<u>\$ 244,342,000</u>	<u>100.00%</u>	<u>\$249,674,210</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$ 50.55		\$ 50.30	

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 2010 amounted to \$9,262.

NOTE 7 – 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.

**Defiance City School District
Defiance County**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 7 – RISK MANAGEMENT (CONTINUED)

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 2010, 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.

NOTE 8 – DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS’ Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year 2010, the allocation to pension and death benefits is 12.78 percent. The remaining 1.22 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds.

The District’s contributions to SERS for the years ended June 30, 2010, 2009 and 2008 were \$382,701, \$255,091, and \$352,740, respectively; which equaled the required contributions each year.

**Defiance City School District
Defiance County**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 8 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. State Teachers Retirement System

State Teachers Retirement System of Ohio (STRS Ohio) is a cost-sharing, multiple-employer public employee retirement system.

STRS is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, community school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

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

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

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

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

**Defiance City School District
Defiance County**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 8 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

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

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

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

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

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

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

For the fiscal year ended June 30, 2010, 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.

The District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2010, 2009 and 2008 were \$1,493,124, \$1,444,427, and \$1,778,959, respectively; 84 percent has been contributed for fiscal year 2010 and 100 percent for the fiscal years 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$8,287 made by the District and \$19,201 made by the plan members.

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio's 2009 *Comprehensive Annual Financial Report* will be available after December 31, 2009.

Additional information or copies of STRS Ohio's 2009 *Comprehensive Annual Financial Report* can be requested by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling toll-free 1-888-227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

**Defiance City School District
Defiance County**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 8 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

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, 2010, four of the Board of Education members have elected Social Security.

NOTE 9 – 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.

State Teachers Retirement System

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, 2009, 2008 and 2007. The 14 percent employer contribution rate is the maximum rate established under Ohio law. The District's contributions for post employment health care for fiscal years ended June 30, 2010, 2009 and 2008 were \$114,856, \$111,110, and \$127,068, respectively; 84 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2009 (the latest information available), the balance in the Fund was \$2.7 billion. For the fiscal year ended June 30, 2009, net health care costs paid by STRS Ohio were \$298,110,000 and STRS Ohio had 129,659 eligible benefit recipients.

School Employees Retirement System

Medicare Part B Plan

In addition to a cost-sharing multiple-employer defined benefit pension plan, SERS administers two postemployment benefit plans, the Medicare Part B Plan and the Health Care Plan. The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2010 was \$96.40 for most participants, but could be as high as \$353.60 per month depending on their income. 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 2010, the actuarially required allocation was 0.76 percent. The District's contributions for the fiscal years ended June 30, 2010, 2009 and 2008 were \$22,758, \$21,047, and \$22,459, which equaled the required contributions each year.

**Defiance City School District
Defiance County**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 8 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

Health Care Plan

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

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

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. For the year ended June 30, 2010, the health care allocation was .46 percent. 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 2010, the minimum compensation level was established at \$35,800. The surcharge added to the unallocated portion of the 14 percent employer contribution is the total amount assigned to the Health Care Fund. The District's contributions assigned to health care fund for the fiscal years ended June 30, 2010, 2009, and 2008 were \$56,141, \$155,375, and \$147,798, respectively.

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

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

NOTE 10 – 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 thirty-six days for all employees. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of fifty-nine days for all employees.

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.

**Defiance City School District
Defiance County**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 11 – LONG-TERM OBLIGATIONS

Changes in the District’s long-term obligations during fiscal year 2010 were as follows:

<u>Name of Debt</u>	<u>Interest Rate</u>	<u>Balance at 6/30/09</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/10</u>	<u>Due Within One Year</u>
Elementary Building Note	3.50%		\$ 740,000		\$ 740,000	\$ 740,000
Elementary Building Note 2006 OSFC Elementary Building Bond	4.35%	\$ 785,000		\$(785,000)		
Serial Bonds	3.25-4.25%	5,350,000		(125,000)	5,225,000	140,000
Term Bonds	4.5-4.625%	4,020,000			4,020,000	
Total Governmental Long-term Obligations		<u>\$10,155,000</u>	<u>\$ 740,000</u>	<u>\$ (910,000)</u>	<u>\$9,985,000</u>	<u>\$ 880,000</u>

Elementary Building Note – During fiscal year 2010, the District obtained a note in the amount of \$740,000 with stated interest of 3.50 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 12, 2011.

