

***DEFIANCE CITY SCHOOL DISTRICT***

**DEFIANCE COUNTY, OHIO**

**AUDIT REPORT**

**For the Year Ended June 30, 2006**

***Charles E. Harris & Associates, Inc.***  
**Certified Public Accountants and Government Consultants**





Mary Taylor, CPA  
Auditor of State

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

We have reviewed the *Report of Independent Accountants* of the Defiance City School District, Defiance County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

April 11, 2007

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**DEFIANCE CITY SCHOOL DISTRICT**  
**DEFIANCE COUNTY, OHIO**  
**AUDIT REPORT**  
**For the Year Ended June 30, 2006**

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*Charles E. Harris & Associates, Inc.*  
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**REPORT OF INDEPENDENT ACCOUNTANTS**

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Defiance City School District, Defiance County, Ohio, (the District), as of and for the year ended June 30, 2006, 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 an opinion 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Defiance City School District, Defiance County, Ohio, as of June 30, 2006, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2007 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, 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 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.

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

***Charles E. Harris & Associates, Inc.***  
January 10, 2007

**Defiance City School District**  
Defiance County

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
(Unaudited)

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The discussion and analysis of Defiance City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

**Highlights**

Highlights for fiscal year 2006 are as follows:

- In total, net assets increased \$496,972, which represents a 5.44% increase from 2005.
- General revenues accounted for \$19,723,114 in revenue or 78.45% of all revenues and reflect the School District's significant dependence on local property taxes, income taxes and unrestricted state entitlements.
- The District had \$24,642,194 in expenses related to governmental activities; only \$5,416,052 of these expenses was offset by program specific charges for services and sales, grants or contributions. General revenues supported the remaining expenses associated with governmental activities (primarily taxes and unrestricted grants and entitlements) of \$19,226,142.
- The School District has received payments in lieu of taxes related to tax abatement agreements with several companies that are making capital investments in the School District. These payments have been placed into a permanent improvement fund. Revenues received in 2006 for payments in lieu of taxes were \$79,240.
- The School District is part of the Northern Buckeye Educational Council Employee Insurance Benefits Program with member school districts located primarily in Defiance, Fulton, Henry, and Williams Counties. As with many health insurance plans, the School District's health insurance premiums decreased 24 percent in fiscal year 2006 due to negotiating a change in health insurance plans.

**Using the Basic Financial Statements**

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

The statement of net assets and the statement of activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds, with all other non-major funds presented in total in a single column. For Defiance City School District, the General Fund is the most significant fund.

**Reporting the School District as a Whole**

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2006. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.



**Defiance City School District**  
Defiance County

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
(Unaudited)

These statements report the School 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 School 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 School 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 School District discloses a single type of activity, governmental activities. All of the School District's programs and services are reported here including instruction, support services, non-instructional services, and extracurricular activities.

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

Fund financial statements provide detailed information about the School District's major funds. While the School District uses many funds to account for its financial transactions, the fund financial statements focus on the School District's most significant funds. The School District's major governmental funds for fiscal year 2006 are the General Fund, Debt Service Fund and OSFC Local/State Share Fund.

**Governmental Funds** - Most of the School 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 modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less 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 School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the School District's programs. These funds use the accrual basis of accounting.

**The School District as a Whole**

Table 1 provides a summary of the School District's net assets for fiscal year 2006 compared to fiscal years 2005, 2004, 2003, and 2002:

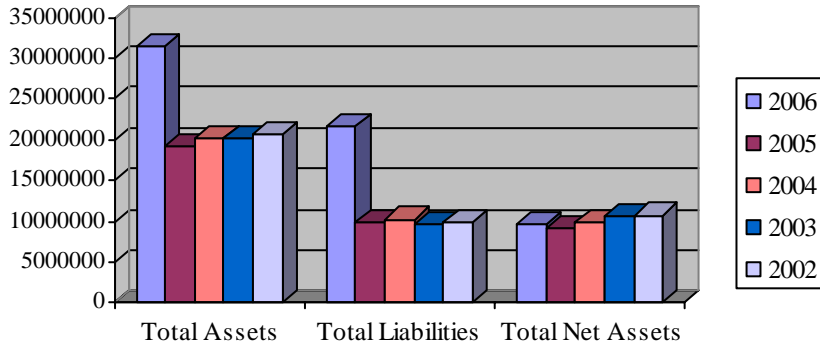
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Table 1 Net Assets					
<b>Assets:</b>					
Current and Other Assets	\$23,029,218	\$10,284,817	\$11,030,074	\$11,102,023	\$11,587,178
Capital Assets, Net	<u>8,349,583</u>	<u>8,840,216</u>	<u>9,166,519</u>	<u>9,156,378</u>	<u>9,072,700</u>
Total Assets	<u>31,378,801</u>	<u>19,125,033</u>	<u>20,196,593</u>	<u>20,258,401</u>	<u>20,659,878</u>
<b>Liabilities:</b>					
Current and Other Liabilities	10,369,497	8,372,908	8,591,820	7,780,151	7,873,507
Long-Term Liabilities	<u>11,385,936</u>	<u>1,625,729</u>	<u>1,680,082</u>	<u>1,901,432</u>	<u>2,041,545</u>
Total Liabilities	<u>21,755,433</u>	<u>9,998,637</u>	<u>10,271,902</u>	<u>9,681,583</u>	<u>9,915,052</u>
<b>Net Assets:</b>					
Invested in Capital Assets, Net of Related Debt	8,183,319	8,512,015	8,676,488	8,503,877	8,388,816
Restricted	2,039,116	1,547,977	1,353,729	1,168,822	1,510,753
Unrestricted	<u>(599,067)</u>	<u>(933,596)</u>	<u>(105,526)</u>	<u>904,119</u>	<u>845,257</u>
Total Net Assets	<u>\$ 9,623,368</u>	<u>\$9,126,396</u>	<u>\$ 9,924,691</u>	<u>\$10,576,818</u>	<u>\$10,744,826</u>

**Defiance City School District**  
Defiance County

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
(Unaudited)

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**Governmental Activities**



Total assets increased \$12,253,768 from 2005 to 2006. This increase is about 64 percent overall and is mostly the result of the larger cash balance from the bond issuance.

At year-end, capital assets represented 26.60% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. The amounts invested in capital assets, net of related debt to acquire the assets at June 30, 2006, were \$8,183,319. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities. The decrease in invested in capital assets, net of related debt is the result of a decrease in capital assets.

Total liabilities increased by \$11,756,796 during fiscal year 2006 due to the issuance of bonds and an additional bond anticipation note.

A portion of the District's net assets, \$2,039,116 represents resources that are subject to external restriction on how they may be used.

**Defiance City School District**  
Defiance County

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
(Unaudited)

Table 2 reflects the changes in net assets from fiscal year 2006, 2005, 2004, and 2003.

Table 2  
Change in Net Assets  
Governmental Activities

	2006	2005 (Restated)	2004 (Restated)	2003
<b>Revenues</b>				
<b>Program Revenues:</b>				
Charges for Services	\$1,380,632	\$ 895,739	\$ 757,268	\$ 772,434
Operating Grants, Contributions, and Interest	3,053,416	1,592,840	1,917,966	2,180,127
Capital Grants and Contributions	982,004	0	0	45,206
<b>Total Program Revenues</b>	<b>5,416,052</b>	<b>2,488,579</b>	<b>2,675,234</b>	<b>2,997,767</b>
<b>General Revenues:</b>				
Property Taxes	7,441,311	6,655,304	6,760,622	5,880,818
Income Taxes	1,423,538	1,510,691	1,456,120	1,317,960
Payment in Lieu of Taxes	79,240	51,205	(16,718)	55,209
Grants and Entitlements	10,212,753	11,298,696	10,658,300	9,229,591
Interest	464,079	67,808	32,780	96,645
Miscellaneous	102,193	44,972	113,082	107,530
<b>Total General Revenues</b>	<b>19,723,114</b>	<b>19,628,676</b>	<b>19,004,186</b>	<b>16,687,753</b>
<b>Total Revenues</b>	<b>25,139,166</b>	<b>22,117,255</b>	<b>21,679,420</b>	<b>19,685,520</b>
<b>Expenses</b>				
<b>Instruction:</b>				
Regular	9,866,823	9,132,804	8,989,505	9,106,831
Special	2,840,025	2,915,639	2,496,002	2,052,673
Vocational	302,077	280,861	267,931	227,709
Other	1,408,164	1,243,743	1,136,995	0
<b>Support Services:</b>				
Pupils	1,119,489	1,005,955	960,055	890,000
Instructional Staff	1,007,046	913,668	821,532	755,245
Board of Education	51,876	148,631	253,031	147,253
Administration	1,900,475	1,996,707	1,865,057	1,584,144
Fiscal	469,877	459,279	423,978	402,522
Operation and Maintenance of Plant	2,401,276	2,086,601	2,460,880	2,081,156
Pupil Transportation	946,924	892,664	710,764	648,938
Central	59,162	75,445	98,724	103,542
Non-Instructional Services	1,149,251	1,039,959	1,130,047	1,077,413
Extracurricular Activities	809,891	709,862	700,265	737,724
Interest and Fiscal Charges	309,838	13,732	16,781	38,378
<b>Total Expenses</b>	<b>24,642,194</b>	<b>22,915,550</b>	<b>22,331,547</b>	<b>19,853,528</b>
<b>Increase (Decrease) in Net Assets</b>	<b>\$ 496,972</b>	<b>(\$ 798,295)</b>	<b>(\$ 652,127)</b>	<b>(\$ 168,008)</b>

The net assets of the District's governmental activities increased by \$496,972 or 5%. The total expenses of \$24,642,194 were offset by program revenues of \$5,416,052 and general revenues of \$19,226,142. Program revenues supported 22.2% of the total governmental expenses.

