

DEFIANCE CITY SCHOOL DISTRICT

DEFIANCE COUNTY

FINANCIAL STATEMENTS

Year Ended June 30, 2001



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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To the Board of Education
Defiance City School District
Defiance, Ohio

We have reviewed the independent auditor's report of the Defiance City School District, Defiance County, prepared by Steyer & Co., for the audit period July 1, 2000 through June 30, 2001. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

JIM PETRO
Auditor of State

December 19, 2001

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**DEFIANCE CITY SCHOOL DISTRICT
629 ARABELLA STREET
DEFIANCE, OHIO 43512**

DEFIANCE COUNTY

**ELECTED OFFICIALS AND
ADMINISTRATIVE PERSONNEL
AS OF JUNE 30, 2001**

<u>TITLE</u>	<u>TERM OF OFFICE/ CONTRACT PERIOD</u>	<u>SURETY</u>	<u>AMOUNT</u>	<u>PERIOD</u>
BOARD OF EDUCATION				
President: Mark A. Klein	1/1/98 - 12/31/01	The Cincinnati Insurance Company	\$50,000	Continuous
Vice-President: Peggy A. Rolf	1/1/00 - 12/31/04	The Cincinnati Insurance Company	\$50,000	Continuous
Members:				
Joe L. Eureste	1/1/98 - 12/31/01	The Cincinnati Insurance Company	\$50,000	Continuous
Christine M. Oberlin	1/1/00 - 12/31/04	The Cincinnati Insurance Company	\$50,000	Continuous
S.G. Brugler	1/1/00 – 12/31/04	The Cincinnati Insurance Company	\$50,000	Continuous
ADMINISTRATIVE PERSONNEL				
Superintendent: Dr. Richard Motuelle	8/01/00 - 7/31/04	The Cincinnati Insurance Company	\$50,000	12/28/99-12/28/02
Treasurer: Judy T. Mayes	1/1/00 - 1/1/2004	The Cincinnati Insurance Company	\$50,000	9/1/98-9/1/01

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

INDEX OF FUNDS

GOVERNMENTAL FUND TYPES:

General Fund Type:

General Fund

Special Revenue Fund Type:

District Managed Student Activities Fund(s)
Disadvantaged Pupil Program Fund
Title II/Eisenhower Grant Fund
Education Management Information System (EMIS) Fund
Disadvantaged Pupil Impact Aid Fund
Title VI-B Grant Fund
Title 1- Fund
Textbook Subsidy
Title VI - Innovative Education Program Fund
Auxiliary Services Fund
Educational Innovation Fund
Principal's Funds
Professional Development Grant Fund
Ohio School to Work Program
Drug Free Grant Fund
Ohio Reads Program

Debt Service Fund Type:

Bond Retirement Fund

Capital Projects Fund Type:

Permanent Improvement Fund
School Net Plus Fund
School Net Technology Fund
Emergency Building Repair Fund

PROPRIETARY FUND TYPES:

Enterprise Fund Type:

Food Service Fund
Uniform School Supplies Fund

FIDUCIARY FUND TYPES:

Expendable Trust Fund:

Special Trust Fund

Agency Fund Type:

Student Managed Activities Fund(s)
District Agency Fund

Account Groups

General Fixed Assets
General Long-Term Obligations

STEYER & CO.

Certified Public Accountants

2000 NORTH CLINTON STREET
DEFIANCE, OHIO 43512
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FAX (419) 782-5298

INDEPENDENT AUDITOR'S REPORT

Board of Education
Defiance City School District
Defiance, Ohio

We have audited the accompanying general purpose financial statements of the Defiance City School District as of and for the year ended June 30, 2001 as listed in the table of contents. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the District, as of June 30, 2001, and the results of its operations and cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 27, 2001 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements of the District taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the general purpose financial statements of the District. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.



STEYER & CO.
Certified Public Accountants

Defiance, Ohio
November 27, 2001

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
AS OF JUNE 30, 2001**

	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPES	FIDUCIARY FUND TYPES	ACCOUNT GROUP		Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Trust and Agency	General Fixed Assets	General Long-term Obligations	
ASSETS AND OTHER DEBITS									
Equity in pooled cash and cash investments	\$ 2,815,485	\$ 509,263	\$ -	\$ 356,065	\$ 76,658	\$ 53,714	\$ -	\$ -	\$ 3,811,185
Cash and cash equivalents with fiscal agent	-	760	-	-	-	-	-	-	760
Receivables									
Taxes	6,545,248	-	-	-	-	-	-	-	6,545,248
Accounts receivable	41,846	110	-	-	-	-	-	-	41,956
Due from other governments	496,392	-	-	-	-	-	-	-	496,392
Due from other funds	30,000	-	-	-	-	-	-	-	30,000
Restricted assets:									
Equity in pooled cash and cash investments	499,400	-	-	-	-	-	-	-	499,400
Inventory	119,706	6,717	-	-	56,735	-	-	-	183,158
Fixed assets (net, where applicable, of accumulated depreciation)	-	-	-	-	242,916	-	19,897,783	-	20,140,699
Amount to be provided from general government resources	-	-	-	-	-	-	-	2,796,200	2,796,200
Total Assets and Other Debits	<u>\$ 10,548,077</u>	<u>\$ 516,850</u>	<u>\$ -</u>	<u>\$ 356,065</u>	<u>\$ 376,309</u>	<u>\$ 53,714</u>	<u>\$ 19,897,783</u>	<u>\$ 2,796,200</u>	<u>\$ 34,544,998</u>

(Continued)

	GOVERNMENTAL FUND TYPES				PROPRIETARY	FIDUCIARY	ACCOUNT		Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	FUND TYPES Enterprise	FUND TYPES Trust and Agency	General Fixed Assets	General Long-term Obligations	
LIABILITIES									
Accounts payable	\$ 2,368	\$ 10,544	\$ -	\$ -	\$ -	\$ 419	\$ -	\$ -	\$ 13,331
Accrued salaries and benefits payable	1,364,753	66,466	-	-	50,431	-	-	-	1,481,650
Due to other funds	-	30,000	-	-	-	-	-	-	30,000
Due to other governments	252,326	12,493	-	-	61,272	1	-	123,194	449,286
Deferred revenue - taxes	5,960,998	-	-	-	-	-	-	-	5,960,998
Other liabilities	-	-	-	-	-	52,792	-	-	52,792
Compensated absences payable	13,607	-	-	-	41,184	-	-	1,824,520	1,879,311
General obligation bonds payable	-	-	-	-	-	-	-	848,486	848,486
Total Liabilities	7,594,052	119,503	-	-	152,887	53,212	-	2,796,200	10,715,854
FUND EQUITY AND OTHER CREDITS									
Investment in general fixed assets	-	-	-	-	-	-	19,897,783	-	19,897,783
Retained earnings	-	-	-	-	223,422	-	-	-	223,422
Fund balances and other credits:									
Reserved for encumbrances	-	101,231	-	-	-	-	-	-	101,231
Reserved for inventory	119,706	6,717	-	-	-	-	-	-	126,423
Reserved for property taxes advances available	584,250	-	-	-	-	-	-	-	584,250
Reserved for textbooks	168,044	-	-	-	-	-	-	-	168,044
Reserved for capital maintenance	331,356	-	-	-	-	-	-	-	331,356
Unreserved: Undesignated	1,750,669	289,399	-	356,065	-	502	-	-	2,396,635
Total Fund Equity and Other Credits	2,954,025	397,347	-	356,065	223,422	502	19,897,783	-	23,829,144
Total Liabilities, Fund Equity and Other Credits	\$ 10,548,077	\$ 516,850	\$ -	\$ 356,065	\$ 376,309	\$ 53,714	\$ 19,897,783	\$ 2,796,200	\$ 34,544,998