Elementary Building Note – During fiscal year 2009, the District obtained a note in the amount of \$785,000 with stated interest of 4.35 percent. This note is a rollover of a bond anticipation note originally issued in 2006 and was used to fund the OSFC project. This note was repaid during fiscal year 2010.

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

2006 Serial Bonds - The Current Interest Bonds were issued for a twenty-two fiscal year periods with final maturity on December 1, 2027. The remaining principal amount to be redeemed as of June 30, 2010, is \$5,225,000.

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.

**Defiance City School District
Defiance County**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 11 – LONG-TERM OBLIGATIONS (CONTINUED)

Payment requirements to retire general obligation debt at June 30, 2010 are as follows:

Fiscal Year Ending June 30,	2006 OSFC Elementary Building Bond	Elementary Building Note	Interest	Total
2011	\$ 140,000	\$ 740,000	\$ 431,678	\$ 1,311,678
2012	150,000		400,340	550,340
2013	200,000		393,778	593,778
2014	215,000		385,996	600,996
2015	230,000		377,653	607,653
2016-2020	1,255,000		1,706,725	2,961,725
2021-2025	1,635,000		1,416,110	3,051,110
2026-2030	2,525,000		956,656	3,481,656
2031-2034	2,895,000		278,456	3,173,456
Total	<u>\$ 9,245,000</u>	<u>\$ 740,000</u>	<u>\$ 6,347,392</u>	<u>\$16,332,392</u>

The District's overall debt margin was \$12,845,588 with an unvoted debt margin of \$249,674 at June 30, 2010.

NOTE 12 – 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 2010.

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 year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years.

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

	Textbooks	Capital Acquisition	Totals
Current Year Set Aside Requirement	\$427,728	\$427,728	\$855,456
Current Year Qualifying Expenditures	(448,222)	(427,728)	(875,950)
Excess Qualified Disbursements from Prior Years	(1,486,567)		(1,486,567)
Total	<u>\$(1,507,061)</u>		<u>\$(1,507,061)</u>
Balance Carried Forward to Fiscal Year 2011	<u>\$(1,507,061)</u>		<u>\$(1,507,061)</u>

The District had qualifying disbursements during the year that reduced the textbooks set-aside amount below zero. This amount may be used to offset future year textbook set-aside requirements.

**Defiance City School District
Defiance County**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 13 – JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Computer Association

The District is a participant in the Northwest Ohio Computer Association (the “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 2010, the District paid \$49,196 to NWOCA for various services. Financial information can be obtained from Robin Pfund, who serves as Treasurer, 22-900 State Route 34, Archbold, Ohio 43502.

B. Northern Buckeye Education Council

The Northern Buckeye Education Council (the “NBEC”) was established in 1979 to foster cooperation among educational entities located in Defiance, Fulton, Henry, 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 Pfund, who serves as Treasurer, 22-900 State Route 34, Archbold, Ohio 43502.

C. Four County Career Center

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

D. Northwestern Ohio Educational Research Council, Inc.

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

**Defiance City School District
Defiance County**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 13 – JOINTLY GOVERNED ORGANIZATIONS (CONTINUED)

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

E. Northwest Ohio Special Education Regional Resource Center

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

F. Northwest Ohio Regional Professional Development Center

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

The Center is governed by a fifteen member board made up of representatives from the participating school districts, the business community, and two institutions of higher learning. The degree of control exercised by any participating 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 14 – 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, 2010

NOTE 15 - 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2010.

NOTE 16 – CONTRACTUAL COMMITMENTS

At June 30, 2010 the District had the following outstanding contractual commitments for the building construction project:

<u>Contractor/Vendor</u>	<u>Description</u>	<u>Original Amount</u>	<u>Unpaid Amount</u>
Touchstone	Construction Management	\$ 1,138,836	\$ 56,596
Fitzenrider	Preventative Maintenance at Elementary	22,952	22,952
Miller Contracting	Site Work	1,783,399	10,000

NOTE 17 - LEASES

The District has entered into several leases for RICOH workroom equipment, copiers, printers and a duplicator and stand with Marlin Leasing. These leases are in terms of 60 months beginning in July 2006, June 2007, January 2008, September 2008, October 2008, and August 2009. These leases include a total of 20 quarterly payments of \$7,281 and 60 monthly payments of \$486.