The primary sources of general revenue for governmental activities are derived from property taxes, income taxes, grants and entitlements. These revenue sources represent 76.6% of total governmental revenue.

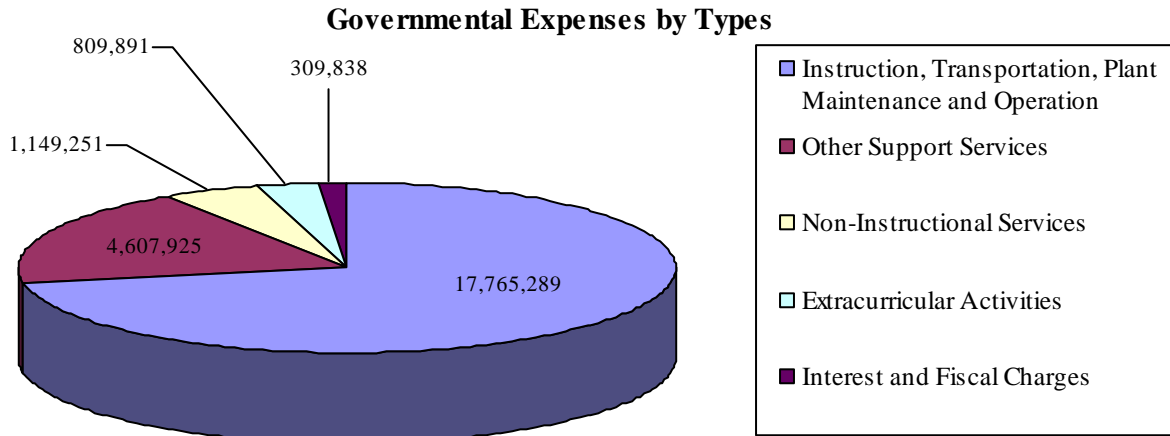
**Defiance City School District**  
Defiance County

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
(Unaudited)

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The major program expenses for governmental activities are for instruction, which accounts for 58.5% of all governmental expenses. Other programs which support the instruction process, including pupils, instructional staff, and pupil transportation account for 12.6% of governmental expenses. Maintenance of the School District's facilities also represents a significant expense, 9.7%. Therefore, 80.8% of the School District's expenses are related to the primary functions of providing facilities and delivering education.

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



**Defiance City School District**  
Defiance County

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
(Unaudited)

Governmental Activities

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements. Comparisons can be made between fiscal year 2006, 2005, 2004 and 2003 figures.

Table 3  
Governmental Activities

	Total Cost of Services 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004	Total Cost of Services 2003	Net Cost of Services 2003
Instruction:								
Regular	\$ 9,866,823	\$ 8,182,990	\$ 9,132,804	\$ 8,754,190	\$ 8,989,505	\$ 8,816,957	\$ 9,106,831	\$ 8,643,620
Special	2,840,025	1,248,516	2,915,639	2,389,555	2,496,002	1,937,493	2,052,673	803,387
Vocational	302,077	234,146	280,861	280,578	267,931	267,689	227,709	226,663
Other	1,408,164	1,408,164	1,243,743	1,242,526	1,136,995	1,135,955	0	0
Support Services:								
Pupils	1,119,489	999,656	1,005,955	986,481	960,055	939,777	890,000	880,582
Instructional Staff	1,007,046	782,050	913,668	707,024	821,532	600,046	755,245	755,245
Board of Education	51,876	51,876	148,631	148,472	253,031	249,537	147,253	147,253
Administration	1,900,475	1,834,931	1,996,707	1,965,567	1,865,057	1,826,389	1,584,144	1,584,144
Fiscal	469,877	464,476	459,279	458,798	423,978	423,592	402,522	384,841
Operation and Maintenance of Plant	2,401,276	2,284,653	2,086,601	2,081,893	2,460,880	2,106,998	2,081,156	2,081,156
Pupil Transportation	946,924	903,493	892,664	886,154	710,764	804,121	648,938	579,582
Central	59,162	59,162	75,445	54,445	98,724	98,530	103,542	79,042
Non-Instructional Services	1,149,251	(30,980)	1,039,959	35,722	1,130,047	92,908	1,077,413	134,047
Extracurricular Activities	809,891	493,171	709,862	494,120	700,265	516,127	737,724	544,243
Interest and Fiscal Charges	309,838	309,838	13,732	13,732	16,781	17,632	38,378	38,378
<b>Total Expenses</b>	<u>\$24,642,194</u>	<u>\$19,226,142</u>	<u>\$22,915,550</u>	<u>\$20,499,257</u>	<u>\$22,331,547</u>	<u>\$19,833,751</u>	<u>\$19,853,528</u>	<u>\$16,882,183</u>

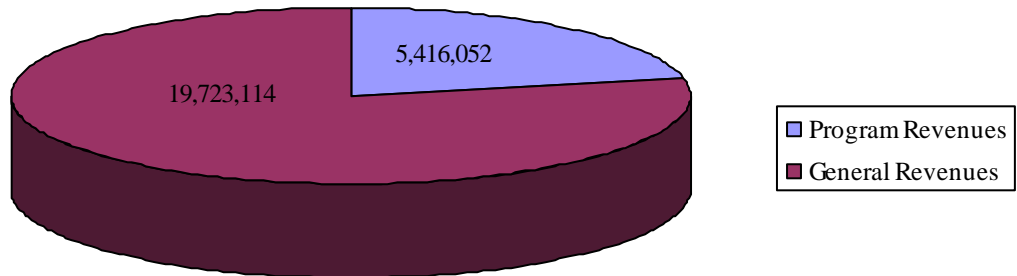
**Defiance City School District**  
Defiance County

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
(Unaudited)

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The dependence upon tax revenues and unrestricted state entitlements for governmental activities is demonstrated in the previous table. Over 82% of instruction activities are supported through taxes and other general revenues. Approximately 61% of extracurricular activities expenses are covered by general revenues.

**Governmental Activities - General vs. Program Revenues**



**The School District's Funds**

The School District's governmental funds are accounted for using the modified accrual basis of accounting on the fund financial statements. Total governmental funds had revenues of \$44,900,238 and \$21,921,224 in fiscal years 2006 and 2005, respectively. Expenditures were \$34,255,918 and \$22,645,620 in fiscal years 2006 and 2005, respectively. The overall positive change for 2006 is \$10,642,416 in fund balance for the fiscal year largely due to the revenues provided by the bonds and bond anticipation notes.

**General Fund Budgeting Highlights**

The School 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.

During fiscal year 2006, the School District amended its General Fund budget as needed. Final budgeted revenues, in the amount of \$20,396,408, were slightly above original budgeted revenues of \$19,712,326. This difference is mostly due to unanticipated increases in property taxes, state aide, interest, and charges for services.

General fund original budgeted expenditures of \$20,061,359 were increased to \$21,179,256. The actual expenditures for fiscal year 2006 totaled \$20,785,030 which was \$394,226 less than the final budgeted expenditures.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2006, the School District had \$8,349,583 in capital assets (net of accumulated depreciation), a decrease of \$490,633, or approximately 6%, from the prior year. For further information regarding the School District's capital assets, see Note 9 to the basic financial statements.

**Debt**

The School District's outstanding debt obligations at fiscal year end consisted of an energy conservation loan, in the amount of \$148,750, an OSFC Elementary Building bond anticipation note for \$1,000,000 and the OSFC Elementary Building bonds of \$9,710,000. The School District's long-term obligations also include compensated absences, a capital lease for equipment and the deferred premiums and bond issuance costs. For further information regarding the School District's long-term obligation, see Note 15 to the basic financial statements.

