



Dave Yost • Auditor of State



**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Defiance City School District  
Defiance County  
629 Arabella Street  
Defiance, Ohio 43512-2856

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Defiance City School District, Defiance County, Ohio (the District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Defiance City School District, Defiance County, Ohio, as of June 30, 2012, and the respective changes in modified cash financial position, thereof, and the budgetary comparison for the General fund for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2013, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

We conducted our audit to opine on the District's financial statements taken as a whole. Management's Discussion and Analysis includes tables of net assets, changes in net assets, and governmental activities. The federal awards receipts and expenditures schedule (the Schedule) is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These tables and the Schedule provide additional information, but are not part of the basic financial statements. However these tables and the Schedule are management's responsibility, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. These tables and the Schedule were subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion and Analysis, and we express no opinion or any other assurance on it.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive, flowing style.

**Dave Yost**  
Auditor of State

March 12, 2013

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
UNAUDITED**

The discussion and analysis of Defiance City School District's (the District) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for fiscal year 2012 are as follows:

- In total, net assets decreased \$170,767, which represents a 3% decrease from 2011.
- General receipts accounted for \$21,933,534 or 81% of all receipts and reflect the District's significant dependence on local property taxes, income taxes and unrestricted state entitlements.
- The District had \$27,200,096 in disbursements related to governmental activities; only \$5,095,795 of these disbursements was offset by program specific charges for services and sales or restricted grants, contributions and interest. General receipts and previously unrestricted fund balances supported the remaining disbursements of \$22,104,301 associated with governmental activities.
- Outstanding debt decreased from \$9,780,000 to \$8,955,000 through payments of the elementary building note and bond principal.

**Using the Basic Financial Statements**

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

The Statement of Net Assets and the Statement of Activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a long-term view of those finances. Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds, with all other non-major funds presented in total in a single column. The General fund and the Permanent Improvement fund are the District's most significant funds.

**Basis of Accounting**

The District has elected to present its financial statements on the modified cash basis of accounting. This modified cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions.

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

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
UNAUDITED  
(Continued)**

**Reporting the District as a Whole**

**Statement of Net Assets and Statement of Activities**

The Statement of Net Assets and the Statement of Activities reflect how the District did financially during fiscal year 2012. These statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the Statement of Net Assets and the Statement of Activities, the District discloses a single type of activity: governmental activities. All of the District's programs and services are reported here including instruction, support services, non-instructional services, extracurricular activities, food service operations, capital outlay, and debt service. These services are primarily funded by property tax revenues and from intergovernmental revenues, including Federal and State grants and other shared revenues.

**Reporting the District's Most Significant Funds**

Fund financial statements provide detailed information about the District's major funds. While the District uses many funds to account for its financial transactions, the fund financial statements focus on the District's most significant funds. The District's major governmental funds for fiscal year 2012 are the General fund and the Permanent Improvement fund.

Governmental Funds – Most of the District's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year-end for spending in future periods. These funds are reported using a modified cash basis of accounting. Receipts are recognized when received in cash and disbursements are recognized when paid. The governmental fund financial statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the District's programs. These funds also use the modified cash basis of accounting.

**Reporting the District's Fiduciary Responsibilities**

The District is the trustee, or fiduciary, for some of its scholarship and trust programs. This activity is presented as a private purpose trust fund. The District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units, and/or other funds. These activities are reported in agency funds. The District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.



**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
UNAUDITED  
(Continued)**

**The District as a Whole**

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

Table 1 provides a summary of the District's net assets for fiscal year 2012 in comparison to fiscal year 2011:

Table 1  
Net Assets  
Governmental Activities

	2012	2011
Equity on Pooled Cash and Cash Equivalents	<u>\$ 6,565,936</u>	<u>\$ 6,736,703</u>
Net Assets		
Restricted for:		
Debt Service	\$ 448,030	\$ 2,408,711
Capital Outlay	984,202	371,888
Other Purposes	978,817	1,286,123
Unrestricted	<u>4,154,887</u>	<u>2,669,981</u>
Total Net Assets	<u>\$ 6,565,936</u>	<u>\$ 6,736,703</u>

For fiscal year 2012, a portion of the District's net assets, \$2,411,049 represents resources that are subject to external restriction on how they may be used. The remaining balance of the government-wide unrestricted net assets of \$4,154,887 may be used to meet the District's ongoing obligations. For fiscal year 2011, these amounts were \$4,066,722 with external restrictions and \$2,669,981 remaining for general operations. Net Assets of the Governmental Activities decreased \$170,767 which represents a 3% decrease over fiscal year 2011. The decrease was a result of overall receipts decreasing by a greater percentage (4%) than the overall decrease in disbursements (less than 1%).

Table 2 reflects the changes in net assets for fiscal year 2012 as compared to fiscal year 2011.

Table 2  
Change in Net Assets  
Governmental Activities

	2012	2011
<b><u>Receipts</u></b>		
Program Receipts:		
Charges for Services	\$ 1,916,418	\$ 1,811,371
Operating Grants and Contributions	3,166,817	3,052,492
Capital Grants and Contributions	<u>12,560</u>	<u>4,519</u>
Total Program Receipts	5,095,795	4,868,382

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
UNAUDITED  
(Continued)**

General Receipts:		
Property Taxes	6,609,111	6,665,598
Income Taxes	1,538,326	1,494,966
Payment in Lieu of Taxes		4,202
Grants and Entitlements	13,264,606	14,020,265
Proceeds from the Issuance of Notes		675,000
Proceeds from Sale of Capital Assets	324,900	148,614
Interest	21,670	46,081
Miscellaneous	174,921	112,239
Other Financing Sources		18,981
Total Financing Sources	<u>21,933,534</u>	<u>23,185,946</u>
Total Receipts	<u>\$ 27,029,329</u>	<u>\$ 28,054,328</u>

**Program Disbursements**

Instruction		
Regular	\$ 8,633,616	\$ 9,776,365
Special	2,833,933	3,028,548
Vocational	256,194	321,273
Student intervention services	32,967	56,929
Other	2,620,496	1,977,712
Support Services		
Pupils	1,155,019	1,446,327
Instructional staff	1,591,512	1,786,083
Board of education	35,336	32,895
Administration	1,524,548	1,640,913
Fiscal	564,585	562,747
Business		34,999
Operation and maintenance of plant	2,112,641	1,945,432
Pupil transportation	1,040,958	1,064,849
Central	63,866	109,424
Operating of non-instructional services	1,443,336	1,436,283
Extracurricular activities	847,736	733,465
Capital outlay	442,485	117,421
Debt services	1,253,690	1,330,384
Refund of prior year receipts	747,178	109
Total disbursements	<u>\$ 27,200,096</u>	<u>\$ 27,402,158</u>
Increase (decrease) in net assets	<u>\$ (170,767)</u>	<u>\$ 652,170</u>

The total disbursements of \$27,200,096 were offset by program receipts of \$5,095,795 and by general receipts of \$21,933,534. Program receipts supported 19% of the total governmental disbursements. The primary sources of general receipts for governmental activities are derived from property taxes, income taxes, and grants and entitlements. These receipt sources represent 98% of total general receipts.