The accompanying notes are an integral part of these financial statements.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2001

	<u>GOVERNMENTAL FUND TYPES</u>				<u>FIDUCIARY FUND TYPES</u>	Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	
REVENUES						
Taxes	\$ 8,012.835	\$ -	\$ -	\$ -	-	\$ 8,012.835
Intergovernmental	8,757.074	1,215.916	-	49,877	-	10,022.867
Tuition and fees	9,748	-	-	-	-	9,748
Earnings on investments	242,929	31,177	-	2,377	-	276,483
Extracurricular activities	-	261,232	-	-	-	261,232
Miscellaneous	35,721	172,516	-	45,519	-	253,756
Total revenues	17,058,307	1,680,841	-	97,773	-	18,836,921
EXPENDITURES						
Instruction:						
Regular	8,066,849	312,770	-	100,417	-	8,480,036
Special	1,119,268	352,990	-	-	-	1,472,258
Vocational	290,620	-	-	-	-	290,620
Other	334,636	-	-	-	-	334,636
Support services:						
Pupils	720,245	30,068	-	-	-	750,313
Instructional staff	529,043	108,387	-	22,966	-	660,396
Board of education	420,300	-	-	-	-	420,300
Administration	1,400,693	23,916	-	-	-	1,424,609
Fiscal services	375,371	18,780	-	-	-	394,151

(Continued)

	GOVERNMENTAL FUND TYPES				FIDUCIARY FUND TYPES	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
Operation and maintenance of plant	1,631,003	-	-	-	-	1,631,003
Pupil transportation	624,225	-	-	-	-	624,225
Central services	77,857	-	-	-	-	77,857
Non-instructional services	-	306,708	-	-	-	306,708
Extracurricular activities	337,320	346,627	-	-	2,100	686,047
Capital outlay	206,875	-	-	-	-	206,875
Debt service:						
Principal retirement	-	-	156,493	-	-	156,493
Interest and fiscal charges	-	-	51,952	-	-	51,952
Total expenditures	<u>16,134,305</u>	<u>1,500,246</u>	<u>208,445</u>	<u>123,383</u>	<u>2,100</u>	<u>17,968,479</u>
Excess (deficiency) of revenues over (under) expenditures	924,002	180,595	(208,445)	(25,610)	(2,100)	868,442
OTHER FINANCING SOURCES (USES)						
Gain (loss) on sale of assets	-	-	-	-	-	-
Transfers - in	-	-	208,445	26,225	-	234,670
Transfers - out	(237,670)	-	-	-	-	(237,670)
Other miscellaneous sources (uses) of funds	<u>31,697</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,697</u>
Total other financing sources (uses)	<u>(205,973)</u>	<u>-</u>	<u>208,445</u>	<u>26,225</u>	<u>-</u>	<u>28,697</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	718,029	180,595	-	615	(2,100)	897,139
Fund balance, beginning of year	<u>2,235,996</u>	<u>216,752</u>	<u>-</u>	<u>355,450</u>	<u>2,602</u>	<u>2,810,800</u>
Fund balance, end of year	<u>\$ 2,954,025</u>	<u>\$ 397,347</u>	<u>\$ -</u>	<u>\$ 356,065</u>	<u>\$ 502</u>	<u>\$ 3,707,939</u>

The accompanying notes are an integral part of these financial statements.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2001

	General Fund			Special Revenue Funds			Debt Service Funds		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
REVENUES									
Taxes	\$ 7,950,000	\$ 7,875,031	\$ (74,969)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	8,266,800	8,757,075	490,275	1,384,970	1,220,039	(164,931)	-	-	-
Tuition and fees	500	9,748	9,248	-	-	-	-	-	-
Earnings on investments	175,000	242,929	67,929	10,725	31,177	20,452	-	-	-
Extracurricular activities	-	-	-	226,009	261,122	35,113	-	-	-
Miscellaneous	49,000	35,472	(13,528)	174,530	172,488	(2,042)	-	-	-
Total revenues	16,441,300	16,920,255	478,955	1,796,234	1,684,826	(111,408)	-	-	-
EXPENDITURES									
Instruction:									
Regular	9,495,091	8,070,142	1,424,949	467,221	323,266	143,955	-	-	-
Special	1,185,671	1,103,703	81,968	476,783	348,777	128,006	-	-	-
Vocational	315,915	289,212	26,703	-	-	-	-	-	-
Other	352,000	334,636	17,364	-	-	-	-	-	-
Support services:									
Pupils	739,756	713,011	26,745	35,441	32,946	2,495	-	-	-
Instructional staff	563,685	540,960	22,725	140,123	104,271	35,852	-	-	-
Board of education	442,151	420,300	21,851	-	-	-	-	-	-
Administration	1,542,537	1,422,422	120,115	54,436	27,170	27,266	-	-	-
Fiscal services	531,668	484,529	47,139	24,865	18,722	6,143	-	-	-
Operation and maintenance of plant	1,830,285	1,668,644	161,641	3,400	-	3,400	-	-	-

(Continued)