**Defiance City School District**  
Defiance County

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
(Unaudited)

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**Current Issues**

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

During fiscal year 2003, the Board of Education started receiving collections of revenues on a 5-year emergency levy which was approved by voters in 2002. During the levy campaign, the Board and management informed citizens that the proposed levy would not provide adequate revenues for that five-year period of time and that a small levy would be needed to supplement the revenue stream sometime in year 3 or 4. The Board and management were successful in remaining off the ballot for any additional operating fund requests during this period. However, it is imperative that the Board seek the renewal of the 5-year emergency levy currently set to expire at the end of calendar year 2007. The Board will pursue renewal of the issue and place on the May 2007 ballot. Unfortunately, the 5-year emergency levy renewal will not be sufficient to meet all general fund operating expenses and additional operating monies will be needed. The necessity is largely due to the provisions of HB66 with the phase-out of the tangible personal property tax and increased operating expenses. The type, term and size of this levy are undecided at this time.

The community has always taken great pride in building and support of the District. In November 2005, the Board presented to the community, for the first attempt for approval, an OSFC proposal of constructing a new elementary building (Pre-K-5) and closing the four current elementary schools. Voters strongly agreed and supported the project with the passage of the bond issue. During early spring 2007, the District will break ground on the new elementary and contractor bids will be awarded. A December 2008 date is set for ownership of the new building.

The Board of Education continues to aggressively market the School District to local and area students to increase enrollment. The Board looks forward to highlighting the many successful programs that the School District has to offer to young people in the Defiance area which will result in additional revenue to the Defiance City Schools.

**Contacting the School District's Financial Management**

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

**Defiance City School District  
Defiance County**

*Statement of Net Assets  
June 30, 2006*

	Governmental Activities
<b>ASSETS</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 14,310,976
Receivables:	
Property Taxes	7,747,877
Income Taxes	604,804
Accounts	20,841
Accrued Interest	23,720
Intergovernmental	163,644
Prepaid Items	476
Materials and Supplies Inventory	19,678
Deferred Charges	137,202
Nondepreciable Capital Assets	1,004,940
Depreciable Capital Assets, Net	7,344,643
 <i><b>Total Assets</b></i>	 31,378,801
 <b>LIABILITIES</b>	
Accounts Payable	99,760
Bond Anticipation Note Payable	1,000,000
Accrued Wages and Benefits	1,927,144
Matured Compensated Absences Payable	64,009
Accrued Interest	24,142
Intergovernmental Payable	557,565
Deferred Revenue	6,696,877
Long-term liabilities:	
Due Within One Year	366,281
Due In More Than One Year	11,019,655
 <i><b>Total Liabilities</b></i>	 21,755,433
 <b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	8,183,319
Restricted for:	
Capital Projects	1,380,807
Debt Service	260,060
Other purposes	398,249
Unrestricted	(599,067)
 <i><b>Total Net Assets</b></i>	 \$ 9,623,368

See accompanying Notes to the Basic Financial Statements and Independent Accountants' Report



**Defiance City School District  
Defiance County**

*Statement of Activities  
For the Fiscal Year Ended June 30, 2006*

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>					
Current:					
Instruction:					
Regular	\$ 9,866,823	\$ 552,253	\$ 241,580	\$ 890,000	\$ (8,182,990)
Special	2,840,025	0	1,591,509	0	(1,248,516)
Nondepreciable Capital Assets	302,077	0	67,931	0	(234,146)
Other	1,408,164	0	0	0	(1,408,164)
Support services:					
Pupils	1,119,489	0	119,833	0	(999,656)
Instructional staff	1,007,046	0	224,996	0	(782,050)
Board of education	51,876	0	0	0	(51,876)
Administration	1,900,475	0	65,544	0	(1,834,931)
Fiscal	469,877	0	20	5,381	(464,476)
Operation and maintenance of plant	2,401,276	0	30,000	86,623	(2,284,653)
Pupil transportation	946,924	0	43,431	0	(903,493)
Central	59,162	0	0	0	(59,162)
Non-Instructional services	1,149,251	568,085	612,146	0	30,980
Extracurricular activities	809,891	260,294	56,426	0	(493,171)
Debt service:					
Interest and fiscal charges	309,838	0	0	0	(309,838)
<b>Total Governmental Activities</b>	<b>\$ 24,642,194</b>	<b>\$ 1,380,632</b>	<b>\$ 3,053,416</b>	<b>\$ 982,004</b>	<b>(19,226,142)</b>

**General Revenues**

Property Taxes Levied for:	
General Purposes	7,001,361
Debt Service	338,147
Capital Projects	101,803
Income Taxes	1,423,538
Grants and Entitlements not Restricted to Specific Programs	10,212,753
Interest	464,079
Miscellaneous	102,193
Payments in Lieu of Taxes	79,240
<b>Total General Revenues</b>	<b>19,723,114</b>
<b>Change in Net Assets</b>	<b>496,972</b>
<b>Net Assets Beginning of Year</b>	<b>9,126,396</b>
<b>Net Assets End of Year</b>	<b>\$ 9,623,368</b>

**Defiance City School District  
Defiance County**

*Balance Sheet  
Governmental Funds  
June 30, 2006*

	General Fund	Debt Service Fund	OSFC Local/State Share Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Equity in Pooled Cash and Cash Equivalents	\$ 1,527,543	\$ 228,022	\$ 9,787,997	\$ 2,767,414	\$ 14,310,976
Receivables:					
Property Taxes	7,346,085	57,312	0	344,480	7,747,877
Income Taxes	604,804	0	0	0	604,804
Accounts	10,300	0	0	10,541	20,841
Accrued Interest	3,251	0	0	20,469	23,720
Intergovernmental	18,242	121	0	145,281	163,644
Prepaid Items	476	0	0	0	476
Materials and Supplies Inventory	0	0	0	19,678	19,678
Advances to Other Funds	68,000	0	0	0	68,000
<b>Total Assets</b>	<b>\$ 9,578,701</b>	<b>\$ 285,455</b>	<b>\$ 9,787,997</b>	<b>\$ 3,307,863</b>	<b>\$ 22,960,016</b>
<b>LIABILITIES</b>					
Accounts Payable	\$ 74,792	\$ 0	\$ 0	\$ 24,968	\$ 99,760
Bond Anticipation Note Payable	0	0	0	1,000,000	1,000,000
Accrued Wages and Benefits	1,718,937	0	0	208,207	1,927,144
Matured Compensated Absences Payable	64,009	0	0	0	64,009
Intergovernmental Payable	485,681	0	0	71,884	557,565
Deferred Revenue	6,644,460	51,838	0	314,581	7,010,879
Advances From Other Funds	0	0	0	68,000	68,000
<b>Total Liabilities</b>	<b>8,987,879</b>	<b>51,838</b>	<b>0</b>	<b>1,687,640</b>	<b>10,727,357</b>
<b>FUND BALANCES</b>					
Reserved for:					
Encumbrances	339,512	0	996,576	634,212	1,970,300
Inventory	0	0	0	19,678	19,678
Prepaid Items	476	0	0	0	476
Tax Revenue Unavailable for Appropriation	701,625	5,474	0	32,901	740,000
Advances	68,000	0	0	0	68,000
Unreserved, Undesignated, Reported in:					
General Fund	(518,791)	0	0	0	(518,791)
Special Revenue Funds	0	0	0	223,748	223,748
Debt Service Fund	0	228,143	0	0	228,143
Capital Projects Funds	0	0	8,791,421	709,684	9,501,105
<b>Total Fund Balances</b>	<b>590,822</b>	<b>233,617</b>	<b>9,787,997</b>	<b>1,620,223</b>	<b>12,232,659</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 9,578,701</b>	<b>\$ 285,455</b>	<b>\$ 9,787,997</b>	<b>\$ 3,307,863</b>	<b>\$ 22,960,016</b>

**Defiance City School District  
Defiance County**

*Reconciliation of Total Governmental Fund Balances to  
Net Assets Governmental Activities  
June 30, 2006*

<b>Total Governmental Fund Balances</b>		\$ 12,232,659
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*Amounts reported for governmental activities in the  
statement of net assets are different because:*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		8,349,583
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Deferred Charges are accrued and therefore not reported in funds		137,202
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Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.