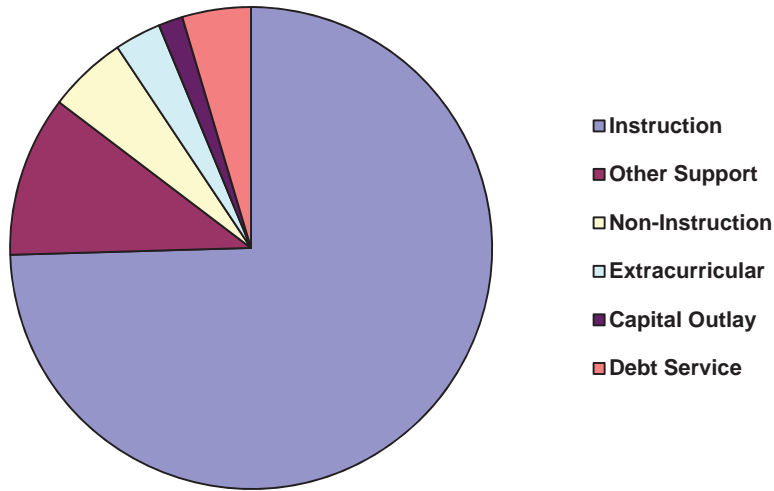
The major program disbursement for governmental activities is for instruction, which accounts for 53% of all governmental disbursements. Other programs which support the instruction process, including pupils, instructional staff, and pupil transportation account for 14% of governmental disbursements. Maintenance of the District's facilities also represents a significant disbursement, 8%. Therefore, 75% of the District's disbursements are related to the primary functions of providing facilities and delivering education.

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
UNAUDITED  
(Continued)**

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

**Governmental Disbursements by Types**



Instruction, Pupil, Instructional Staff, Transportation, Operation and Maintenance of Plant (\$20,277,336)

Other Support:

Other Support Services (\$2,935,513)

Food Services and Operation of Non-Instructional Services (\$1,443,336)

Extracurricular Activities (\$847,736)

Capital Outlay (\$442,485)

Debt Service (\$1,253,690)

**Governmental Activities**

Table 3 indicates the total cost of services and the net cost of services for governmental activities for 2012 and 2011. The statement of activities reflects the cost of program services and the charges for services, grants, contributions, and interest offsetting those services. The net cost of services identifies the cost of those services supported by tax receipts and unrestricted state entitlements.

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

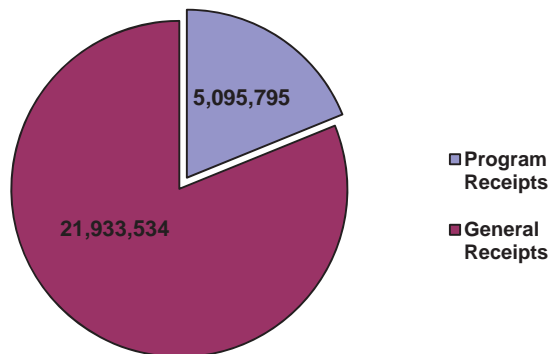
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
UNAUDITED  
(Continued)**

Table 3  
Governmental Activities

	Total Cost of Services <u>2012</u>	Net Cost of Services <u>2012</u>	Total Cost of Services <u>2011</u>	Net Cost of Services <u>2011</u>
Instruction:				
Regular	\$ 8,633,616	\$ 6,556,738	\$ 9,776,365	\$ 7,828,371
Special	2,833,933	1,641,917	3,028,548	1,912,503
Vocational	256,194	222,385	321,273	193,802
Student Intervention Services	32,967	32,967	56,929	56,929
Other	2,620,496	2,620,496	1,977,712	1,977,712
Support Services:				
Pupils	1,155,019	1,155,019	1,446,327	1,446,327
Instructional Staff	1,591,512	1,574,259	1,786,083	1,767,905
Board of Education	35,336	35,336	32,895	32,895
Administration	1,524,548	1,524,548	1,640,913	1,640,913
Fiscal	564,585	538,546	562,747	531,997
Business			34,999	34,999
Operation and Maintenance of Plant	2,112,641	2,008,436	1,945,432	1,934,929
Pupil Transportation	1,040,958	1,040,958	1,064,849	1,064,849
Central	63,866	57,056	109,424	101,645
Non-Instructional Services	1,443,336	177,709	1,436,283	135,900
Extracurricular Activities	847,736	501,610	733,465	443,177
Capital Outlay	442,485	415,453	117,421	98,430
Debt Service	1,253,690	1,253,690	1,330,384	1,330,384
Refund of Prior Year Receipts	747,178	747,178	109	109
Total Disbursements	<u>\$ 27,200,096</u>	<u>\$ 22,104,301</u>	<u>\$ 27,402,158</u>	<u>\$ 22,533,776</u>

The dependence upon tax receipts and unrestricted state entitlements for governmental activities is demonstrated in the previous table. Approximately 77% of instruction activities, 98% of support services, and 94% of capital outlay disbursements are supported through taxes and other general receipts.

**Governmental Activities – General vs. Program Receipts**



**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
UNAUDITED  
(Continued)**

**The District's Funds**

The District's governmental funds are accounted for using the modified cash basis of accounting on the fund financial statements. Including Other Financing Sources and Uses, total governmental funds had receipts of \$27,942,375 and disbursements of \$28,113,142 in fiscal year 2012. The overall negative change for 2012 is \$170,767 in fund balance for the fiscal year, primarily attributable to overall receipts decreasing from 2011 by a greater percentage (4%) than the overall decrease in disbursements from 2011 (less than 1%).

**General Fund**

Fund balance at June 30, 2012 was \$4,154,887, including \$3,851,071 of unassigned fund balance. Unassigned fund balance comprised 93% of the total fund balance. For fiscal year 2012, fund balance increased \$1,484,906. General fund disbursements and other financing uses were \$20,701,272 or 74% of total governmental disbursements.

**Permanent Improvement Fund**

Fund balance at June 30, 2012 was \$984,202, which is entirely restricted for capital improvements. For fiscal year 2012, fund balance increased \$177,870. Permanent Improvement fund disbursements were \$325,479, or 1% of total governmental disbursements.

**General Fund Budgeting Highlights**

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

During fiscal year 2012, the District amended its General fund budget as needed. Final budgeted receipts and other financing sources in the amount of \$21,699,794 were slightly below original budgeted receipts and other financing sources of \$21,863,244, which did not represent a significant change. The actual receipts and other financing sources of \$22,066,994 was \$367,200 greater than the final budget amounts. This difference is due to conservative estimates of tax revenue, income taxes, and tuition and fees.

General fund original budgeted disbursements and other financing uses of \$20,878,673 were increased to \$21,125,277, which did not represent a significant change. The actual disbursements and other financing uses for fiscal year 2012 totaled \$20,849,001 which was \$276,276 less than the final budgeted disbursements and other financing uses, which did not represent a significant change.

**Debt**

The District's outstanding debt obligations at fiscal year-end consisted of the OSFC Elementary Building bonds of \$8,955,000. For further information regarding the District's long-term obligation, see Note 12 to the basic financial statements.