	General Fund			Special Revenue Funds			Debt Service Funds		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Pupil transportation	692,233	621,114	71,119	1,500	873	627	-	-	-
Central services	90,400	77,862	12,538	-	-	-	-	-	-
Non-instructional services	-	-	-	440,477	408,456	32,021	-	-	-
Extracurricular activities	378,920	338,483	40,437	485,562	370,396	115,166	-	-	-
Capital outlay	806,110	207,156	598,954	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	208,445	208,445	-
Total expenditures	<u>18,966,422</u>	<u>16,292,174</u>	<u>2,674,248</u>	<u>2,129,808</u>	<u>1,634,877</u>	<u>494,931</u>	<u>208,445</u>	<u>208,445</u>	<u>-</u>
Excess (deficiency) of revenue over (under) expenditures	(2,525,122)	628,081	3,153,203	(333,574)	49,949	383,523	(208,445)	(208,445)	-
OTHER FINANCING SOURCES (USES)									
Gain (loss) on sale of assets	5,550	5,272	(278)	-	-	-	-	-	-
Transfers - in	813,120	-	(813,120)	-	-	-	208,445	208,445	-
Refund of prior year expenditures	30,000	26,425	(3,575)	-	-	-	-	-	-
Transfers - out	(1,517,278)	(237,670)	1,279,608	-	-	-	-	-	-
Advances - out	(10,000)	-	10,000	-	-	-	-	-	-
Pass-through	(45,797)	-	45,797	-	-	-	-	-	-
Total other financing sources (uses)	<u>(724,405)</u>	<u>(205,973)</u>	<u>518,432</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>208,445</u>	<u>208,445</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(3,249,527)	422,108	3,671,635	(333,574)	49,949	383,523	-	-	-
Fund balance beginning of year	2,783,479	2,783,479	-	247,002	247,002	-	-	-	-
Prior year encumbrances appropriated	233	233	-	58,820	58,820	-	-	-	-
Fund balance end of year	<u>\$ (465,815)</u>	<u>\$ 3,205,820</u>	<u>\$ 3,671,635</u>	<u>\$ (27,752)</u>	<u>\$ 355,771</u>	<u>\$ 383,523</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2001**

	Capital Projects Funds			Expendable Trust Funds			Totals (Memorandum Only)		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
REVENUES									
Taxes	\$ -		\$ -	\$ -	\$ -	\$ -	\$ 7,950,000	\$ 7,875,031	\$ (74,969)
Intergovernmental	76,102	49,877	(26,225)	-	-	-	9,727,872	10,026,991	299,119
Tuition and fees	-	-	-	-	-	-	500	9,748	9,248
Earnings on investments	1,400	2,377	977	-	-	-	187,125	276,483	89,358
Extracurricular activities	-	-	-	-	-	-	226,009	261,122	35,113
Miscellaneous	<u>75,000</u>	<u>45,519</u>	<u>(29,481)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>298,530</u>	<u>253,479</u>	<u>(45,051)</u>
Total revenues	152,502	97,773	(54,729)	-	-	-	18,390,036	18,702,854	312,818
EXPENDITURES									
Instruction:									
Regular	106,769	100,417	6,352	-	-	-	10,069,081	8,493,825	1,575,256
Special	-	-	-	-	-	-	1,662,454	1,452,480	209,974
Vocational	-	-	-	-	-	-	315,915	289,212	26,703
Other	-	-	-	-	-	-	352,000	334,636	17,364
Support services:									
Pupils	-	-	-	-	-	-	775,197	745,957	29,240
Instructional staff	30,000	22,966	7,034	-	-	-	733,808	668,197	65,611
Board of education	-	-	-	-	-	-	442,151	420,300	21,851
Administration	-	-	-	-	-	-	1,596,973	1,449,592	147,381
Fiscal services	-	-	-	-	-	-	556,533	503,251	53,282
Operation and maintenance of plant	-	-	-	-	-	-	1,833,685	1,668,644	165,041

(Continued)

	Capital Projects Funds			Expendable Trust Funds			Totals (Memorandum Only)		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Pupil transportation	-	-	-	-	-	-	693,733	621,987	71,746
Central services	-	-	-	-	-	-	90,400	77,862	12,538
Non-instructional services	-	-	-	-	-	-	440,477	408,456	32,021
Extracurricular activities	-	-	-	2,602	2,100	502	867,084	710,979	156,105
Capital outlay	371,652	-	371,652	-	-	-	1,177,762	207,156	970,606
Debt service	-	-	-	-	-	-	208,445	208,445	-
Total expenditures	<u>508,421</u>	<u>123,383</u>	<u>385,038</u>	<u>2,602</u>	<u>2,100</u>	<u>502</u>	<u>21,815,698</u>	<u>18,260,979</u>	<u>3,554,719</u>
Excess (deficiency) of revenue over (under) expenditures	(355,919)	(25,610)	330,309	(2,602)	(2,100)	502	(3,425,662)	441,875	3,867,537
OTHER FINANCING SOURCES (USES)									
Gain (loss) on sale of assets	-	-	-	-	-	-	5,550	5,272	(278)
Transfers - in	26,225	26,225	-	-	-	-	1,047,790	234,670	(813,120)
Refund of prior year expenditures	-	-	-	-	-	-	30,000	26,425	(3,575)
Transfers - out	-	-	-	-	-	-	(1,517,278)	(237,670)	1,279,608
Advances - out	-	-	-	-	-	-	(10,000)	-	10,000
Pass-through	-	-	-	-	-	-	(45,797)	-	45,797
Total other financing sources (uses)	<u>26,225</u>	<u>26,225</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(489,735)</u>	<u>28,697</u>	<u>518,432</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(329,694)	615	330,309	(2,602)	(2,100)	502	(3,915,397)	470,572	4,385,969
Fund balance beginning of year	352,570	352,570	-	2,602	2,602	-	3,385,653	3,385,653	-
Prior year encumbrances appropriated	<u>2,880</u>	<u>2,880</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>61,933</u>	<u>61,933</u>	<u>-</u>
Fund balance end of year	<u>\$ 25,756</u>	<u>\$ 356,065</u>	<u>\$ 330,309</u>	<u>\$ -</u>	<u>\$ 502</u>	<u>\$ 502</u>	<u>\$ (467,811)</u>	<u>\$ 3,918,158</u>	<u>\$ 4,385,969</u>

The accompanying notes are an integral part of these financial statements.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN RETAINED EARNINGS - ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001

	<u>PROPRIETARY FUND TYPES</u> <u>Enterprise Funds</u>
OPERATING REVENUES	
Charges for services	\$ 500,394
Classroom materials and fees	93,445
Other	<u>9,069</u>
Total operating revenues	602,908
OPERATING EXPENSES	
Salaries and wages	330,094
Fringe benefits	127,830
Purchased services	7,915
Materials and supplies	407,774
Capital Outlay	(2,250)
Depreciation expense	9,228
Loss on disposal of equipment	<u>9,079</u>
Total operating expenses	<u>889,670</u>
OPERATING LOSS	(286,762)
NON-OPERATING REVENUE	
Intergovernmental	206,814
Donated commodities revenue	<u>50,151</u>
Total non-operating revenue	<u>256,965</u>
NET LOSS	(29,797)
RETAINED EARNINGS, BEGINNING OF YEAR	<u>253,219</u>
RETAINED EARNINGS, END OF YEAR	<u>\$ 223,422</u>

The accompanying notes are an integral part of these financial statements.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001

	<u>PROPRIETARY</u> <u>FUND TYPES</u> <u>Enterprise</u> <u>Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Operating loss	\$ (286,762)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation	9,228
Loss on sale of equipment	9,079
(Increase) decrease in assets:	
Accounts receivable and other receivables	33
Inventories	(1,711)
Increase (decrease) in liabilities:	
Accounts payable	(653)
Accrued salaries and benefits payable	7,440
Due to other governments	9,050
Compensated absences payable	<u>4,470</u>
Total adjustments	<u>36,936</u>
Net cash used in operating activities	(249,826)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Intergovernmental	206,814
Donated commodities revenue	<u>50,151</u>
Net cash provided by non-capital financing activities	256,965
CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	<u>(80,040)</u>
Net decrease in cash and cash equivalents	(72,901)
Cash and cash equivalents, beginning of year	<u>149,559</u>
Cash and cash equivalents, end of year	<u><u>\$ 76,658</u></u>

The accompanying notes are an integral part of these financial statements.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

Note 1 - Description of the School District and Reporting Entity

Defiance City School District is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The School District operates under a locally-elected five-member Board form of government and provides educational services as mandated by state and/or federal agencies. This Board of Education controls the School District's seven instructional/support facilities staffed by 70 noncertified and 169 certificated full time teaching personnel who provide services to 2,646 students and other community members.