Nondepreciable Federal and State Grants	\$ 3,237	
Delinquent Property Taxes	310,765	314,002

Some liabilities are not due and payable in the current period and therefore are not reported in the funds:

Accrued Interest Payable	(24,142)	
Compensated Absences	(1,349,202)	
Capital Lease Payable	(15,872)	
Bonds Payable	(9,710,000)	
Notes Payable	(148,750)	(11,247,966)

Deferred Premium on bonds & note are accrued and therefore not reported in funds		(162,112)
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<b><i>Net Assets of Governmental Activities</i></b>		<b>\$ 9,623,368</b>
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**Defiance City School District  
Defiance County**

*Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Fiscal Year Ended June 30, 2006*

	General	Debt Service Fund	OSFC Local/State Share Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Property and Other Local Taxes	\$ 6,822,542	\$ 335,846	\$ 0	\$ 87,975	\$ 7,246,363
Income Taxes	1,423,538	0	0	0	1,423,538
Intergovernmental	11,330,262	32,768	890,000	2,043,033	14,296,063
Interest	104,796	111,422	132,100	105,411	453,729
Tuition and fees	513,515	0	0	92,082	605,597
Extracurricular activities	0	0	0	260,295	260,295
Rentals	7,900	0	0	232	8,132
Charges for services	38,738	0	0	466,679	505,417
Contributions and Donations	87	0	0	157,921	158,008
Nondepreciable Capital Assets	0	0	0	70,345	70,345
Miscellaneous	20,119	0	0	18,219	38,338
<b>Total Revenues</b>	<b>20,261,497</b>	<b>480,036</b>	<b>1,022,100</b>	<b>3,302,192</b>	<b>25,065,825</b>
<b>Expenditures:</b>					
Current:					
Instruction:					
Regular	9,127,394	0	0	341,251	9,468,645
Special	2,111,278	0	0	717,690	2,828,968
Vocational	307,454	0	0	6,250	313,704
Other	1,361,014	0	0	47,150	1,408,164
Support services:					
Pupils	991,604	0	0	137,539	1,129,143
Instructional staff	741,357	0	0	254,302	995,659
Board of education	51,844	0	0	0	51,844
Administration	1,825,326	0	0	48,065	1,873,391
Fiscal	466,801	0	0	1,301	468,102
Operation and maintenance of plant	2,114,763	0	0	33,333	2,148,096
Pupil transportation	785,099	0	0	43,488	828,587
Central	58,406	0	0	0	58,406
Operation of non-instructional services	18,355	0	0	1,105,606	1,123,961
Extracurricular activities	435,249	0	0	280,823	716,072
Capital outlay	104,107	0	263,458	16,442	384,007
Debt service:					
Principal retirement	14,829	9,858,750	0	0	9,873,579
Interest and fiscal charges	1,635	289,832	0	0	291,467
Issuance costs	0	138,453	0	0	138,453
<b>Total Expenditures</b>	<b>20,516,515</b>	<b>10,287,035</b>	<b>263,458</b>	<b>3,033,240</b>	<b>34,100,248</b>
<i>Excess of Revenues Over (Under) Expenditures</i>	<i>(255,018)</i>	<i>(9,806,999)</i>	<i>758,642</i>	<i>268,952</i>	<i>(9,034,423)</i>
<b>Other Financing Sources (Uses):</b>					
Proceeds of Refunding Bonds	0	9,710,000	0	0	9,710,000
Premium on Debt Issuance	0	174,946	0	0	174,946
Proceeds of bond anticipation notes	0	0	9,029,355	680,645	9,710,000
Proceeds from sales of capital assets	7,951	0	0	0	7,951
Refund of Prior Year Expenditures	75,846	0	0	0	75,846
Transfers in	0	155,670	0	0	155,670
Transfers out	(155,670)	0	0	0	(155,670)
Refund of Prior Year Receipts	0	0	0	(1,904)	(1,904)
<b>Total Financing Sources and (Uses)</b>	<b>(71,873)</b>	<b>10,040,616</b>	<b>9,029,355</b>	<b>678,741</b>	<b>19,676,839</b>
<b>Net Change in Fund Balance</b>	<b>(326,891)</b>	<b>233,617</b>	<b>9,787,997</b>	<b>947,693</b>	<b>10,642,416</b>
<i>Fund balance at beginning of year</i>	<i>917,713</i>	<i>0</i>	<i>0</i>	<i>672,530</i>	<i>1,590,243</i>
<b>Fund balance at end of year</b>	<b>\$ 590,822</b>	<b>\$ 233,617</b>	<b>\$ 9,787,997</b>	<b>\$ 1,620,223</b>	<b>\$ 12,232,659</b>
Encumbrances	\$ 339,512	\$ 0	\$ 996,576	\$ 634,212	\$ 1,970,300

**Defiance City School District  
Defiance County**

*Reconciliation of Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2006*

<b>Net Change in Fund Balances - Total Governmental Funds</b>		\$ 10,642,416
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period		
Capital Asset Additions	\$ 311,114	
Current Year Depreciation	<u>(529,770)</u>	(218,656)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.		
Intergovernmental Receivables	(253,641)	
Delinquent Property Taxes	<u>298,272</u>	44,631
Net effect of transactions involving sale of capital assets are not reflected in the funds.		
		(275,938)
Proceeds of bonds/notes principal is a revenue in the governmental funds but the proceeds create liabilities in the statement of net assets		
		(19,420,000)
Repayment of bond/note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Bond/Note Principal	9,858,750	
Capital Leases	<u>14,829</u>	9,873,579
Premiums & Issuance Costs are reported as revenues & expenses, respectively on the fund statements and are accrued liabilities and assets on the statement of activities		
Premiums, net	(162,113)	
Issuance Costs, net	<u>139,704</u>	(22,409)
Some expenses reported in the statement of activities do not use the current financial resources and therefore are not reported as expenditures in governmental funds		
Accrued Interest	(20,857)	
Compensated Absences	<u>(105,794)</u>	<u>(126,651)</u>
<b>Change in Net Assets of Governmental Activities</b>		<u><u>\$ 496,972</u></u>

**Defiance City School District  
Defiance County**

*Statement of Revenues, Expenditures, and Changes in Fund Balance -  
Budget (Non-GAAP Basis) and Actual -  
General Fund  
For the Fiscal Year Ended June 30, 2006*

	Budgeted Amounts			Variance with Final Budget Over (Under)
	Original	Final	Actual	
<b>Revenues:</b>				
Property and Other Local Taxes	\$ 6,493,240	\$ 6,843,546	\$ 6,843,546	\$ 0
Income Taxes	1,453,392	1,453,392	1,453,392	0
Intergovernmental	11,169,667	11,435,250	11,316,278	(118,972)
Interest	60,000	94,726	103,718	8,992
Tuition and Fees	511,527	507,350	513,515	6,165
Rentals	9,000	9,000	7,900	(1,100)
Gifts and Donations	0	87	87	0
Charges for Services	12,000	47,338	38,738	(8,600)
Miscellaneous	3,500	5,719	9,843	4,124
Nondepreciable Capital Assets				
<b>Total Revenues</b>	<u>19,712,326</u>	<u>20,396,408</u>	<u>20,287,017</u>	<u>(109,391)</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	8,522,195	9,356,178	9,285,826	70,352
Special	2,148,764	2,217,776	2,187,340	30,436
Vocational	254,778	299,541	294,083	5,458
Other	1,267,376	1,367,036	1,363,702	3,334
Support Services:				
Pupils	947,792	1,006,666	996,766	9,900
Instructional Staff	730,464	762,825	728,946	33,879
Board of Education	83,275	67,214	58,220	8,994
Administration	1,852,289	1,896,552	1,821,357	75,195
Fiscal	476,252	475,417	465,837	9,580
Operation and Maintenance of Plant	2,182,136	2,233,737	2,142,988	90,749
Pupil Transportation	851,562	844,951	819,614	25,337
Central	48,874	72,869	60,639	12,230
Operation of Food Services	18,250	18,250	18,250	0
Extracurricular Activities	382,796	436,692	425,490	11,202
Capital Outlay	294,556	123,552	115,972	7,580
<b>Total Expenditures</b>	<u>20,061,359</u>	<u>21,179,256</u>	<u>20,785,030</u>	<u>394,226</u>
Excess of Revenues Over (Under) Expenditures	(349,033)	(782,848)	(498,013)	284,835
<b>Other Financing Sources (Uses):</b>				
Transfers In	1,235,332	1,235,332	1,235,333	1
Advances In	65,629	65,629	65,629	0
Proceeds from Sale of Assets	500	1,111	7,951	6,840
Refund of Prior Year Expenditures	10,000	67,275	76,067	8,792
Transfers Out	(1,393,568)	(1,391,003)	(1,391,003)	0
<b>Total Other Financing Sources (Uses)</b>	<u>(82,107)</u>	<u>(21,656)</u>	<u>(6,023)</u>	<u>15,633</u>
<b>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</b>	(431,140)	(804,504)	(504,036)	300,468
<b>Fund Balance at Beginning of Year</b>	1,494,933	1,494,933	1,494,933	0
Prior Year Encumbrances Appropriated	127,083	127,083	127,083	0
<b>Fund Balance at End of Year</b>	<u>\$ 1,190,876</u>	<u>\$ 817,512</u>	<u>\$ 1,117,980</u>	<u>\$ 300,468</u>