**Current Issues**

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

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
UNAUDITED  
(Continued)**

During fiscal year 1997, the Board of Education started receiving collections of receipts on a 5-year emergency levy which was approved by voters. The District continued receiving collections in the same amount (\$1,580,000) and in March, 2012, citizens of the Defiance City Schools' community strongly showed their support of the District and approved the passage of the 5-year emergency levy renewal. The 5-year emergency levy renewal will not be sufficient to meet all General fund operating disbursements without having to seek additional support for operating monies prior to the renewal expiration in 2012. The necessity is largely due to the provisions of HB66 with the phase-out of the tangible personal property tax and increased operating disbursements. The type, term, and size of this levy are undecided at this time. Collections continue on the current 5-year levy.

The Board of Education continues to aggressively market the District to local and area students to increase enrollment. The Board has implemented every-day, all-day kindergarten services as well as developmental kindergarten and school-wide programs to help combat its outgoing enrollment. The Defiance High School is the first Ohio school to implement a one-to-one iPad program. Apple, Inc. made Defiance High School the site for its Learning Leadership Institute Program. Schools from across Ohio and the surrounding states attended this program throughout the year.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Pamela Harrington, CFO/Treasurer, Defiance City School District, 629 Arabella Street, Defiance, Ohio 43512-2856.

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS  
JUNE 30, 2012**

	<u><b>Governmental Activities</b></u>
<b>Assets:</b>	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$ 6,565,936</u></u>
<b>Net Assets:</b>	
Restricted for Debt Service	\$ 448,030
Restricted for Capital Outlay	984,202
Restricted for Other Purposes	978,817
Unrestricted	<u>4,154,887</u>
<i>Total Net Assets</i>	<u><u>\$ 6,565,936</u></u>

*See accompanying notes to the basic financial statements*

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	Cash Disbursements	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contribution	Capital Grants and Contribution	Governmental Activities
<b>Governmental Activities</b>					
Instruction:					
Regular	\$ 8,633,616	\$ 997,679	\$ 1,079,199		\$ (6,556,738)
Special	2,833,933	217,887	974,129		(1,641,917)
Vocational	256,194		33,809		(222,385)
Student Intervention Services	32,967				(32,967)
Other	2,620,496				(2,620,496)
Support Services:					
Pupils	1,155,019				(1,155,019)
Instructional Staff	1,591,512		17,253		(1,574,259)
Board of Education	35,336				(35,336)
Administration	1,524,548				(1,524,548)
Fiscal	564,585	20,827	5,212		(538,546)
Operation and Maintenance of Plant	2,112,641		104,205		(2,008,436)
Pupil Transportation	1,040,958				(1,040,958)
Central	63,866	1,410	5,400		(57,056)
Operation of Non-Instructional Services	1,443,336	390,521	875,106		(177,709)
Extracurricular Activities	847,736	273,622	72,504		(501,610)
Capital Outlay	442,485	14,472		\$ 12,560	(415,453)
Debt Service:					
Principal	825,000				(825,000)
Interest and Fiscal Charges	428,690				(428,690)
Refund of Prior Year Receipts	747,178				(747,178)
<b>Totals</b>	<b>\$ 27,200,096</b>	<b>\$ 1,916,418</b>	<b>\$ 3,166,817</b>	<b>\$ 12,560</b>	<b>(22,104,301)</b>

**General Receipts**

Taxes:	
Income Taxes	1,538,326
Property and Other Local Taxes	6,609,111
Grants and Entitlements not Restricted to Specific Programs	13,264,606
Gifts and Donations	69,128
Investment Earnings	21,670
Miscellaneous	57,813
Other Receipts:	
Proceeds from the Sale of Capital Assets	324,900
Refund of Prior Year Expenditures	47,980
<b>Total General Receipts</b>	<b>21,933,534</b>
<b>Change in Net Assets</b>	<b>(170,767)</b>
<b>Net Assets Beginning of Year</b>	<b>6,736,703</b>
<b>Net Assets End of Year</b>	<b>\$ 6,565,936</b>

See accompanying notes to the basic financial statements



**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**STATEMENT OF MODIFIED CASH BASIS ASSETS AND FUND BALANCES  
GOVERNMENTAL FUNDS  
JUNE 30, 2012**

	<u>General Fund</u>	<u>Permanent Improvement</u>	<u>All Other Governmental</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$ 4,154,887	\$ 984,202	\$ 1,426,847	\$ 6,565,936
<b>Fund Balances</b>				
Restricted	\$ 20,184	\$ 984,202	\$ 1,426,847	\$ 2,431,233
Assigned	283,632			283,632
Unassigned	3,851,071			3,851,071
<i>Total Fund Balances</i>	<u>\$ 4,154,887</u>	<u>\$ 984,202</u>	<u>\$ 1,426,847</u>	<u>\$ 6,565,936</u>

*See accompanying notes to the basic financial statements*

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**STATEMENT OF MODIFIED CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BASIS FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>General Fund</u>	<u>Permanent Improvement</u>	<u>All Other Governmental</u>	<u>Total Governmental</u>
<b>Receipts:</b>				
Property and Other Local Taxes	\$ 5,960,891		\$ 648,220	\$ 6,609,111
Income Tax	1,538,326			1,538,326
Intergovernmental	13,293,196		3,150,787	16,443,983
Interest	6,979	\$ 10,589	4,101	21,669
Tuition and Fees	1,229,941			1,229,941
Rent	9,925	14,472		24,397
Extracurricular Activities	36,200		235,507	271,707
Gifts and Donations	576		68,552	69,128
Customer Sales and Services	12,312		383,944	396,256
Miscellaneous	39,875		12,056	51,931
<i>Total Receipts</i>	<u>22,128,221</u>	<u>25,061</u>	<u>4,503,167</u>	<u>26,656,449</u>
<b>Disbursements:</b>				
Instruction				
Regular	8,112,696		520,920	8,633,616
Special	2,296,115		537,818	2,833,933
Vocational	256,194			256,194
Student Intervention Services	20,522		12,445	32,967
Other	2,031,973		588,523	2,620,496
Support Services				
Pupils	1,138,352		16,667	1,155,019
Instructional Staff	1,235,692		355,820	1,591,512
Board of Education	35,336			35,336
Administration	1,516,696		7,852	1,524,548
Fiscal	542,910	1,080	20,595	564,585
Operation and Maintenance of Plant	1,797,871	20,898	293,872	2,112,641
Pupil Transportation	1,040,958			1,040,958
Central	51,641		12,225	63,866
Operation of Non-Instructional Services			1,443,336	1,443,336
Extracurricular Activities	490,664		357,072	847,736
Capital Outlay	108,534	303,501	30,450	442,485
Debt Service				
Principal			825,000	825,000
Interest			428,690	428,690
<i>Total Disbursements</i>	<u>20,676,154</u>	<u>325,479</u>	<u>5,451,285</u>	<u>26,452,918</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>1,452,067</u>	<u>(300,418)</u>	<u>(948,118)</u>	<u>203,531</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from Sale of Capital Assets		324,900		324,900
Refund of Prior Year Expenditures	44,980		3,000	47,980
Transfers In		153,388	721,564	874,952
Advances In	12,977		25,117	38,094
Refund of Prior Year Receipts			(747,178)	(747,178)
Transfers Out			(874,952)	(874,952)
Advances Out	(25,118)		(12,976)	(38,094)
<i>Total Other Financing Sources (Uses)</i>	<u>32,839</u>	<u>478,288</u>	<u>(885,425)</u>	<u>(374,298)</u>
<i>Net Change in Fund Balances</i>	<u>1,484,906</u>	<u>177,870</u>	<u>(1,833,543)</u>	<u>(170,767)</u>
<i>Fund Balance at Beginning of Year (Restated)</i>	<u>2,669,981</u>	<u>806,332</u>	<u>3,260,390</u>	<u>6,736,703</u>
<i>Fund Balance at End of Year</i>	<u>\$ 4,154,887</u>	<u>\$ 984,202</u>	<u>\$ 1,426,847</u>	<u>\$ 6,565,936</u>