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the School District. For Defiance City School District, this includes general operations, food service, preschool and student related activities of the School District. Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt or the levying of taxes for the organization. The School District has no component units.

The following organizations are not part of the District entity and are excluded from the accompanying financial statements:

City of Defiance - The city government is a separate politic and corporate body. A mayor and council are elected independent of any relationship with the District and administer the provision of traditional city services. Council acts as the taxing and budgetary authority for the services provided in the city.

Non-Public Schools - Within the City boundaries, non-public schools are operated by religious organizations. Current state legislation provides funding to these non-public schools. These monies are received and disbursed on behalf of the non-public schools by the treasurer of the District. The accounting for these school operations is reflected as part of the Fiduciary/Agency Funds of the District.

The School District is associated with organizations which are defined as jointly governed organizations and group purchasing pools. These organizations include the Northwest Ohio Computer Association, the Northern Buckeye Education Council, the Four County Joint Vocational School, the Northern Buckeye Education Council's Employee Insurance Benefits Program, and the Northern Buckeye Education Council Workers' Compensation Group Rating Plan. These organizations are presented in Notes 15 and 16 to the general purpose financial statements.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

Note 2 - Summary of Significant Accounting Policies

The financial statements of Defiance City School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

A. Basis Of Presentation - Fund Accounting

The School District uses funds and account groups to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

For financial statement presentation purposes, the various funds of the School District are grouped into the following generic fund types under the broad fund categories governmental, proprietary and fiduciary.

Governmental Fund Types Governmental funds are those through which most governmental functions of the School District are financed. The acquisition, use and balances of the School District's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the School District's governmental fund types:

General Fund The general fund is the operating fund of the School District and 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 School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds Special revenue funds are used to account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Funds Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Funds Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Proprietary Fund Types Proprietary funds are used to account for the School District's ongoing activities which are similar to those found in the private sector. The following are the School District's proprietary fund types:

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

Enterprise Funds Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Fiduciary Fund Types Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The School District's fiduciary funds include expendable trust, and agency funds. Expendable trust funds are accounted for in essentially the same manner as governmental funds. The School District's agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Account Groups To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term obligations related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group This account group is established to account for all fixed assets of the School District, other than those accounted for in the proprietary funds.

General Long-Term Obligations Account Group This account group is established to account for all long-term obligations of the School District except those accounted for in the proprietary funds.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary fund types and nonexpendable trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental, expendable trust and agency funds. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the School District is sixty days after year end.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: taxpayer assessed income tax, interest, tuition, grants, and student fees.

The School District reports deferred revenues on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Property taxes measurable as of June 30, 2001, and delinquent property taxes whose availability is indeterminable and which are intended to finance fiscal year 2001 operations, have been recorded as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

The accrual basis of accounting is utilized for reporting purposes by the proprietary fund types and nonexpendable trust funds. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

C. 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 appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the object level within each function. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Advances in and Advances out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

Tax Budget Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing or increased tax rates. By no later than January 20, the Board-adopted budget is filed with the County Budget Commission for rate determination.

Estimated Resources By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2001. Prior to year-end, the School District requested an amended certificate of estimated resources that reflected actual revenue for the fiscal year.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

Appropriations Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission. Any revisions that alter the total of any fund appropriations or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of Education. The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, other than agency funds, consistent with statutory provisions.

Encumbrances As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Encumbrances plus expenditures may not legally exceed appropriations at the legal level of control. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds and reported in the notes to the financial statements for proprietary funds.

Lapsing of Appropriations At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

D. Cash and Cash Equivalents

To improve cash management, all cash received by the School District Treasurer is pooled in a central bank account. Monies for all funds, including proprietary funds, are maintained in this pool account or temporarily used to purchase short-term investments. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the balance sheet. The School District utilizes a financial institution to service bonded debt as principal and interest payments come due. The balance in this account is presented on the combined balance sheet as "cash and cash equivalents with fiscal agents" and represents deposits.

Investments are stated at cost which approximates market value. Investment earnings are allocated as authorized by State statute.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents.

E. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets include revenue amounts required to be set aside by the School District for the purchase of textbooks and capital maintenance. See Note 20 for the calculation of the year-end restricted asset balance and the corresponding fund balance reserve.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

F. Inventory

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets. Inventories of proprietary funds consist of donated food, purchased food, and school supplies held for resale and are expended when used.

G. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Fixed assets utilized in the proprietary funds are capitalized in the respective fund. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the dates received. The School District maintains a capitalization threshold of \$500 except for the cost of textbooks. This is based primarily on the uniqueness of these items to a school operation and an existing five-year textbook adoption policy. Public domain ("infrastructure") general fixed assets consisting of curbs, gutters, sidewalks, drainage systems and lighting systems are not capitalized, as these assets are immovable and of value only to the government. The School District does not possess any infrastructure.

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of general fixed assets is also not capitalized.

Assets in the general fixed assets account group are not depreciated. Depreciation of furniture and equipment and vehicles in the proprietary fund types is computed using the straight-line method over an estimated useful life of ten years. Improvements to fund fixed assets are depreciated over the remaining useful lives of the related fixed assets.

H. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Other than commodities, grants and entitlements for proprietary fund operations are recognized as non-operating revenues in the accounting period in which they are earned and became measurable.

The School District currently participates in several State and federal programs, categorized as follows:

Entitlements

General Fund

State Foundation Program
School Bus Purchase

DEFIANCE CITY SCHOOL DISTRICT
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

Non-Reimbursable Grants

Special Revenue Funds

Title VIB - Flow Through
Eisenhower Grant/Title II
Title I
Title VI
Title VI-R
Drug Free Schools
Preschool
Disadvantaged Pupil Program
Excellence in Education
Martha Holden Jennings Foundation
Auxiliary Services
Educational Management Information System
Ohio School to Work Program
Professional Development
Ohio Reads Program

Capital Projects Funds

School Net Plus
School Net Technology Grant

Reimbursable Grants

General Fund

Driver Education

Proprietary Funds

National School Lunch Program
Government Donated Commodities

I. Interfund Assets/Liabilities

Receivables and payables resulting from transactions between funds for services provided or goods received are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables" and "interfund payables". Long-term interfund loans are classified as "advances to/from other funds" and are equally offset by a fund balance reserve account which indicates that they do not constitute available expendable resources since they are not a component of net current assets.