**Defiance City School District  
Defiance County**

*Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2006*

	<b>Private Purpose Trust</b>	<b>Agency Funds</b>
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$ 10	\$ 78,647
Nondepreciable Capital Assets		
<b>Total Assets</b>	\$ 10	\$ 78,647
 <b>Liabilities</b>		
Due to Students	\$ 0	\$ 78,647
<b>Total Liabilities</b>	0	\$ 78,647
 <b>Net Assets</b>		
Held in Trust for Scholarships	10	
<b>Total Net Assets</b>	\$ 10	

See accompanying Notes to the Basic Financial Statements and Independent Accountants' Report

**Defiance City School District  
Defiance County**

*Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
For the Fiscal Year Ended June 30, 2006*

	<u>Private Purpose Trust</u>
<b>Additions</b>	\$ 0
<b>Deductions</b>	<u>0</u>
Nondepreciable Capital Assets	
<i>Change in Net Assets</i>	0
<i>Net Assets Beginning of Year</i>	<u>10</u>
<i>Net Assets End of Year</i>	<u><u>\$ 10</u></u>

See accompanying Notes to the Basic Financial Statements and Independent Accountants' Report



**Defiance City School District  
Defiance County**

**Notes to the Basic Financial Statements  
June 30, 2006**

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

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

The School District is the 242nd largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by one hundred four classified employees, one hundred eighty-one certified teaching personnel, and seventeen administrative employees who provide services to 2,428 students and other community members. The School District currently operates seven instructional/support buildings.

**Reporting Entity**

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

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

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

The School District participates in six jointly governed organizations and two insurance pools. These organizations are the Northwest Ohio Computer Association, the Northern Buckeye Education Council, the Four County Career Center, the Northwestern Ohio Educational Research Council, Inc., the Northwest Ohio Special Education Regional Resource Center, the Northwest Ohio Regional Professional Development Center, the Northern Buckeye Education Council Employee Insurance Benefits Program, and the Northern Buckeye Education Council Workers’ Compensation Group Rating Plan. These organizations are presented in Notes 19 and 20 to the basic financial statements.

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

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

**Defiance City School District  
Defiance County**

**Notes to the Basic Financial Statements  
June 30, 2006**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***A. Basis of Presentation***

The School 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 School 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 School District at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues 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. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

**Fund Financial Statements**

During the fiscal year, the School District segregates transactions related to certain School 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 School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

***B. Fund Accounting***

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the School District are divided into two categories, governmental and fiduciary.

**Governmental Funds**

Governmental funds are those through which most governmental functions of the School District are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The School District's major funds were the General Fund, Debt Service Fund, and OSFC Local/State Share Fund.

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

**Debt Service Fund** - This fund is used to account for the accumulation of resources for, and the payment of, general long-term and short-term debt principal and interest.

**Defiance City School District  
Defiance County**

**Notes to the Basic Financial Statements  
June 30, 2006**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

The other governmental funds of the School 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 School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. The School District's private purpose trust fund accounts for college scholarships for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds account for student athletic insurance, amounts held to pay for college placement tests, and various student-managed activities.

***C. Measurement Focus***

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reflects the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

The private purpose trust fund is reported using the economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of fiduciary net assets. The statement of changes in fiduciary net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

***D. Basis of Accounting***

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting; fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Nonexchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year end.

**Defiance City School District  
Defiance County**

**Notes to the Basic Financial Statements  
June 30, 2006**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from income taxes is recognized in the fiscal year in which the income is earned. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered both measurable and available at fiscal year end: property taxes available as an advance, income taxes, grants, interest, tuition, student fees, charges for services, and rent.

Deferred Revenues

Deferred revenues arise when assets are recognized before revenue recognition criteria has been satisfied.

Property taxes for which there was an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, are recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period are reported as deferred revenue.

Expenses/Expenditures

On the accrual basis, expenses are recognized at the time they are incurred.

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

***E. Budgetary Process***

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 appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of budgetary control selected by the Board is at the function level for the General Fund and the fund level for all other funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education. Budgetary allocations at the object level within the General Fund and at the function and object level within all other funds are made by the School District Treasurer.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue 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.

**Defiance City School District  
Defiance County**

**Notes to the Basic Financial Statements  
June 30, 2006**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The appropriation resolution is subject to amendment throughout the fiscal year with the restriction that appropriations cannot 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 during the fiscal year.

***F. Cash and Investments***

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

During fiscal year 2006, investments included nonnegotiable certificates of deposit, US Treasury/Agency bonds and STAROhio. Nonnegotiable certificates of deposit are reported at cost. STAROhio is an investment pool, managed by the State Treasurer’s Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio’s share price, which is the price the investment could be sold for on June 30, 2006.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Total interest revenue credited to the District, on the accrual basis of accounting, during fiscal year 2006 was \$464,079. For the fund statements, \$104,796 interest was credited to the General Fund, which included \$11,182, assigned from other funds, \$111,422 was credited to the Debt Service Fund, \$132,100 credited to the OSFC Local/State Share Fund and \$105,411 was recorded in non-major governmental funds.

Investments of the School District’s cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are 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.

***G. Prepaid Items***

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

***H. Inventory***

Inventory is presented at cost on a first-in, first-out basis and is expended/expensed when used. Inventory consists of donated and purchased food.

***I. Restricted Assets***

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by enabling legislation.

**Defiance City School District  
Defiance County**

**Notes to the Basic Financial Statements  
June 30, 2006**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***J. Capital Assets***

All of the School District’s capital assets are general capital assets resulting from expenditures in governmental funds. These assets are reported in the governmental activities column on the government-wide statement of net assets but are not reported on the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. The School District maintains a capitalization threshold of \$2,500. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not capitalized.

All capital assets, except land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Useful Lives
Land Improvements	10 – 50 years
Buildings and Building Improvements	10 – 118 years
Furniture, Fixtures and Equipment	4 – 40 years
Vehicles	8 – 15 years

***K. Interfund Assets/Liabilities***

On the fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as “Interfund Receivables/Payables”. Interfund balances within governmental activities are eliminated on the statement of net assets.

On fund financial statements, long-term interfund loans reported as “advances to/from other funds,” are equally offset by a fund balance reserve account which indicates that they do not constitute “available expendable financial resources” even though it is a component of net current assets. Repayment is expected to be made within a reasonable time.

***L. Compensated Absences***

Vacation benefits are accrued as a liability as the benefits are earned if the employees’ rights to receive compensation are attributable to services already rendered and it is probable the School District will compensate the employees for the benefits through time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees’ wage rates at fiscal year end, taking into consideration any limits specified in the School District’s termination policy. The School District records a liability for accumulated unused sick leave for all employees after twenty years of service and for all employees who have 15 years of service at age 45, 10 years of service at age 50, or 5 years of service at age 60.

The entire compensated absences liability is reported on the government-wide financial statements.

On the governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account “Matured Compensated Absences Payable” in the fund from which the employees who have accumulated unpaid leave are paid.

**Defiance City School District  
Defiance County**

**Notes to the Basic Financial Statements  
June 30, 2006**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***M. Accrued Liabilities and Long-Term Obligations***

All payables, accrued liabilities, and long-term obligations are reported on the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, compensated absences that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current year. Energy conservation loans and capital leases are recognized as a liability on the fund financial statements when due.

***N. Net Assets***

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include activities for food service operations, music and athletic programs, and federal and state grants restricted to expenditure for specified purposes.

The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

***O. Fund Balance Reserves***

The School District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates that portion which is available for appropriation in future periods. Fund balance reserves have been established for property taxes, prepaid items, inventory, advances and encumbrances.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

***P. Interfund Transactions***

Transfers within governmental activities are eliminated on the government-wide financial statements. Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods 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 expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

***Q. Extraordinary and Special Items***

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence.

***R. Estimates***

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

**Defiance City School District  
Defiance County**

**Notes to the Basic Financial Statements  
June 30, 2006**

**NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLE**

For the year ended June 30, 2006, the School District has implemented GASB Statement No. 42 "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries," Statement No. 46 "Net Assets Restricted by Enabling Legislation," and Statement No. 47 "Accounting for Termination Benefits."

Statement No. 42 establishes accounting and financial standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.