See accompanying notes to the basic financial statements

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES  
IN FUND BALANCE - (BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>Receipts</b>				
Property and Other Local Taxes	\$ 5,811,188	\$ 5,801,188	\$ 5,960,891	\$ 159,703
Income Tax	1,400,000	1,450,000	1,538,326	88,326
Intergovernmental	13,513,756	13,310,306	13,293,196	(17,110)
Interest	30,000	30,000	6,927	(23,073)
Tuition and Fees	1,005,300	1,005,300	1,147,585	142,285
Rent	10,000	10,000	9,925	(75)
Customer Sales and Services	9,000	9,000	12,312	3,312
Miscellaneous	9,000	9,000	39,875	30,875
<i>Total Receipts</i>	<u>21,788,244</u>	<u>21,624,794</u>	<u>22,009,037</u>	<u>384,243</u>
<b>Disbursements</b>				
Current				
Instruction				
Regular	8,542,350	8,739,119	8,075,733	663,386
Special	1,919,386	1,919,326	2,298,235	(378,909)
Vocational	235,141	236,882	294,707	(57,825)
Student Intervention Services	11,737	11,737	20,522	(8,785)
Other	2,008,112	2,008,112	2,036,377	(28,265)
Support Services				
Pupils	1,064,140	1,064,140	1,139,114	(74,974)
Instructional Staff	981,057	1,159,157	1,245,773	(86,616)
Board of Education	39,620	39,620	35,353	4,267
Administration	1,445,464	1,447,414	1,519,060	(71,646)
Fiscal	481,775	518,721	543,415	(24,694)
Operation and Maintenance of Plant	2,441,093	2,409,804	1,912,332	497,472
Pupil Transportation	938,284	891,071	1,050,396	(159,325)
Central	72,444	72,944	56,155	16,789
Extracurricular Activities				
Academic Oriented Activities	60,615	60,615	116,739	(56,124)
Sport Oriented Activities	340,697	340,697	351,349	(10,652)
School and Public Service Co-Curricular Activities	11,696	11,696	11,635	61
Capital Outlay				
Building Improvement Services	221,502	138,022	68,879	69,143
Other Facilities Acquisition and Construction	48,200	48,200	48,109	91
Debt Service				
Issuance Costs	8,000	8,000		8,000
<i>Total Disbursements</i>	<u>20,871,313</u>	<u>21,125,277</u>	<u>20,823,883</u>	<u>301,394</u>
<i>Excess of Receipts Over Disbursements</i>	916,931	499,517	1,185,154	685,637
<b>Other Financing Sources (Uses)</b>				
Advances In	15,000	15,000	12,977	(2,023)
Proceeds from Sale of Capital Assets	15,000	15,000		(15,000)
Refund of Prior Year Expenditures	45,000	45,000	44,980	(20)
Advances Out			(25,118)	(25,118)
Total Other Financing Sources (Uses)	<u>75,000</u>	<u>75,000</u>	<u>32,839</u>	<u>(42,161)</u>
<i>Net Change in Cash Basis Fund Balance</i>	991,931	574,517	1,217,993	643,476
Fund Balance at Beginning of Year	2,286,548	2,286,548	2,286,548	
Prior Year Encumbrances Appropriated	338,874	338,874	338,874	
<i>Fund Balance at End of Year</i>	<u>\$ 3,617,353</u>	<u>\$ 3,199,939</u>	<u>\$ 3,843,415</u>	<u>\$ 643,476</u>

See accompanying notes to the basic financial statements

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS  
FIDUCIARY FUNDS  
JUNE 30, 2012**

	<b>Private Purpose Trust</b>	<b>Agency</b>
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$ 19,176	\$ 85,057
<b>Net Assets</b>		
Restricted - expendable	\$ 19,176	
Unrestricted		\$ 85,057
Total net assets	\$ 19,176	\$ 85,057

*See accompanying notes to the basic financial statements*

DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
MODIFIED CASH BASIS  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>Private Purpose Trust</u>
<b>Additions</b>	
Gifts and contributions	\$ 9
<b>Deductions</b>	
Payments in accordance with trust agreements	<u>6,000</u>
<i>Changes in Net Assets</i>	(5,991)
<i>Net Assets Beginning of Year</i>	<u>25,167</u>
<i>Net Assets End of Year</i>	<u><u>\$ 19,176</u></u>

*See accompanying notes to the basic financial statements*

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**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR FISCAL YEAR ENDED JUNE 30, 2012**

**NOTE 1 – DESCRIPTION OF THE DISTRICT AND REPORTING ENTITY**

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

It is staffed by 134 non-certified employees and 183 certified teaching personnel who provide services to 2,657 students and other community members. The District currently operates three instructional/support buildings.

Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Defiance City School District, this includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes and tax-exempt entities whose resources are for the direct benefit of the District, are accessible to the District and are significant in amount to the District. There are no component units of the Defiance City School District.

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

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

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

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

**A. Basis of Presentation**

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

During the fiscal year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

**B. Fund Accounting**

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

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

1. Total assets, receipts, or disbursements of that individual governmental or proprietary fund are at least 10% of the corresponding total for all funds of that category or type, and
2. Total assets, receipts, or disbursements of the individual governmental fund or proprietary fund are at least 5% of the corresponding total for all governmental and proprietary funds combined.
3. The funds of the financial reporting entity are described below:



**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

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

Governmental Funds

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

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

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

The other governmental funds of the District account for grants and other resources whose uses are restricted to a particular purpose.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are not available to support the District's own programs. The District's private purpose trust fund accounts for college scholarships for students. Agency funds are custodial in nature (assets equal net assets) and do not involve measurement of results of operations. The District's agency funds account for student athletic insurance, amounts held to pay for college placement tests, and various student-managed activities.

**C. Basis of Accounting**

Although Ohio Administrative Code Section 117-2-03 (B) requires the District's financial report to follow generally accepted accounting principles (GAAP), the District chooses to prepare its financial statements and notes in accordance with the modified cash basis of accounting. This basis is a comprehensive basis of accounting other than generally accepted accounting principles.

The District recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred.

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

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

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

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

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

**D. Budgetary Process**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

The legal level of budgetary control established by the Board is at the fund level for all funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education. Budgetary allocations at the function and object level within all funds, are made by the Treasurer.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in receipts are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

Tax Budget

A budget of estimated cash receipts and disbursements is submitted to the County Auditor, as Secretary of the County Budget Commission, by January 20 of each year, for the period July 1 to June 30 of the following fiscal year.