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

DEFIANCE CITY SCHOOL DISTRICT
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

K. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current expendable available financial resources. In general, amounts paid more than sixty days after year end are considered not to have been paid with current available financial resources. Bonds and capital leases are recognized as a liability of the general long-term obligations account group until due.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

Under Ohio law, a debt retirement fund must be created and used for the payment of tax anticipation notes. Generally accepted accounting principles requires the reporting of the liability in the funds that received the proceeds. To comply with GAAP reporting requirements, the activity of the School District's debt service fund has been split among the appropriate funds. Debt service fund resources used to pay both principal and interest have also been allocated accordingly.

L. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

M. Fund Balance Reserves

The School District records reservations for portions of fund equity 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 equity reserves are established for property taxes, inventories of supplies and materials, encumbrances, textbooks and capital maintenance reserve. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

N. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

O. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Totals (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

Note 3 - Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations and changes in fund balance/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual, All Governmental Fund Types and Expendable Trust Funds and the Combined Statement of Revenues, Expenses and Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual, All Proprietary Fund Types and Nonexpendable Trust Funds are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosures in the proprietary fund types (GAAP basis).
4. Proceeds from and principal payment on bond and tax anticipation notes are reported on the operating statement (budget basis) rather than on the balance sheet (GAAP basis).
5. The School District repays short-term note debt from the debt service fund (budget basis) as opposed to the fund that received the proceeds (GAAP basis). Debt service fund resources used to pay both principal and interest have been allocated accordingly.
6. Although not part of the appropriated budget, the Drug Free Schools Grant, Eisenhower Grant and Title VI-B special revenue funds are included as part of the reporting entity when preparing financial statements that conform with GAAP.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements for all governmental fund types:

Excess (Deficiency) of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses
All Governmental Fund Types and Expendable Trust Funds

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>
GAAP Basis	\$ 718,029	\$ 180,595	\$ -	\$ 615	\$ (2,100)
Change in receivables and other assets not recognized on budget basis – July 1 to June 30	(748,227)	2,668	-	-	-
Change in liabilities not recognized on budget basis – July 1 to June 30	561,371	20,177	-	-	-
Reserve for encumbrances – budgetary basis	(109,065)	(153,491)	-	-	-
Other	-	-	-	-	-
Budgetary Basis	<u>\$ 422,108</u>	<u>\$ 49,949</u>	<u>\$ -</u>	<u>\$ 615</u>	<u>\$ (2,100)</u>

Note 4 - Deposits and Investments

State statutes classify monies held by the School 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 School 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 that the Board of Education has identified as not required for use within the current two 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 pass book accounts.

Protection of School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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Legislation, effective September 27, 1996, permits interim monies to be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities 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 that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
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 interests rated in either of the two highest rating 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 School 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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

During fiscal year 2001, the School District's investments were limited to overnight repurchase agreements, and STAR Ohio. During the fiscal year, all investments of the School District had a maturity of two years or less.

At fiscal year end, the School District had \$4,200 in undeposited cash on hand which is included on the balance sheet of the School District as part of "equity in pooled cash and cash equivalents".

At fiscal year end, the School District had \$760 in cash and cash equivalents held by the Northwest Education Service Center which is included on the balance sheet as "Cash and cash equivalents with fiscal agent."

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The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements."

Deposits At fiscal year end, the carrying amount of the School District's deposits was \$850,365 and the bank balance was \$1,225,130. \$200,000 of the bank balance was covered by federal depository insurance and \$1,055,130 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements would potentially subject the School District to a successful claim by the FDIC.

Investments The School District's investments are categorized below to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The School District's investments in STAR Ohio, an investment pool operated by the Ohio State Treasurer, are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	<u>Carrying Value</u>	<u>Market Value</u>
STAR Ohio, Unclassified	\$ 3,456,020	\$ 3,456,020
Totals	<u>\$ 3,456,020</u>	<u>\$ 3,456,020</u>

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/ Deposits</u>	<u>Investments</u>
GASB Statement 9	\$ 4,311,345	\$ -
Cash on Hand	(4,200)	-
Cash with fiscal agent	(760)	-
Investments:		
STAR Ohio	(3,456,020)	3,456,020
GASB Statement 3	<u>\$ 850,365</u>	<u>\$ 3,456,020</u>

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Note 5 - Property Taxes

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility and tangible personal (used in business) property located in the School District. Real property taxes are levied October 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied October 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at eighty-eight percent of true value (with certain exceptions) and on real property at thirty-five percent of true value. Tangible personal property taxes are levied October 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are twenty-five percent of true value. The assessed values upon which the fiscal year 2001 taxes are based as follows:

	2000 Second-Half Collections		2001 First-Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 177,566,860	79.74%	\$ 180,651,450	79.61%
Public Utility Personal	26,753,385	12.01%	28,956,106	12.76%
Tangible Personal Property	18,373,830	8.25%	17,321,520	7.63%
Total	<u>\$ 222,694,075</u>	<u>100.00%</u>	<u>\$ 226,929,076</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation				
	\$ 44.60		\$ 44.60	

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 January 20 with the remainder payable by July 11. Under certain circumstances, State statute permits alternate payment dates to be established. Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

The School District receives property taxes from Defiance and Paulding Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2001, are available to finance fiscal year 2001 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable as of June 30, 2001. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2001 was \$584,250 and is recognized as revenue in the general fund.

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Note 6 - Income Tax

The School District levies a voted tax of .5 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1991, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund. In the fiscal year ending June 30, 2001, the District recorded income tax revenues of \$1,437,702 in the General Fund of which \$496,392 is recorded as a receivable at June 30, 2001.

Note 7 - Receivables

Receivables at June 30, 2001, consisted of taxes, accounts and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

Intergovernmental Receivables	Amounts
General Fund:	
Income Taxes	\$ 496,392
Total Intergovernmental Receivables	\$ 496,392

Note 8 - Fixed Assets

A summary of the changes in General Fixed Assets Account Group is as follows:

	Balance at 6/30/00	Additions	Deductions	Balance at 6/30/01
Land and Land Improvements	\$ 1,721,709	\$ 1,098	\$ -	\$ 1,722,807
Buildings	8,077,201	49,512	-	8,126,713
Furniture, fixtures and equipment	7,913,466	955,281	(210,272)	8,658,475
Textbooks and library books	1,199,132	226,399	(35,743)	1,389,788
Total	\$ 18,911,508	\$ 1,232,290	\$ (246,015)	\$ 19,897,783

A summary of changes in the Enterprise Fund fixed assets is as follows:

	Balance at 6/30/00	Additions	Deductions	Balance at 6/30/01
Furniture, fixtures and equipment	\$ 410,222	\$ 80,040	\$ (24,340)	\$ 465,922
Accumulated depreciation	(229,040)	(9,228)	15,262	(223,006)
Total	\$ 181,182	\$ 70,812	\$ (9,078)	\$ 242,916

Note 9 - Risk Management

A. Property and Liability

The School 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. For fiscal year 2001, the School District contracted with The Indiana Insurance Company for property and general liability insurance. There is a \$500 deductible with a ninety percent co-insurance clause. The Indiana Insurance Company covers the boiler and machinery with a \$1,000 deductible and a \$10,000 limit.