The District has also entered into three leases with Cardinal Bus Sales in April 2008 and April 2009 for three 84-passenger buses. The leases are for terms of four years and include a total of annual payments of \$20,060 for four years and annual payments of \$41,236 for four years. The District paid \$61,296 toward these leases during fiscal year 2010.

The District has also entered into a lease agreement with Apple Financial in July 2008 for computers. The lease is for a term of three years and includes a total annual payment of \$78,112 for each of three years.

Future lease payments are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2011	\$ 174,368
2012	56,951
2013	13,864
2014	10,738
Total	<u>\$255,921</u>

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2010**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Education:</i>			
<u>Child Nutrition Cluster:</u>			
School Breakfast Program	10.553	\$106,147	\$106,147
National School Lunch Program	10.555		
Cash Assistance		605,888	605,888
Non- Cash Assistance (Food Distribution)		171,671	171,671
Total National School Lunch Program		<u>777,559</u>	<u>777,559</u>
Total U.S. Department of Agriculture		<u>883,706</u>	<u>883,706</u>
UNITED STATES DEPARTMENT OF EDUCATION			
<i>Passed Through Ohio Department of Education:</i>			
<u>Title I, Part A Cluster:</u>			
Title I Grants to Local Educational Agencies	84.010	527,085	528,986
ARRA - Title I Grants to Local Educational Agencies	84.389	58,725	58,693
Total Title I, Part A Cluster		<u>585,810</u>	<u>587,679</u>
<u>Special Education Cluster</u>			
Speicla Education Grants to States	84.027	579,974	581,911
ARRA - Special Education Grants to States	84.391	336,791	333,015
Total Special Educaton Grants to States		<u>916,765</u>	<u>914,926</u>
Safe and Drug-Free Schools and Communities State Grants	84.186	14,146	14,145
State Grants for Innovative Programs	84.298	1,202	1,202
Education Technology State Grants	84.318	5,461	5,463
Improving Teacher Quality State Grants	84.367	133,697	135,224
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants	84.394	780,649	780,649
Total U.S. Department of Education		<u>2,437,730</u>	<u>2,439,288</u>
Total Federal Awards Receipts and Expenditures		<u><u>\$3,321,436</u></u>	<u><u>\$3,322,994</u></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, 2010**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

NOTE C – FOOD DONATION PROGRAM

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

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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, Ohio 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 Defiance City School District, Defiance County, (the District) as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 21, 2010, 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 the purpose of expressing our opinion on the financial statements, but not for the purpose of opining 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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

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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 an instance of noncompliance we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2010-001.

We also noted certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated December 21, 2010.

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 management, the Board of Education, federal awarding agencies, pass-through entities, and others within the District. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

December 21, 2010



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, Ohio 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 could directly and materially affect the District's major federal programs for the year ended June 30, 2010. 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 included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the 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 complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2010.

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

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compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, 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 noted a matter involving federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated December 21, 2010.

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



Mary Taylor, CPA
Auditor of State

December 21, 2010

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010**

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 significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(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 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(a)?	No
(d)(1)(vii)	Major Programs (list):	Title I Cluster - CFDA #84.010 and #84.389 Special Education Cluster - CFDA #84.027 and #, 84.391 ARRA-State Fiscal Stabilization Fund – Education State Grants, – CFDA #84.394
(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 2010-001

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(B) which further clarifies the requirements of Ohio Revised Code § 117.38 requires the District to file annual financial reports that are prepared using generally accepted accounting principles (GAAP).

For 2010, the District prepared financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the cash basis of accounting. This presentation differs from accounting principles generally accepted in the United States of America (GAAP). There would be variances on the financial statements between the District's accounting practice and GAAP that, while presumably material, cannot be reasonably determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

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

Officials' Response:

Management will take the steps necessary to begin issuing GAAP financial statements and accompanying notes starting fiscal year 2011.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2009-001	Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03 (B) – requires the District to prepare its annual financial report in accordance with generally accepted accounting principles.	No	Not Corrected. Reissued as finding 2010-001 in this report.

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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
JANUARY 13, 2011**