Estimated Resources

The County Budget Commission certifies its actions to the District by March 1. As part of this certification, the District receives the official certificate of estimated resources which states the projected receipts of each fund. On or about July 1 this certificate is amended to include any unencumbered balances from the preceding fiscal year. Prior to June 30, the District must revise its budget so that the total contemplated disbursements from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying financial statements do not include July 1, 2011 unencumbered fund balances. However, those fund balances are available for appropriations.

Appropriations

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

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

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

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

Encumbrances

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

Lapsing of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be re-appropriated.

**E. Cash and Cash Equivalents**

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

During fiscal year 2012, investments included negotiable certificates of deposit, agency bonds, money market accounts, and STAR Ohio. Negotiable certificates of deposit and agency bonds are reported at cost and fair market value. STAR Ohio is an investment pool, managed by the State Treasurer’s Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio’s share price, which is the price the investment could be sold for on June 30, 2012.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Total interest receipts credited to the General fund during fiscal year 2012 was \$6,979, which includes \$1,343 assigned from other funds.

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

**F. Capital Assets**

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

**G. Inventory and Prepaid Items**

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

**H. Accumulated Leave**

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

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

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

**I. Interfund Receivable/Payable**

The District reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities on the accompanying financial statements.

**J. Interfund Transactions**

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular cash disbursements to the funds that initially paid for them are not presented in the financial statements.

**K. Long-Term Debt**

Long-term debt arising from cash basis transactions of governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as cash when received and payment of principal and interest are reported as disbursements when paid. The District's cash basis financial statements do not report liabilities for bonds and other long-term obligations. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither another financing source nor capital outlay expenditure are reported at inception. Lease payments are reported when paid.

**L. Intergovernmental Receipts**

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

**M. Employer Contributions to Cost-Sharing Pension Plans**

The District recognizes disbursements for employer contributions to cost-sharing plans when they are paid. As described in Notes 9 and 10, the employer contributions include portions for pension benefits and for postretirement health care benefits.

**N. Equity Classifications**

**GOVERNMENT-WIDE STATEMENTS**

Equity is classified as net assets, and displayed in separate components:

1. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
2. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

Net assets restricted for other purposes include resources restricted for public school support programs, athletic programs, employee termination benefits, classroom facilities and maintenance tax levy proceeds, and federal and state grants restricted to cash disbursement for specified purposes. The District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available. There were not any assets restricted by enabling legislation as of June 30, 2012.

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

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

**O. Fund Balance**

FUND FINANCIAL STATEMENTS

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon use of the resources in governmental funds. The classifications are as follows:

**Nonspendable** – The nonspendable classification includes amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact. The “not in spendable form” includes items that are not expected to be converted to cash.

**Restricted** – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations or other governments, or is imposed by law through constitutional provisions.

**Committed** – The committed classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Board of Education. The committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

**Assigned** – Amounts in the assigned classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General fund, assigned amounts represent intended uses established by the Board of Education.

**Unassigned** – Unassigned fund balance is the residual classification for the General fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The District first applies restricted resources when an expenditure is incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned and then unassigned amounts had been expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications can be used.

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 3 – FUND BALANCE**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Cash Receipts, Disbursements and Changes in Fund Balance – (Budgetary Basis) presented for the General fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The constraints placed on fund balance at June 30, 2012 for the major governmental funds and all other governmental funds are presented as follows:

<u>Fund Balance</u>	<u>General</u>	<u>Permanent Improvement</u>	<u>All Other Governmental Funds</u>	<u>Total</u>
Restricted for:				
Debt Payment			\$ 448,030	\$ 448,030
Food Service Operations			245,952	245,952
Regular Instruction			840	840
Auxiliary Services			64,319	64,319
District Managed Activity			105,342	105,342
Special Instruction			1,219	1,219
Capital Improvements		\$ 984,202	561,145	1,545,347
School Bus	\$ 20,184			20,184
Total Restricted	20,184	984,202	1,426,847	2,431,233
Assigned to:				
Unpaid Obligations	242,020			242,020
Other Purposes	41,612			41,612
Total Assigned	283,632			283,632
Unassigned	3,851,071			3,851,071
Total Fund Balances	<u>\$ 4,154,887</u>	<u>\$ 984,202</u>	<u>\$ 1,426,847</u>	<u>\$ 6,565,936</u>

**NOTE 4 – BUDGETARY BASIS OF ACCOUNTING**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Cash Receipts, Disbursements and Changes in Fund Balance –(Budgetary Basis) presented for the General fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget.

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

<u>Net Change in Fund Balance</u>	<u>General Fund</u>
Modified Cash basis (as reported)	\$ 1,484,906
Outstanding Encumbrances	(241,010)
Perspective Difference:	
Activity of Funds Reclassified for	
Cash Reporting Purposes	(25,903)
Budgetary Basis	<u>\$ 1,217,993</u>

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**NOTE 5 – DEPOSITS AND INVESTMENTS**

State statutes classify monies held by the District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio Local Governments;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio); and
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time;
8. Under limited circumstances corporate debt interest rated in either of the two highest rated classifications by at least two nationally recognized rating agencies.

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

**DEFIANCE CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 5 – DEPOSITS AND INVESTMENTS - (Continued)**

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

**A. Deposits**

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

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

At year end, the District had \$900 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents."

The carrying amount of the District's deposits was \$1,372,452 and the bank balance was \$1,559,940. At year-end, \$1,249,636 of the District's bank balance was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all state statutory requirements for the deposit of money have been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

**B. Investments**

Investments are reported at fair market value. As of June 30, 2012, the District had the following investments:

Description	FMV Basis	Maturity (Years)	
		Less Than 1	1-5
Federal Home Loan Mortgage Corporation (FHLMC)	\$ 504,277		\$ 504,277
Federal Home Loan Bank (FHLB)	157,592	\$ 20,647	136,945
Federal National Mortgage Association (FNMA)	483,100	170,156	312,944
Federal Farm Credit Bank (FFCB)	110,735		110,735
Negotiable Certificates of Deposit	97,000	97,000	
Money Market Mutual Funds	907,169	907,169	
STAR Ohio	<u>3,036,988</u>	<u>3,036,988</u>	
Total Cost	<u>\$ 5,296,861</u>	<u>\$ 4,231,960</u>	<u>\$ 1,064,901</u>



**DEFIANCE CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 5 – DEPOSITS AND INVESTMENTS - (Continued)**

**C. Interest Rate Risk**

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

**D. Credit Risk**

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

**E. Custodial Credit Risk**

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

**F. Concentration of Credit Risk**

The District places no limit on the amount the District may invest in any one issuer, however State statute limits investments in commercial paper and bankers' acceptances to 25% of the interim monies available for investment at any one time. The District's investments in Federal Home Loan Mortgage Corporation and Federal National Mortgage Association represents 10% and 9% respectively, of the District's total investments

**NOTE 6 – INCOME TAXES**

The District levies a voted tax of 0.5% for general operations on the income of residents and of estates. The tax was effective on January 1, 1991, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax receipts are credited to the General fund.