Statement No. 46 establishes that any amount of the primary government's net assets at the end of the reporting period restricted by enabling legislation should be disclosed in the notes to the financial statements.

Statement No. 47 provides guidance to governmental employers for measuring, recognizing, and reporting liabilities and expenses/expenditures related to all termination benefits without limitation as to the period of time during which the benefits are offered.

There was no effect on fund balances as a result of the implementation of these new Standards.

**NOTE 4 - BUDGETARY BASIS OF ACCOUNTING**

While the School District is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and the GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

The adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund are as follows:

Net Change in Fund Balance	
GAAP Basis	\$ (326,891)
Adjustment for:	
Revenue accruals	25,520
Expenditure accruals	71,218
Advances In	65,629
Encumbrances outstanding at year-end	(339,512)
Budgetary Basis	\$ (504,036)



**Defiance City School District**  
**Defiance County**

**Notes to the Basic Financial Statements**  
**June 30, 2006**

**NOTE 5 – DEPOSITS AND INVESTMENTS**

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

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

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

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

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

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

**Defiance City School District  
Defiance County**

**Notes to the Basic Financial Statements  
June 30, 2006**

**NOTE 5 – DEPOSITS AND INVESTMENTS (continued)**

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

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

***Deposits***

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of School District cash and deposits is provided by the federal deposit insurance corporation as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all public deposits. The face value of the pooled collateral must equal at least 105 percent of public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

At year end, the carrying amount of the School District's deposits was \$11,028,377 and the bank balance was \$11,184,442. Of the bank balance, \$400,000 was covered by federal depository insurance and, of the remaining uninsured bank balance, \$10,784,442 was collateralized with securities held by the pledging institution's trust department not in the School District's name.

As of June 30, 2006 the School District has \$4,200 in undeposited cash on hand. This amount is included in cash and cash equivalents.

***Investments***

Investments are reported at fair value. As of June 30, 2006, the School District had the following investments:

	Fair Value	% of Total	Maturity (Months)	
			1-6	≥ 6
FHLMC	\$ 150,871	4.5	\$ 150,871	\$ 0
FHLB	99,647	3.0	99,647	0
FNMA	1,344,939	40.0	151,811	1,193,128
STAROhio	1,761,599	52.5	1,761,599	0
Total Fair Value	<u>\$ 3,357,056</u>	<u>100.0</u>	<u>\$ 2,163,928</u>	<u>\$1,193,128</u>

***Interest Rate Risk***

The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The School District's policy indicates that the investments must mature within five years, unless matched to a specific obligation or debt of the School District.

***Credit Risk***

The School District's investments at June 30, 2006 in FHLMC, FHLB and FNMA are rated AAA by Standard & Poor's. Its investment STAROhio is rated AAAM by Standard & Poor's.

***Concentration of Credit Risk***

The School District places no limit on the amount the School District may invest in any one issuer. More than 5 percent of the School District's investments are in FNMA and STAROhio; these investments are 40.0% and 52.5%, respectively, of the School District's total investments, for the amounts listed above.

**Defiance City School District  
Defiance County**

**Notes to the Basic Financial Statements  
June 30, 2006**

**NOTE 6 - RECEIVABLES**

Receivables at June 30, 2006, consisted of accounts (student fees and billings for user charged services), accrued interest, intergovernmental, income taxes, and property taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	<u>June 30, 2006</u>
Governmental Activities	
General Fund	\$ 18,242
Other Governmental Funds:	
Debt Service	121
Permanent Improvement - Elem. Building	20
Special Education, Part B-IDEA	85,457
Title I	55,993
Drug Free	3,002
Improving Teacher Quality - Title IIA	809
Total Intergovernmental Receivables	<u>\$ 163,644</u>

**NOTE 7 – INCOME TAXES**

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

**NOTE 8 – PROPERTY TAXES**

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2006 represent the collection of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed values as of January 1, 2005, 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 revenues received in calendar year 2006 represent the collection of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien on December 31, 2005, were levied after April 1, 2005, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

**Defiance City School District  
Defiance County**

**Notes to the Basic Financial Statements  
June 30, 2006**

**NOTE 8 – PROPERTY TAXES (continued)**

Tangible personal property tax revenues received in calendar year 2006 (other than public utility property) represent the collection of calendar year 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2005. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 24 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Defiance and Paulding Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent. The amount available as an advance at June 30, 2006, was \$701,625 in the General Fund, \$5,474 in the Bond Retirement Fund and \$32,901 in the Permanent Improvement Fund.

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2006, and for which there was an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reflected as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

On an accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue. On a modified accrual basis, the revenue has been deferred.

The assessed values upon which fiscal year 2006 taxes were collected are:

	<u>2005 Second-Half Collections</u>		<u>2006 First-Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential	\$ 166,015,260	69.36%	\$ 185,924,870	73.15%
Industrial/Commercial	34,961,040	14.61%	37,065,320	14.58%
Public Utility	11,904,180	4.97%	11,265,560	4.43%
Tangible Personal Property	<u>26,455,638</u>	<u>11.06%</u>	<u>19,924,208</u>	<u>7.84%</u>
Total Assessed Value	<u>\$ 239,336,118</u>	<u>100.00%</u>	<u>\$ 254,179,958</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$ 44.20		\$ 43.80	

**Defiance City School District  
Defiance County**

**Notes to the Basic Financial Statements  
June 30, 2006**

**NOTE 9 – CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	<u>Balance at 6/30/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/06</u>
<b>Governmental Activities</b>				
Nondepreciable Capital Assets				
Land	\$ 1,004,940	\$ 0	\$ 0	\$ 1,004,940
Total Nondepreciable Capital Assets	1,004,940	0	0	1,004,940
Depreciable Capital Assets				
Land Improvements	1,588,711	0	0	1,588,711
Buildings and Building Improvements	8,358,079	15,592	0	8,373,671
Furniture, Fixtures, and Equipment	4,007,993	151,702	(554,434)	3,605,261
Vehicles	1,452,026	143,820	(72,035)	1,523,811
Total Depreciable Capital Assets	<u>15,406,809</u>	<u>311,114</u>	<u>(626,469)</u>	<u>15,091,454</u>
Less Accumulated Depreciation				
Land Improvements	(501,765)	(67,505)	0	(569,270)
Buildings and Building Improvements	(3,646,400)	(147,271)	0	(3,793,671)
Furniture, Fixtures, and Equipment	(2,568,472)	(190,951)	289,028	(2,470,395)
Vehicles	(854,896)	(124,043)	65,464	(913,475)
Total Accumulated Depreciation	<u>(7,571,533)</u>	<u>(529,770)</u>	<u>354,492</u>	<u>(7,746,811)</u>
Depreciable Capital Assets, Net	<u>7,835,276</u>	<u>(218,656)</u>	<u>(271,977)</u>	<u>7,344,643</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>\$ 8,840,216</u>	<u>\$ (218,656)</u>	<u>\$ (271,977)</u>	<u>\$ 8,349,583</u>

Depreciation expense was charged to governmental functions as follows:

	<u>June 30, 2006</u>
Instruction:	
Regular	\$ 86,524
Special	6,698
Vocational	3,462
Support Services:	
Pupils	2,879
Instructional Staff	11,247
Board of Education	32
Administration	20,998
Fiscal	671
Operation and Maintenance of Plant	166,256
Pupil Transportation	119,479
Central	76
Non-Instructional Services	17,629
Extracurricular Activities	93,819
Total Depreciation Expense	<u>\$ 529,770</u>

**Defiance City School District  
Defiance County**

**Notes to the Basic Financial Statements  
June 30, 2006**

**NOTE 10 – INTERFUND ASSETS/LIABILITIES**

At June 30, 2006, the General Fund did not have an interfund receivable and other governmental funds lacked an interfund payable. As of June 30, 2006, the General Fund had Advances to Other Funds in the amount of \$68,000, to cover deficit balances in those funds, representing obligations other than short-term, due to the length of time needed for repayment.

	June 30, 2006	
	Advance To Other Funds	Advance From Other Funds
General	\$ 68,000	\$ 0
Other Governmental:		
Food Service	0	28,000
Athletics	0	40,000
Total	\$ 68,000	\$ 68,000

**NOTE 11 – RISK MANAGEMENT**

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

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

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006 the School District contracted for the following insurance coverage:

Indiana Insurance Company:	Amount of Coverage
General Liability	
Per Occurrence	\$ 1,000,000
Total per Year	2,000,000
Umbrella Liability	
Per Occurrence	5,000,000
Total per Year	5,000,000
Building and contents	61,664,166
Cincinnati Insurance:	
Boiler Insurance	20,000,000
Auto Owners Insurance Company:	
Vehicle liability	1,000,000
Uninsured/Underinsured motorist	1,000,000

**Defiance City School District**  
**Defiance County**

**Notes to the Basic Financial Statements**  
**June 30, 2006**

**NOTE 11 – RISK MANAGEMENT (continued)**

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 12 - DEFINED BENEFIT PENSION PLANS**

***A. State Teachers Retirement System***

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090, or by visiting their website at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. Benefits are increased annually by 3% of the original base amount for DB plan participants. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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 active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$1,022,657, \$974,683, and \$974,704, respectively; 86 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$6,807 made by the School District and \$17,950 made by plan members.