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Professional liability is protected by The Nationwide Insurance Company with a \$1,000,000 single occurrence limit and \$5,000,000 aggregate and no deductible. Vehicles are covered by Nationwide Insurance and hold a \$100 deductible for comprehensive and collision. Automobile liability has a \$1,000,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past five years. There have been no significant reductions in insurance coverage from last year.

B. Workers' Compensation

For fiscal year 2001, the School District participated in the Northern Buckeye Education Council's Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 16). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. Loss Control Systems provides administrative, cost control and actuarial services to the GRP.

C. Employee Medical Benefits

As of June 30, 2001 the School District has contracted with the Northern Buckeye Education Council's Employee Insurance Benefits Program with Gallagher Benefit Administrators, Inc. as third party administrator to provide employee medical/surgical and dental benefits. Rates are set through an annual calculation process. The School District and the employees share the cost of the monthly premium with the Board. For fiscal year 2001, the School District's and full-time employees' premiums for certified staff were \$532 and \$59 for family coverage and \$255 and \$0 for single coverage per employee per month, respectively. For administrative and classified personnel the School District's and the full-time employees' premiums were \$532 and \$59 for family coverage and \$225 and \$0 for single coverage per employee per month, respectively.

Note 10 - Defined Benefit Pension Plans

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. State statute assigns the authority to establish and amend benefit provisions to the SERS Board of Trustees. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 45 N. Fourth Street, Columbus, Ohio 43215-3634, or by calling (614) 222-5853.

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Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate, presently 14 percent; for fiscal year 2001, 5.55 percent was the portion to fund pension obligations. 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 adequacy of the contribution rates is determined annually. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$332,127, \$306,834 and \$248,500, respectively; 31.48 percent has been contributed for fiscal year 2001 and 100 percent has been contributed for fiscal year 2000 and 1999. \$227,568 representing the unpaid contribution for fiscal year 2001, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer defined benefit pension plan. STRS provides retirement and disability benefits, health care benefits and death benefits to plan members and beneficiaries. State statute assigns the authority to establish and amend benefit provisions to the STRS Ohio Board of Trustees. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate, presently 14 percent. The contribution requirements of plan members and employers are established and may be amended by the STRS Ohio Board of Trustees. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$1,181,436, \$1,228,525 and \$1,185,100, respectively; 83.36 percent has been contributed for fiscal year 2001 and 100 percent for the fiscal years 2000 and 1999. \$196,595 represents the unpaid contribution for fiscal year 2001, and is recorded as a liability within the respective funds.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. The Board's liability is 6.2 percent of wages paid.

Note 11 - Postemployment Benefits

Comprehensive health care benefits are provided to retired teachers and their dependents through the State Teachers Retirement System of Ohio, and to retired non-certified employees and their dependents through the School Employees Retirement System.

A. State Teachers Retirement System of Ohio (STRS Ohio)

The State Teachers Retirement System of Ohio (STRS Ohio) provides comprehensive health care benefits to retirees and their dependents. Coverage includes hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Ohio Revised Code (ORC), the State Teachers Retirement Board (the Board has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium.

The ORC grants authority to STRS Ohio to provide health care coverage to benefit recipients, spouses, and dependents. By Ohio law, the cost of the coverage paid from STRS Ohio fund shall be included in the employer contribution rate, currently 14% of covered payroll.

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For the fiscal year ended June 30, 2001, the board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$3,419 million at June 30, 2000. For the year ended June 30, 2000, the net health care costs paid by STRS were \$283,137,000. There were 99,011 eligible benefit recipients statewide. (June 30, 2000 is the latest date for which information is available.)

B. School Employees Retirement System (SERS)

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989 with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2000, the allocation rate was 8.45%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2000, the minimum pay was established as \$12,400. The surcharge rate, added to the unallocated portion of the 14% employer contribution rate provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2000 were \$140,696,340 and the target level was \$211.0 million.

At June 30, 2000, the Retirement System's net assets available for payment of health care benefits was \$252.3 million, at cost. The number of participants currently receiving health care benefits is approximately 50,000 statewide. (June 30, 2000 is the latest date for which information is available.)

The District's actual contributions for the 2001 fiscal year were \$165,426.

Note 12 - Other Employee Benefits

A. Compensated Absences

Employees earn vacation at rates specified under State of Ohio law and based on credited service. Clerical, Technical, and Maintenance and Operation employees with one or more years of service are entitled to vacation ranging from 5 to 25 days. Employees with less than one year of service earn one vacation day per month worked, not to exceed five days. Certain employees are permitted to carry over vacation leave earned in the current year into the next year.

All employees are entitled to a sick leave credit equal to one and one-quarter days for each month of service (earned on a pro rata basis for less than full-time employees). This sick leave will either be absorbed by time off due to illness or injury or, within certain limitations, be paid to the employee upon retirement. The amount paid to an employee upon retirement is limited to one-third of the accumulated sick leave to a maximum of 55 days, except that those employees who elect to retire within twelve months of the earliest permissible retirement date shall be paid one-third of the accumulated sick leave to a maximum of 100 days.

At June 30, 2001 the current amount of unpaid compensated absences, in all funds except for the proprietary funds, and the balance of the liability in the General Fund and the General Long-Term Obligation Account Group were \$13,607 and \$1,824,520 respectively. The liability for compensated absences in the proprietary funds at June 30, 2001 was \$41,184.

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Note 13 - Long-Term Obligations

During the year ended June 30, 2001, the following changes occurred in obligations reported in the General Long-Term Obligations Account Group:

	Balance at June 30, 2000	Additions	Reductions	Balance at June 30, 2001
Energy Conservation Notes	\$ 236,979	\$ -	\$ 55,493	\$ 181,486
General Obligation Bonds	768,000	-	101,000	667,000
Compensated absences payable	1,768,838	55,682	-	1,824,520
SERS and SERS surcharge	120,122	123,194	120,122	123,194
Total	<u>\$ 2,893,939</u>	<u>\$ 178,876</u>	<u>\$ 276,615</u>	<u>\$ 2,796,200</u>

Debt outstanding at June 30, 2001 consisted of general obligation bonds totaling \$667,000 (interest rate 5.64% at June 30, 2001), and energy conservation notes totaling \$181,486 (interest rate of 4.5-4.9% at June 30, 2001).