**DEFIANCE CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 7 – PROPERTY TAXES**

Property taxes are levied and assessed on a calendar year basis while the District fiscal year runs from July through June. First half tax collections are received by the District in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

Property taxes include amounts levied against all property, public utility property, and tangible personal (used in business) property located in the area served by the District. Real property tax revenues received in calendar year 2012 represent the collection calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed values as of January 1, 2011, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2012 represents collections of calendar year 2011 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien December 31, 2009, were levied after April 1, 2010 and are collected in 2011 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The District receives property taxes from Defiance and Paulding Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2012, are available to finance fiscal year 2012 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which fiscal year 2012 taxes were collected are:

	2011 Second-Half Collections		2012 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/residential	\$ 198,696,140	80.16	\$ 187,492,000	79.42
Industrial/commercial	38,635,890	15.59	37,919,990	16.06
Public utility	<u>10,534,210</u>	<u>4.25</u>	<u>10,658,770</u>	<u>4.52</u>
Total assessed value	<u>\$ 247,866,240</u>	<u>100.00</u>	<u>\$ 236,070,760</u>	<u>100.00</u>
Total rate per \$1,000 of assessed valuation	\$ 50.30		\$ 50.30	

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 8 – RISK MANAGEMENT**

**A. Employee Insurance Benefits Program**

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

Effective January 1, 2012, the Employee Insurance Benefits Program was removed from Northern Buckeye Education Council (NBEC) and merged with Optimal Health Initiative Consortium (OHI). The new name of the District’s local insurance group consortium is Northern Buckeye Health Plan, Northwest Division of OHI.

**B. Workers’ Compensation Group Program**

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

Effective January 1, 2012 the WCGRP was transferred to Northern Buckeye Health Plan, Northern Division of OHI (NBHP). The NBHP WCGRP is an insurance purchasing pool. The WCGRP is governed by the Northern Buckeye Health Plan and the participating members of the WCGRP. The Executive Director of the NBHP coordinates the management and administration of the program.

**C. Comprehensive**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2012, the District contracted for the following insurance coverage:

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY  
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FOR FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 8– RISK MANAGEMENT - (Continued)**

	Amount of Coverage
The Netherlands Insurance Company:	
General Liability	
Per Occurrence	\$ 1,000,000
Total per Year	2,000,000
Umbrella Liability	
Per Occurrence	5,000,000
Total per Year	5,000,000
Building and contents	82,122,969
Cincinnati Insurance:	
Boiler Insurance	20,000,000
The Netherlands Insurance Company:	
Vehicle liability	1,000,000
Uninsured/Underinsured motorist	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from the prior fiscal year.

**NOTE 9 – DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS’ Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year 2012, the allocation to pension and death benefits is 12.70%. The remaining 1.30% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds.

The District’s contributions to SERS for the years ended June 30, 2012, 2011 and 2010 were \$442,930, \$469,029, and \$382,701, respectively; 69% has been contributed for fiscal year 2012 and 100% for fiscal years 2011 and 2010.

**B. State Teachers Retirement System**

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

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**NOTE 9 – DEFINED BENEFIT PENSION PLANS - (Continued)**

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

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

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

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

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

**Combined Plan Benefits** – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1% of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

**DEFIANCE CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 9 – DEFINED BENEFIT PENSION PLANS - (Continued)**

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

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

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

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

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

For the fiscal year ended June 30, 2012, plan members were required to contribute 10% of their annual covered salaries. The District was required to contribute 14%; 13% was the portion used to fund pension obligations.

The District's required contributions for pension obligations for the fiscal years ended June 30, 2012, 2011 and 2010 were \$1,390,060, \$1,465,919, and \$1,493,124, respectively; 85% has been contributed for the fiscal year 2012 and 100% has been contributed for fiscal years 2011 and 2010.

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio's 2012 *Comprehensive Annual Financial Report* will be available after December 31, 2012.

Additional information or copies of STRS Ohio's 2010 *Comprehensive Annual Financial Report* can be requested by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling toll-free 1- 888-227-7877, or by visiting the STRS Ohio website at [www.strsoh.org](http://www.strsoh.org).

**C. Social Security**

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2012, four of the Board of Education members have elected Social Security.

**DEFIANCE CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 10 – POST EMPLOYMENT BENEFITS**

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

**A. State Teachers Retirement System**

STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan; a self-directed Defined Contribution Plan, and a Combined Plan that is a hybrid of the Defined Benefit Plan and the Defined Contribution Plan.

Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

Pursuant to Chapter 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent *Comprehensive Annual Financial Report* by visiting [www.strsoh.org](http://www.strsoh.org) or by requesting a copy by calling toll-free 1-888-227-7877.

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care for the years ended June 30, 2012, 2011 and 2010. The 14% employer contribution rate is the maximum rate established under Ohio law.

The District's contributions for post-employment health care for fiscal years ended June 30, 2012, 2011 and 2010 were \$106,928, \$112,763 and \$114,856, respectively. 85% has been contributed for fiscal year 2012 and 100 percent has been contributed for the fiscal years 2011 and 2010.

**B. School Employees Retirement System**

**Medicare Part B Plan**

In addition to a cost-sharing multiple-employer defined benefit pension plan, SERS administers two postemployment benefit plans, the Medicare Part B Plan and the Health Care Plan. The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2012 was \$99.90 for most participants, but could be as high as \$319.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2012, the actuarially required allocation was .75%. The District's contributions for the fiscal years ended June 30, 2012, 2011 and 2010 were \$26,157, \$30,183, and \$22,758, which equaled the required contributions each year.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 10 – POST EMPLOYMENT BENEFITS - (Continued)**

**Health Care Plan**

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

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

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2012, the health care allocation was 1.43%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the minimum compensation level was established at \$35,800. The surcharge added to the unallocated portion of the 14% employer contribution is the total amount assigned to the Health Care Fund. The District's contributions assigned to health care fund for the fiscal years ended June 30, 2012, 2011, and 2010 were \$62,468, \$101,183, and \$56,141, respectively.

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

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

**NOTE 11 – OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

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

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



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**NOTE 11 – OTHER EMPLOYEE BENEFITS (Continued)**

**B. Health Care Benefits**

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

**NOTE 12 – LONG-TERM OBLIGATIONS**

Changes in the District’s long-term obligations during fiscal year 2012 were as follows:

Name of Debt	Interest Rate	Balance 06/30/11	Reductions	Balance 06/30/12	Due Within One Year
Elementary Building:					
Note	4.2%	\$ 675,000	\$ 675,000		
Serial Bonds	3.25-4.25%	5,085,000	150,000	\$ 4,935,000	\$ 200,000
Term Bonds	4.5-4.625%	4,020,000		4,020,000	
Total Governmental					
Long Term Obligations		<u>\$ 9,780,000</u>	<u>\$ 825,000</u>	<u>\$ 8,955,000</u>	<u>\$ 200,000</u>

**Elementary Building Note** – During fiscal year 2011, the District obtained a note in the amount of \$675,000 with stated interest of 4.20 percent. This note is a rollover of a bond anticipation note originally issued in 2006 and was used to fund the OSFC project. This note was repaid during fiscal year 2012.