**Defiance City School District  
Defiance County**

**Notes to the Basic Financial Statements  
June 30, 2006**

**NOTE 12 - DEFINED BENEFIT PENSION PLANS (continued)**

***B. School Employees Retirement System***

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by 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 may be obtained by writing SERS, 300 E. Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853, or on their website at [www.ohsers.org](http://www.ohsers.org).

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal years 2006 and 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's contribution to SERS for the fiscal years ended June 30, 2006, 2005 and 2004 were \$334,143, \$321,343, and \$108,432, respectively; 50 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

***C. Social Security System***

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2006, three of the Board of Education members have elected Social Security.

**NOTE 13 - POSTEMPLOYMENT BENEFITS**

***A. School Teachers Retirement System***

The School District provides comprehensive health care benefits to retirees who participated in the DB or Combined Plans and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). 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. Pursuant to the Revised Code, the State Teachers 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 pay a portion of the health care cost in the form of a monthly premium.

By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, and June 30, 2004, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (latest information available), the balance in the Fund was \$3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 eligible benefit recipients.



**Defiance City School District  
Defiance County**

**Notes to the Basic Financial Statements  
June 30, 2006**

**NOTE 13 – POSTEMPLOYMENT BENEFITS (continued)**

***B. School Employees Retirement System***

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The amount contributed to fund healthcare benefits, including the surcharge, amounted to \$77,967 for fiscal year 2005.

Healthcare benefits are financed on a pay-as-you-go basis. The target level for the health care fund is 150 percent of projected claims less premium contributions for the next fiscal year. Net health care costs for the fiscal year ended June 30, 2005 (latest information available) were \$178,221,113. As of June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million, which is about 168% of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 58,123 participants eligible to receive benefits.

**NOTE 14 – OTHER EMPLOYEE BENEFITS**

***A. Compensated Absences***

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

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

***B. Health Care Benefits***

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

**Defiance City School District  
Defiance County**

**Notes to the Basic Financial Statements  
June 30, 2006**

**NOTE 15 – LONG-TERM OBLIGATIONS**

Changes in the School District’s long-term obligations during fiscal year 2006 were as follows:

Name of Debt	Interest Rate	Balance at 6/30/05	Additions	Reductions	Balance at 6/30/06	Due Within One Year
HB264 Energy Conservation Loan	2.65%	\$ 297,500	\$ 0	(\$148,750)	\$ 148,750	\$ 148,750
OSFC Elementary Building Bond Note	4.25%	0	9,710,000	(9,710,000)	0	0
2006 OSFC Elementary Building Bond Serial Bonds	3.25-4.25%	0	5,690,000	0	5,690,000	145,000
Term Bonds	4.5-4.625%	0	4,020,000	0	4,020,000	0
Deferred Amounts:						
Add: Note Premium		0	2,449	(1,021)	1,428	0
Bond Premium		0	162,149	(1,465)	160,684	0
Compensated Absences	N/A	1,297,528	127,347	(75,673)	1,349,202	56,659
Capital Leases Payable	6.815%	30,701	0	(14,829)	15,872	15,872
Total Governmental long-term obligations		<u>\$1,625,729</u>	<u>\$19,711,945</u>	<u>(\$9,951,738)</u>	<u>\$11,385,936</u>	<u>\$ 366,281</u>

**Energy Conservation Loan** - On February 18, 2003, the School District obtained an energy conservation loan with an interest rate of 2.65 percent. Principal installments are payable February 1 and August 1 in the years 2003 through 2007. The loan will mature February 1, 2007. The loan is being retired from the Bond Retirement debt service fund.

**OSFC Elementary Building Bond Note** - During fiscal year 2006, the School District obtained a Bond Anticipation Note in the amount of \$9,710,000 with stated interest of 4.25 percent. The entire note and interest were paid off during the fiscal year.

**2006 OSFC Elementary Building Bond** - The School 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 an twenty-two fiscal year period with final maturity on December 1, 2027. The remaining principal amount to be redeemed as of June 30, 2006, is \$5,690,000.

**2006 Term Bonds** - The Term Bonds maturing on December 1, 2029 are subject to mandatory sinking fund redemption, a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

Year	Principal
2028	545,000

The remaining \$580,000 principal amount of the Bonds due December 1, 2029 is to be paid at stated maturity.

**Defiance City School District  
Defiance County**

**Notes to the Basic Financial Statements  
June 30, 2006**

**NOTE 15 – LONG-TERM OBLIGATIONS (continued)**

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 in the years and in the respective principal amounts as follows:

<b>Year</b>	<b>Principal</b>
2030	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 in the years and amounts as follows:

<b>Year</b>	<b>Principal</b>
2032	730,000

The remaining \$820,000 principal amount of the Bonds due December 1, 2033, is to be paid at stated maturity.

The Bonds maturing on or after December 1, 2016 are subject to redemption at the option of the School District, either in whole or in part, in such order as the School 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, including the outstanding loan at June 30, 2006 are as follows:

<b>Fiscal Year Ending June 30,</b>	<b>HB264 Energy Conservation Loan - Principal</b>	<b>2006 OSFC Elementary Building Bond - Principal</b>	<b>Interest</b>	<b>Total</b>
2007	\$ 148,750	\$ 145,000	\$ 425,715	719,465
2008	0	100,000	418,528	518,528
2009	0	95,000	414,871	509,871
2010	0	125,000	410,746	535,746
2011	0	140,000	405,778	545,778
2012-2016	0	1,075,000	1,924,106	2,999,106
2017-2021	0	1,235,000	1,650,410	2,885,410
2022-2026	0	1,805,000	1,338,843	3,143,843
2027-2031	0	2,750,000	841,373	3,591,373
2032-2034	0	2,240,000	160,981	2,400,981
Total	\$ 148,750	\$ 9,710,000	\$7,991,351	\$18,850,101

Compensated absences will be paid from the General Fund and from the Food Service special revenue fund. Capital leases will be paid from the General Fund.

The School District's overall debt margin was \$13,399,813 with an unvoted debt margin of \$487,797 at June 30, 2006.

**Defiance City School District  
Defiance County**

**Notes to the Basic Financial Statements  
June 30, 2006**

**NOTE 16 – CAPITAL LEASES- LESSEE DISCLOSURE**

The School District has entered into a capitalized lease for equipment. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, “Accounting for Leases”, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. The capital lease is reflected in the account's “Regular Instruction” and “Inception of Capital Lease” in the fund which will be making the lease payments. Capital lease payments are reflected as debt service expenditures on the statement of revenues, expenditures, and changes in fund balances for the governmental funds. Principal payments in 2006 were \$14,829.

	Governmental Activities
Property under Capital Lease	\$ 69,595
Less Accumulated Depreciation	(54,520)
Total June 30, 2006	\$ 15,075

The remainder of the capital lease, \$16,464, is payable in fiscal year 2007; \$15,872 represents principal and \$592 interest.

**NOTE 17 – SET-ASIDES**

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

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2006.

	Textbooks	Capital Improvements
Balance June 30, 2005	\$ 0	\$ 546,073
Current Year Set Aside Requirement	343,382	343,382
Qualifying Expenditures	(478,241)	(278,493)
Excess Qualifying Expenditures from FY05	(858,715)	0
Current Year Offsets	0	(10,791,219)
Balance June 30, 2006	(993,574)	(10,180,257)
Amount Carried Forward to FY07	\$ (993,574)	\$ 0
Amount available as an offset to FY07	\$ 0	\$ (10,180,257)

The School District had qualifying expenditures during the fiscal year that reduced the textbooks set aside amount below zero. This amount may be used to reduce the set aside requirement in future fiscal years.

**NOTE 18 – INTERFUND TRANSFERS**

During fiscal year 2006, the General Fund made transfers to other governmental funds, in the amount of \$155,670, to move receipts to the debt service fund as debt payments came due.