The general obligation bonds were issued in January 15, 1997 and will mature in December 01, 2006. The energy conservation notes were issued on May 1, 1994 and will mature on May 1, 2004. Total expenditures for interest for the above debt for the period ended June 30, 2001 was \$51,952.

The scheduled payments of principal and interest on debt outstanding at June 30, 2001 are as follows:

For the Years Ending June 30,	Principal	Interest	Total
2002	\$ 164,849	\$ 43,815	\$ 208,664
2003	173,430	35,114	208,544
2004	182,207	25,879	208,086
2005	126,000	16,751	142,751
2006	133,000	9,532	142,532
Thereafter	69,000	1,946	70,946
Total	<u>\$ 848,486</u>	<u>\$ 133,037</u>	<u>\$ 981,523</u>

Note 14 - Segment Information for Enterprise Funds

The School District maintains two Enterprise Funds which provide lunchroom/cafeteria and uniform school supply. Segment information for the year ended June 30, 2001 was as follows:

	Food Service	Uniform School Supplies	Total Enterprise Funds
Operating Revenues	\$ 509,463	\$ 93,445	\$ 602,908
Depreciation Expense	9,228	-	9,228
Operating Income (Loss)	(283,059)	(3,703)	(286,762)
Operating Grants	206,814	-	206,814
Net Income (Loss)	(26,094)	(3,703)	(29,797)
Fixed Asset Additions	80,040	-	80,040
Fixed Asset Deletions	(24,340)	-	(24,340)
Net working capital	(95,114)	75,620	(19,494)
Total Assets	300,689	75,620	376,309
Total Equity (deficit)	147,802	75,620	223,422
Encumbrances Outstanding	250	1,002	1,252

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Note 15 - Jointly Governed Organizations

A. Northwest Ohio Computer Association

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

The NWOCA Assembly consists of a superintendent from each participating school district and a representative from the fiscal agent. The Assembly elects the Council. NWOCA is governed by a Council chosen from two representatives from each of the four counties in which the member school districts are located and the representative from the member school district serving as fiscal agent for NWOCA. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from Cindy Siler, who serves as treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

B. Northern Buckeye Education Council

The Northern Buckeye Education Council (the Council) was established in 1979 to foster cooperation among school districts located in Defiance, Fulton, Henry, and Williams Counties. The Council is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member school districts and bylaws adopted by the representatives of the member school districts. To obtain financial information write to the Northern Buckeye Education Council, Cindy Siler, who serves as treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

C. Four County Joint Vocational School

The Four County Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the educational service centers from the counties of Defiance, Fulton, Henry, and Williams; one representative from each of the city school districts; one representative from each of the exempted village school districts; and one additional representative from Fulton County educational service center. The Four County Joint Vocational School possesses its own budgeting and taxing authority. To obtain financial information write to the Four County Joint Vocational School, Michele Zeedyk, who serves as treasurer, at Route 1, Box 245A, Archbold, Ohio 43502.

Note 16 - Group Purchasing Pools

A. Northern Buckeye Education Council's Employee Insurance Benefits Program

The Northern Buckeye Education Council's Employee Insurance Benefits Program included health, dental, drug, and life insurance plans. The health, drug, and dental plans are risk-sharing pools among approximately 30 members, and the life insurance plan is a group purchasing pool among 29 members. The purpose of the plans is for its members to pool funds or resources to purchase commercial insurance products and enhance the wellness opportunities for employees.

Each member pays a monthly premium amount, which is established annually by the Council, to the treasurer to comply with the terms of any contracts with any third-party claims administrator or insurance company. The insurance group is governed by a council consisting of two representatives from each of the four counties in which the member school districts are located. The degree of control exercised by any participating member is limited to its representation on the council.

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In fiscal year 2001, the Defiance City School District contributed a total for all four plans \$1,356,753 which represented 7.87 percent of total contributions. Financial information can be obtained from Cindy Siler, who serves as treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

B. Northern Buckeye Education Council's Worker's Compensation Group Rating Plan

The School District participates in a group rating plan for workers' compensation as established under 4123.29 of the Ohio Revised Code. The Northern Buckeye Education Council's Worker's Compensation Group Rating Plan (WCGRP) was established through the Northern Buckeye Educational Council (NBEC) as a group purchasing pool.

The WCGRP's business and affairs are conducted by a three member board of directors consisting of two Assembly representatives for each of the counties of Defiance, Fulton, Henry, and Williams and the representative of the member serving as fiscal agent for NBEC. The Executive Director of the Council shall coordinate the management and administration of the program. Each year, the participating/members pay an enrollment fee to the WCGRP to cover the costs of administering the program.

Note 17 - State School Funding Decision

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of November 27, 2001, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

As of the date of these financial statements, The School District is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operation.

DEFIANCE CITY SCHOOL DISTRICT
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Note 18 – Interfund Transactions

Transfers for the fiscal year ended June 30, 2001 consisted of the following:

	Transfers In	Transfers Out
Debt Service Fund	\$ 208,445	\$ -
Capital Projects	26,225	-
General Fund	-	237,670
Agency Fund	3,000	-
Total transfers	\$ 237,670	\$ 237,670

Interfund balances at June 30, 2001 consist of the following individual fund receivables and payables:

	Interfund Receivable	Interfund Payable
General Fund	\$ 30,000	\$ -
Special Revenue	-	30,000
Total all Funds	\$ 30,000	\$ 30,000

Note 19 - Loss Contingencies and Commitments

There are several arbitration matters pending in which the District is involved dealing with labor disputes. The District's management estimates that the potential claims against the District not covered by insurance resulting from possible litigation would not materially affect the financial statements of the District.

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. The District's management believes disallowances, if any, will be immaterial.

Note 20 – Statutory Reserves

The School district is required by State statute to annually set aside monies for the purchase of textbooks and other instructional material, and for capital improvements. The amounts set-aside may be reduced by offset credits, which are monies received and restricted for the same specific purpose. Qualifying expenditures and offset-credits may only be used to reduce the current year set-aside requirement and may not be carried forward to reduce subsequent year requirements. Amounts not spent by year-end or reduced by offset credits must be held in cash at year-end and carried forward to be used for the same purposes in future years.

Effective April 10, 2001, Senate Bill 345 amended Ohio Revised Code 5705.29 effectively eliminating the requirement for the School District to establish and maintain a budget stabilization reserve. During the fiscal year ended June 30, 2001, the Board acted on the Senate Bill to eliminate the reserve balance.