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

**2006 Serial Bonds** – The Current Interest Bonds were issued for a twenty-two fiscal year periods with final maturity on December 1, 2027. The remaining principal amount to be redeemed as of June 30, 2012, is \$4,935,000.

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

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

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

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 12 – LONG-TERM OBLIGATIONS – (Continued)**

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

Payment requirements to retire general obligation debt at June 30, 2012 are as follows:

<u>Ending June 30,</u>	<u>2006 OSFC Elementary Building Bond</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 200,000	\$ 393,778	\$ 593,778
2014	215,000	385,996	600,996
2015	230,000	377,653	607,653
2016	280,000	366,340	646,340
2017	305,000	351,715	656,715
2018-2022	1,235,000	1,597,203	2,832,203
2023-2027	1,955,000	1,254,615	3,209,615
2028-2032	2,985,000	714,306	3,699,306
2033-2035	<u>1,550,000</u>	<u>73,768</u>	<u>1,623,768</u>
Total	<u>\$ 8,955,000</u>	<u>\$ 5,515,374</u>	<u>\$ 14,470,374</u>

The District's overall debt margin was \$11,780,109 with an unvoted debt margin of \$225,412 at June 30, 2012.

**NOTE 13 – SET ASIDE REQUIREMENTS**

The District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year-end. These amounts must be carried forward and used for the same purposes in future years. A similar provision related to the purchase of textbooks and other instructional materials was repealed effective July 1, 2011. Therefore, the June 30, 2011 textbook set aside balance was not carried forward to fiscal year 2012.

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

	<u>Capital Acquisition</u>
Current Year Set Aside Requirement	\$ 441,617
Current Year Offsets	<u>(441,617)</u>
Cash Balance Carried Forward to FY 2012	<u>                    </u>
Total Restricted Assets	<u>\$                    </u>

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 14 – JOINTLY GOVERNED ORGANIZATIONS**

**A. Northwest Ohio Computer Association**

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

The NWOCA Assembly consists of the superintendent from each participating educational entity and a representative from the fiscal agent. The Assembly elects the governing council of two representatives from each of the six counties in which member educational entities are located and the representative from the member educational entity serving as fiscal agent for NWOCA. The degree of control exercised by any participating educational entity is limited to its representation on the Governing Council. During fiscal year 2012, the District paid \$123,949 to NWOCA for various services. Financial information can be obtained from Robin Pfund, who serves as Treasurer, 22-900 State Route 34, Archbold, Ohio 43502.

**B. Northern Buckeye Education Council**

The Northern Buckeye Education Council (the “NBEC”) was established in 1979 to foster cooperation among educational entities located in Defiance, Fulton, Henry, and Williams Counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected board consisting of two representatives from each of the four counties in which the member educational entities are located. The Board is elected from an assembly consisting of a representative from each participating educational entity. Financial information can be obtained from the Northern Buckeye Education Council, Robin Pfund, who serves as Treasurer, 209 Nolan Parkway, Archbold, Ohio 43502.

**C. Four County Career Center**

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

**D. Northwestern Ohio Educational Research Council, Inc.**

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

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 14 – JOINTLY GOVERNED ORGANIZATIONS - (Continued)**

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

**E. Northwest Ohio Special Education Regional Resource Center**

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

**F. Northwest Ohio Regional Professional Development Center**

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

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

**NOTE 15 – GROUP PURCHASING POOLS**

**A. Employee Insurance Benefits Program**

Effective January 1, 2012, the Employee Insurance Benefits Program was removed from Northern Buckeye Education Council (NBEC) and merged with Optimal Health Initiative Consortium (OHI). The new name of the District's local insurance group consortium is Northern Buckeye Health Plan, Northwest Division of OHI. Northern Buckeye Education Council no longer acts as fiscal agent for the insurance consortium. Financial information for the period July 1, 2011 through December 31, 2011 can be obtained from Robin Pfund, Treasurer, at 209 Nolan Parkway, Archbold, OH 43502.

Financial information for the period January 1, 2012 through June 30, 2012 can be obtained from Jenny Jostworth, Treasurer, at 10999 Reed Hartman Highway, Suite 304E, Cincinnati, OH 45242.

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 15 – GROUP PURCHASING POOLS - (Continued)**

**B. Workers’ Compensation Group Rating Plan**

The District participates in a group-rating plan for workers’ compensation as established under Section 4123.29 of the Ohio Revised Code. The Northern Buckeye Education Council Workers’ Compensation Group Rating Plan (WCGRP) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool. The Plan is governed by the WCGRP is governed by the Northern Buckeye Education Council and the participating members of the WCGRP. The Executive Director of the NBEC coordinates the management and administration of the program.

Effective January 1, 2012 the WCGRP was transferred to Northern Buckeye Health Plan, Northern Division of OHI (NBHP). The NBHP WCGRP is an insurance purchasing pool. The WCGRP is governed by the Northern Buckeye Health Plan and the participating members of the WCGRP. The Executive Director of the NBHP coordinates the management and administration of the program.

**NOTE 16 – CONTINGENCIES**

Federal and State Grants

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2012.

**NOTE 17 - LEASES**

The District has entered into several leases for RICOH workroom equipment, copiers, printers and a duplicator and stand with Marlin Leasing. These leases are in terms of 60 months beginning in June 2007, January 2008, September 2008, October 2008, August 2009, October 2010, June 2011, February 2012, and March 2012. These leases include a total of 32 quarterly payments of \$8,693 and 60 monthly payments of \$608.

The District has entered into two leases with Cardinal Bus Sales in April 2009 for two 84-passenger buses. The leases are for terms of four years and include total annual payments of \$41,236. The bus leases were paid off in 2012.

The District has also entered into a lease agreement with Apple Financial Services in May 2011 for Apple I-Pads. The lease is for a term of three years and includes total annual payments of \$258,643, for the first year and \$158,016 for the remaining two years.

Future lease payments are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2013	\$ 198,238
2014	29,719
2015	26,383
2016	25,285
2017	<u>11,230</u>
Total	<u>\$ 290,855</u>

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**NOTE 18 – DEFIANCE CITY SCHOOLS FOUNDATION**

The Defiance City Schools Foundation (the Foundation) is a non-profit organization established to solicit funds from the general public to maintain, develop, increase, and extend the facilities and services of the Defiance City School District. It also provides educational service opportunities to its students, staff, and faculty. The Foundation is governed by a Board of Trustees which is appointed by the Board of Education. The Board of Trustees possess its own contracting and budgeting authority, hires and fires personnel, and does not depend on the District for operational subsidies. In 2012, the Foundation contributed \$16,500 to the District for miscellaneous grant reimbursements.