**Defiance City School District  
Defiance County**

**Notes to the Basic Financial Statements  
June 30, 2006**

**NOTE 19 – JOINTLY GOVERNED ORGANIZATIONS**

***A. Northwest Ohio Computer Association***

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

The NWOCA Assembly consists of the superintendent from each participating educational entity and a representative from the fiscal agent. The Assembly elects the governing council of two representatives from each of the six counties in which member educational entities are located and the representative from the member educational entity serving as fiscal agent for NWOCA. The degree of control exercised by any participating educational entity is limited to its representation on the Governing Council. During fiscal year 2006, the School District paid \$85,395 to NWOCA for various services. Financial information can be obtained from Robin Fund, who serves as Treasurer, 22-900 State Route 34, Archbold, Ohio 43502.

***B. Northern Buckeye Education Council***

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

***C. Four County Career Center***

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

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

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

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

**Defiance City School District  
Defiance County**

**Notes to the Basic Financial Statements  
June 30, 2006**

**NOTE 19 – JOINTLY GOVERNED ORGANIZATIONS (continued)**

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

The Northwest Ohio Special Education Regional Resource Center (SERRC) is a jointly governed organization formed to provide services to families, educators, and agencies regarding educational law and curriculum and instruction for students with disabilities. The SERRC serves a thirteen county area in Northwest Ohio. The Governing Board consists of superintendents from each of the cooperating 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 school district is limited to its representation on the Board. Financial information can be obtained from Dave Michel, Eastwood Local School District, 4800 Sugar Ridge Road, Pemberville, Ohio 43450.

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

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

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

**NOTE 20 – INSURANCE POOLS**

***A. Northern Buckeye Education Council Employee Insurance Benefits Program***

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

***B. Northern Buckeye Education Council Workers' Compensation Group Rating Plan***

The School 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 (Plan) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool. The Plan is governed by the Northern Buckeye Education Council and the participants of the Plan. The Executive Director of the NBEC coordinates the management and administration of the Plan. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

**NOTE 21 - CONTINGENCIES**

***A. Grants***

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2006.

**Defiance City School District  
Defiance County**

**Notes to the Basic Financial Statements  
June 30, 2006**

**NOTE 21 - CONTINGENCIES (continued)**

***B. Litigation***

There are currently no matters in litigation with the School District as defendant.

**NOTE 22 - NOTE PAYABLE**

**OSFC Elementary Building Note** - On January 26, 2006 the School District obtained a bond anticipation note in the amount of \$1,000,000 plus a premium of \$2,449 with an interest rate of 4.50 percent. The entire note balance will mature on January 25, 2007 and will be retired from the Bond Retirement debt service fund.

**DEFIANCE CITY SCHOOL DISTRICT**  
Schedule of Federal Awards Expenditures  
For the Year Ended June 30, 2006

Federal Grantor/Program Title	Pass Through Entity Number	CFDA Number	Receipts Recognized	Program Disbursements
<u>U.S. Department of Agriculture</u>				
Passed Through the Ohio Department of Education Nutrition Cluster:				
National School Breakfast Program	043869-05PU-2006	10.553	\$ 43,906	\$ 43,906
National School Lunch Program	043869-LLP4-2006	10.555	<u>250,582</u>	<u>250,582</u>
Total Nutrition Cluster			294,488	294,488
Food Distribution	N/A	10.550	<u>74,495</u>	<u>74,495</u>
Total U.S. Department of Agriculture			368,983	368,983
<u>U.S. Department of Education</u>				
Pass through Ohio Department of Education Special Education Cluster:				
Title VI-B - IDEA-B	043869-6BSF-2005	84.027	302,645	302,645
Title VI-B Autism Spectrum Grant	043869-6BSF-2006	84.027	<u>576,624</u>	<u>565,099</u>
Total Special Education Cluster			879,269	867,744
Title I	043869-C1S1-2005	84.010	83,846	83,846
Title I	043869-C1S1-2006	84.010	<u>278,093</u>	<u>275,112</u>
Total Title I			361,939	358,958
Title II-A Improving Teacher Quality	043869-TRS1-2006	84.367	<u>129,517</u>	<u>129,434</u>
Total Title II-A Improving Teacher Quality			129,517	129,434
Title II-D - Educational Technology	043869-TJS1-2005	84.318	6,841	9,055
Title II-D - Educational Technology	043869-TJS1-2006	84.318	<u>6,927</u>	<u>6,927</u>
Total Title II-D Educational Technology			13,768	15,982
Title V - Innovative Education	043869-C2S1-2004	84.298	-	665
Title V - Innovative Education	043869-C2S1-2005	84.298	4,167	7,292
Title V - Innovative Education	043869-C2S1-2006	84.298	<u>8,285</u>	<u>7,135</u>
Total Title - V Innovative Education			12,452	15,092
Title IV-Part A - Safe and Drug Free Schools	043869-DRS1-2004	84.186	-	620
Title IV-Part A - Safe and Drug Free Schools	043869-DRS1-2005	84.186	3,490	7,377
Title IV-Part A - Safe and Drug Free Schools	043869-DRS1-2006	84.186	<u>6,575</u>	<u>5,462</u>
Total Safe and Drug Free Program			<u>10,065</u>	<u>13,459</u>
Total U.S. Department of Education			<u>1,407,010</u>	<u>1,400,669</u>
<u>U.S. Department of Health and Human Services</u>				
Passed through Ohio Department of Mental Retardation and Developmental Disabilities				
Medicaid Title XIX	N/A	93.778	<u>51,155</u>	<u>51,155</u>
Total U.S. Department of Health and Human Services			<u>51,155</u>	<u>51,155</u>
			<u>\$ 1,827,148</u>	<u>\$ 1,820,807</u>

See accompanying Notes to the Schedule of Federal Awards Expenditures



**DEFIANCE CITY SCHOOL DISTRICT**  
**Notes to the Schedule of Federal Awards Expenditures**  
**For the Year Ended June 30, 2006**

**1. Significant Accounting Policies**

The accompanying schedule of federal awards expenditures is a summary of the activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting. Consequently, certain expenditures are recognized when received rather than when earned, and certain expenditures are recognized when paid rather than when the obligation is incurred.

**2. Food Distribution**

Nonmonetary assistance is reported in the schedule at fair market value of the commodities received and disbursed. Monies are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2006, the District had commodities in inventory recorded in the Food Service Fund.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF STATEMENTS REQUIRED BY  
GOVERNMENT AUDITING STANDARDS**

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Defiance City School District, Defiance County, Ohio, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 10, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Controls Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to management of the Defiance City School District in a separate letter dated January 10, 2007.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted certain other matters involving compliance that we reported to the management of the District in a separate letter dated January 10, 2007.

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

***Charles E. Harris & Associates, Inc.***  
January 10, 2007

*Charles E. Harris & Associates, Inc.*  
*Certified Public Accountants*

Rockefeller Building  
614 W Superior Ave Ste 1242  
Cleveland OH 44113-1306  
Office phone - (216) 575-1630  
Fax - (216) 436-2411

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

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

To the Board of Education:

**Compliance**

We have audited the compliance of the Defiance City School District, Summit County, Ohio, (the District) with the types of compliance requirements described in *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2006. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2006.

**Internal Control Over Compliance**

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

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

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

***Charles E. Harris & Associates, Inc.***

**January 10, 2007**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 SECTION .505**

**DEFIANCE CITY SCHOOL DISTRICT  
DEFIANCE COUNTY  
June 30, 2006**

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

(d)(1)(i)	<i>Type of Financial Statement Opinion</i>	Unqualified
(d)(1)(ii)	<i>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(ii)	<i>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(iii)	<i>Was there any reported material non-compliance at the financial statement level (GAGAS)?</i>	No
(d)(1)(iv)	<i>Were there any material internal control weakness conditions reported for major federal programs?</i>	No
(d)(1)(iv)	<i>Were there any other reportable internal control weakness conditions reported for major federal programs?</i>	No
(d)(1)(v)	<i>Type of Major Programs' Compliance Opinion</i>	Unqualified
(d)(1)(vi)	<i>Are there any reportable findings under Section .510</i>	No
(d)(1)(vii)	<i>Major Programs:</i>	Title I CFDA 84.010 Title II-A CFDA 84.367
(d)(1)(viii)	<i>Dollar Threshold: Type A/B Programs</i>	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	<i>Low Risk Auditee?</i>	Yes

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (continued)**  
**OMB CIRCULAR A-133 SECTION .505**

**DEFIANCE CITY SCHOOL DISTRICT**  
**DEFIANCE COUNTY**  
**June 30, 2006**

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

None.

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

None.

**STATUS OF PRIOR AUDIT'S CITATIONS AND RECOMMENDATIONS**

The prior audit report, for the period ending June 30, 2005, included no material citations or recommendations.





**Mary Taylor, CPA**  
Auditor of State

**DEFIANCE CITY SCHOOL DISTRICT**

**DEFIANCE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 10, 2007**