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During the fiscal year ended June 30, 2001 the reserve activity was as follows:

	Textbook Reserve	Capital Maintenance Reserve	Budget Stabilization Reserve	Total
Balance, July 1, 2000	\$ 153,376	\$ 119,950	\$ 195,449	\$ 468,775
Current Year Set-Aside Requirement	406,560	406,560	-	813,120
Transfer to General Fund	-	-	135,520	135,520
Current Year Offset Credits	-	-	-	-
Qualifying Expenditures	(391,892)	(195,154)	(330,969)	(918,015)
Total	<u>\$ 168,044</u>	<u>\$ 331,356</u>	<u>\$ -</u>	<u>\$ 499,400</u>
Cash Balance Carried Forward to FY 2001	<u>\$ 168,044</u>	<u>\$ 331,356</u>	<u>\$ -</u>	
Total Restricted Assets				<u>\$ 499,400</u>

Note 21 - Agency Funds

Combined Statement of Changes
in Assets and Liabilities

	Balance at July 1, 2000	Additions	Deductions	Balance at June 30, 2001
Cash	\$ 56,858	\$ -	\$ 3,646	\$ 53,212
Total assets	<u>\$ 56,858</u>	<u>\$ -</u>	<u>\$ 3,646</u>	<u>\$ 53,212</u>
Other liabilities	\$ 56,858	\$ -	\$ 3,646	\$ 53,212
Total liabilities	<u>\$ 56,858</u>	<u>\$ -</u>	<u>\$ 3,646</u>	<u>\$ 53,212</u>

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2001
(Non-GAAP Basis)

Federal Grantor/Pass Through Grantor Program Title	Project Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education</i>						
Nutrition Cluster:						
National School Lunch Program	043869-04-PU	10.555	\$ 161,812	\$ -	\$ 161,812	\$ -
School Breakfast Program	043869-05-PU	10.553	5,699	-	5,699	-
Food Distribution Program	N/A	10.550	-	47,128	-	50,151
Total Department of Agriculture and Nutrition Cluster			167,511	47,128	167,511	50,151
U.S. DEPARTMENT OF LABOR						
<i>Passed Through Ohio Department of Education</i>						
School to Work Grant	043869-G2-S2	17.249	-	-	1,000	-
Total Department of Labor			-	-	1,000	-
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education</i>						
Special Education Cluster:						
Special Education Grants to States (Title VI-B)	043869-6B-SF	84.027	258,258	-	247,767	-
Total Special Education Cluster			258,258	-	247,767	-
Grants to Local Educational Agencies						
(ESEA Title I)	043869-CI-SI	84.010	318,639	-	308,846	-
Eisenhower Grant	043869-MS-SI	84.281	14,297	-	9,329	-
Innovative Educational Program Strategies (Title VI)	043869-C2-S1	84.298	19,085	-	16,391	-
Class Size Reduction Program	043869-CR-S1	84.340	47,291	-	63,077	-
Drug Free Grant	043869-DR-S1	84.186	12,950	-	10,914	-
Total Department of Education			670,520	-	656,324	-
TOTAL FEDERAL ASSISTANCE			\$ 838,031	\$ 47,128	\$ 824,835	\$ 50,151

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2001

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards is a summary of the activity of the District's federal award programs. The schedule has been prepared on the cash (Non-GAAP) basis of accounting.

Note 2 - Food Distribution

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. Monies are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2001, the District had \$8,525 of food commodities in inventory.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF GENERAL PURPOSE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Education
Defiance City School District
Defiance, Ohio

We have audited the general purpose financial statements of the Defiance City School District, as of and for the year ended June 30, 2001, and have issued our report thereon dated November 27, 2001. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

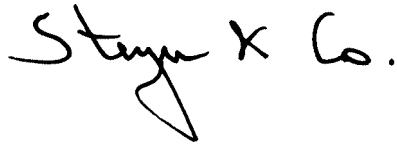
As part of obtaining reasonable assurance about whether Defiance City School District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that we have reported to management of the Defiance City School District in a separate letter dated November 27, 2001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 2001-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management of the District in a separate letter dated November 27, 2001.

This report is intended solely for the information and use of the Board of Education of the District, management and federal awarding agencies and pass-through entities and is not intended to be used and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Steyer & Co." with a stylized flourish at the end of the word "Steyer".

STEYER & CO.

Defiance, Ohio
November 27, 2001

STEYER & CO.

Certified Public Accountants

2000 NORTH CLINTON STREET
DEFIANCE, OHIO 43512
PHONE (419) 782-1030
FAX (419) 782-5298

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

Board of Education
Defiance City School District
Defiance, Ohio

Compliance

We have audited the compliance of the Defiance City School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2001. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

WE conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that 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, Defiance City School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Education of the District, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Steyer & Co." with a stylized flourish at the end of the word "Co."

STEYER & CO.

Defiance, Ohio
November 27, 2001

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2001**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? yes X no

Reportable condition(s) identified
not considered to be material weaknesses? X yes none reported

Noncompliance material to financial statements
noted? yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? yes X no

Reportable condition(s) identified
not considered to be material weaknesses? yes X none reported

Type of auditor's report issued on compliance
for major programs: Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section.510(a)? yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.550, 10.553, 10.555	Nutrition Cluster
84.010	Title I – Grants to Local Educational Agencies

Dollar threshold used to distinguish
between Type A and Type B programs: \$300,000

Auditee qualified as a low-risk auditee? yes X no

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2001**

Section II - Financial Statement Findings

The results of our tests disclosed the following item that is required to be reported in accordance with paragraphs 5.18 through 5.20 of *Government Auditing Standards*.

REPORTABLE CONDITION

Finding 2001-1

The District's internal controls over financial reporting were not followed in that numerous items were being added to the EIS inventory system which fall below the \$500 capitalization policy adopted by the District. This results in the EIS report overstating actual fixed assets. While the overall difference is immaterial to the financial statements, it does result in an inaccurate listing of the District's total fixed assets. We recommend that the EIS system be reconciled with the activity for fund balance changes by object code to alleviate this condition.

Section III - Federal Award Findings and Questioned Costs

The results of our tests disclosed no findings or questioned costs that are required to be reported under Circular A-133, Section.510(a).

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2001**

Finding Number	Finding Summary	Fully Corrected?	Action Taken
2000-1	EIS Inventory System	No	Condition continues.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2001

<u>Finding Number</u>	<u>Planned Corrective Action</u>	<u>Anticipated Completion Date</u>	<u>Responsible Contact Person</u>
2001-1	The District will reconcile their EIS system with the activity for fund balance changes.	June 30, 2002	Judy T. Mayes

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

GENERAL COMMENTS

The audit report, including citations and recommendations, was reviewed with and acknowledged by the following officials on December 5, 2001.

Dr. H. Richard Motuelle
Judy T. Mayes

Superintendent
Treasurer

They were informed that officials had five working days from the date of the post audit conference to respond to, or contest, in writing, the report contents. No written response was received.

District personnel were cooperative and available for questions and assistance during regular working hours. Records were very well organized and maintained.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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800-282-0370
Facsimile 614-466-4490

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 3, 2002**