**NOTE 19 – COMPLIANCE**

Ohio Administrative Code, Section 117-2-03 (B), requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the District prepared its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

<b>FEDERAL GRANTOR</b> <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Disbursements
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<i>Passed Through Ohio Department of Education:</i>			
<u>Child Nutrition Cluster:</u>			
School Breakfast Program - Cash Assistance	10.553	\$122,162	\$122,162
National School Lunch Program			
Cash Assistance	10.555	583,119	583,119
Non- Cash Assistance (Food Distribution)		158,455	158,455
Total National School Lunch Program		<u>741,574</u>	<u>741,574</u>
<b>Total U.S. Department of Agriculture</b>		<b><u>863,736</u></b>	<b><u>863,736</u></b>
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<i>Passed Through Ohio Department of Education:</i>			
<u>Special Education Cluster:</u>			
Special Education Grants to States	84.027	641,000	650,057
ARRA - Special Education Grants to States	84.391	5,628	15,079
Total Special Education Grants to States		<u>646,628</u>	<u>665,136</u>
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394		6,130
Title II-D Technology Grant	84.318	4,423	4,442
Education Jobs Fund	84.410	588,524	588,524
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	700	700
<u>Title I Cluster:</u>			
Title I Grants to Local Educational Agencies	84.010	628,832	633,817
ARRA - Title I Grants to Local Educational Agencies	84.389	45,667	37,402
Total Title I Cluster		<u>674,499</u>	<u>671,219</u>
Improving Teacher Quality State Grants	84.367	119,601	134,507
<b>Total U.S. Department of Education</b>		<b><u>2,034,375</u></b>	<b><u>2,070,658</u></b>
<b>Institute of Museum and Library Services</b>			
<i>Passed Through The State Library of Ohio:</i>			
Grants to States	45.310		2,864
<b>Total Federal Awards Receipts and Expenditures</b>		<b><u>\$2,898,111</u></b>	<b><u>\$2,937,258</u></b>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE.

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - CHILD NUTRITION CLUSTER**

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

**NOTE C – FOOD DONATION PROGRAM**

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





# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Defiance City School District  
Defiance County  
629 Arabella Street  
Defiance, Ohio 43512-2856

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Defiance City School District, Defiance County, Ohio (the District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 12, 2013, wherein, we noted the District uses a comprehensive accounting basis other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

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

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

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

### Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings and questioned costs as item 2012-001.

We also noted certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated March 12, 2013.

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

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



**Dave Yost**  
Auditor of State

March 12, 2013



# Dave Yost • Auditor of State

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

Defiance City School District  
Defiance County  
629 Arabella Street  
Defiance, Ohio 43512-2856

To the Board of Education:

### Compliance

We have audited the compliance of Defiance City School District, Defiance County, Ohio (the District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the District's major federal programs for the year ended June 30, 2012. The *summary of auditor's results* section of the accompanying schedule of findings and questioned costs identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the District's compliance based on our audit.

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

As described in finding 2012-002 in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding allowable costs and cost principles applicable to its Education Jobs major federal program. Compliance with this requirement is necessary, in our opinion, for the District to comply with requirements applicable to this program.

In our opinion, except for the noncompliance described in the preceding paragraph, Defiance City School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2012.

### Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could directly and materially affect a major federal program, 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, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2012-002 to be a material weakness.

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

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



**Dave Yost**  
Auditor of State

March 12, 2013

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2012**

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

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Qualified – Education Jobs Unqualified – All other major programs
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510(a)?</b>	Yes
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Education Jobs Fund - CFDA # 84.410 Special Education Cluster – Special Education Grants to State - CFDA # 84.027; ARRA-Special Education Grants to State – CFDA #84.391 Nutrition Cluster – School Breakfast Program - CFDA # 10.553; National School Lunch Program – CFDA #10.555 Improving Teacher Quality State Grants – CFDA # 84.367
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	No

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

**FINDING NUMBER 2012-001**

**Noncompliance Citation**

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

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

For 2012, the District prepared its financial statements on the cash basis of accounting in a format similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34. This presentation differs from accounting principles generally accepted in the United States of America (GAAP). There would be variances on the financial statements between the District's accounting practice and GAAP, while presumably material, cannot be reasonably determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

In addition, the District filed its annual report with the Auditor of State's office on February 6, 2013; however, public offices reporting pursuant to GAAP are required to file their reports within 150 days after fiscal year end (November 28, 2012). Public offices not reporting pursuant to GAAP are required to file their reports within 60 days of fiscal year end.

We recommend the District take the necessary steps to ensure the financial report is prepared in accordance with generally accepted accounting principles and is filed the Auditor of State's office within 150 days.

**Officials' Response:**

Management believes reporting on a basis of accounting other than generally accepted accounting principles (GAAP) is more cost efficient.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

<b>Finding Number</b>	2012-002
<b>CFDA Title and Number</b>	Education Jobs Fund – CFDA # 84.410
<b>Federal Award Number/Year</b>	2012
<b>Federal Agency</b>	United States Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**FINDING NUMBER 2012-002  
(Continued)**

**Noncompliance / Questioned Cost / Material Weakness**

**EDUCATION JOBS FUND – ALLOWABLE COSTS / COST PRINCIPLES**

**2 CFR Part 225 (formerly Office of Management and Budget (OMB) Circular A-87)** defines the allowable cost criteria for federal expenditures. **2 CFR Part 225 Appendix (B)(8) (g)** states a District may disburse federal revenues for the payment of severance as indirect costs only after the District has received approval of an indirect cost rate plan (ICRP) from the Ohio Department of Education.

An ICRP is a schedule documenting the formulation of the District's indirect cost rate and direct cost base and request for the establishment of an indirect cost methodology with the Ohio Department of Education. The District cannot request an advancement of federal funds for indirect cost until the Ohio Department of Education assigns methodology on the District's ICRP and enters into an indirect cost rate agreement with the District. The indirect cost rate agreement expires annually. The District must use the most current approved rate for each fiscal year.

In 2012, the District charged the Education Jobs grant \$23,541 of an indirect severance payment for a retiring certified teacher. The District did not submit an indirect cost rate plan nor did it obtain an indirect cost rate agreement with the Ohio Department of Education allowing this severance payment to be charged to the Education Jobs grant. This indirect severance payment would not qualify as an allowable cost to the Education Jobs grant. Therefore, this expenditure of \$23,541 is considered a questioned cost.

In order to ensure indirect severance payments qualify as allowable costs to the Education Jobs grant, we recommend the District prepare and submit an indirect cost rate plan for severance payments and obtain an indirect cost rate agreement with the Ohio Department of Education prior to charging severance payments to the Education Jobs grant.

**Officials' Response:**

The District will work to ensure federal requirements are understood and followed.

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**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**CORRECTIVE ACTION PLAN  
OMB CIRCULAR A -133 § .315 (c)  
JUNE 30, 2012**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2012-002	Management will consult with the Ohio Department of Education to resolve these issues.	FY 2013	Pam Harrington, Treasurer

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**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)  
JUNE 30, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain</b>
2011-001	Ohio Administrative Code § 117-2-03 (B) – for not reporting in accordance with generally accepted accounting principles.	No	Not Corrected. Reissued as finding 2012-001 in this report.
2011-002	ARRA, Section 1512 (b) and (c) for not reporting ARRA bus purchase on 1512 report.	Yes	
2011-003	2 CFR Part 225 for improperly charging \$199,989 in utility costs to the Child Nutrition Cluster Grant without an indirect cost rate plan from the Ohio Department of Education.	Yes	

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# Dave Yost • Auditor of State

DEFIANCE CITY SCHOOL DISTRICT

DEFIANCE COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
MARCH 28, 2013