

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

***BASIC FINANCIAL STATEMENTS
(AUDITED)***

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2017***

CHERYL SWISHER, TREASURER



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Defiance City School District, Defiance County, prepared by Julian & Grube, Inc., for the audit period July 1, 2016 through June 30, 2017. 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.

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

Dave Yost
Auditor of State

December 8, 2017

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**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

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Julian & Grube, Inc.

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Independent Auditor's Report

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying modified cash-basis 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 fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Defiance City School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the modified cash accounting basis Note 2 describes. This responsibility includes determining that the modified cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Defiance City School District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Defiance City School District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Defiance City School District, Defiance County, Ohio, as of June 30, 2017, and the respective changes in modified cash financial position and the budgetary comparison for the General Fund thereof for the fiscal year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

Ohio Administrative Code § 117-2-03(B) requires the Defiance City School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the modified cash-basis of accounting, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Matters

Supplemental Information

Our audit was conducted to opine on the Defiance City School District's basic financial statements taken as a whole.

The Schedule of Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

The Schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this Schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the Schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this Schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Information

We applied no procedures to Management's Discussion & Analysis as listed in the table of contents. Accordingly, we express no opinion or any other assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2017, on our consideration of the Defiance City School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Defiance City School District's internal control over financial reporting and compliance.



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DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2017

The discussion and analysis of Defiance City School District's (the District) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2017 are as follows:

In total, the net position decreased \$9,175,972, which represents a 20% decrease from 2016.

General receipts accounted for \$46,140,361 or 89% of all receipts and reflect the District's significant dependence on local property taxes, income taxes and unrestricted state entitlements.

The District had \$60,881,386 in disbursements related to governmental activities; only \$5,565,053 of these disbursements was offset by program specific charges for services and sales or restricted grants, contributions and interest. General receipts and previously unrestricted fund balances supported the remaining disbursements of \$55,316,333 associated with governmental activities.

Outstanding debt decreased from \$23,820,000 to \$23,385,000, due to normal loan payments.

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

Basis of Accounting

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

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

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2017

Reporting the District as a Whole

Statement of Net Position and Statement of Activities

The Statement of Net Position and the Statement of Activities reflect how the District did financially during fiscal year 2017. These statements report the District's net assets and changes in those assets. This change in net position is important because it tells the reader whether the financial position of the District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

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

Reporting the District's Most Significant Funds

The analysis of the District's Major Funds begins on page 8. Fund financial statements provide detailed information about the District's major funds. While the District uses many funds to account for its financial transactions, the fund financial statements focus on the District's most significant funds. The District's major governmental funds for fiscal year 2017 were the General Fund and Classroom Facilities Fund.

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

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

Reporting the District's Fiduciary Responsibilities

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

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2017**

The District as a Whole

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

Table 1 provides a summary of the District's net position for fiscal year 2017 in comparison to fiscal year 2016:

Table 1
Net Position
Governmental Activities

	2017	2016
Equity on pooled cash and investments	<u>\$ 36,625,927</u>	<u>\$ 45,801,899</u>
Net Position		
Restricted for:		
Capital projects	\$ 20,629,494	\$ 29,163,382
Debt service	1,350,358	1,713,566
Other purposes	1,144,453	1,656,365
Unrestricted	<u>13,501,622</u>	<u>13,268,586</u>
Total net position	<u>\$ 36,625,927</u>	<u>\$ 45,801,899</u>

For fiscal year 2017, a portion of the District's net position, \$23,124,305 represents resources that are subject to external restriction on how they may be used. The remaining balance of the government-wide unrestricted net position of \$13,501,622 may be used to meet the District's ongoing obligations. For fiscal year 2016, these amounts were \$32,533,313 with external restrictions, and \$13,268,586 remaining for general operations. Net Position of the Governmental Activities decreased \$9,175,972, which represents a 20% decrease over fiscal year 2016. The decrease was due to outlays for the construction of the new high school.

Table 2 reflects the changes in net position for fiscal year 2017 as compared to fiscal year 2016:

Table 2
Change in Net Position
Governmental Activities

<u>Receipts</u>	2017	2016
Program Receipts:		
Charges for services	\$ 2,641,612	\$ 2,358,798
Operating grants, contributions and interest	2,904,919	3,125,923
Capital grants, contributions and interest	<u>18,522</u>	<u>8,854</u>
Total program receipts	<u>5,565,053</u>	<u>5,493,575</u>
General receipts:		
Property taxes	7,401,402	7,422,715
Income taxes	1,770,055	1,702,165
Grants and entitlements	36,351,019	34,083,703
Proceeds from sale of capital assets	3,600	5,715
Gifts and donations	47,641	594,768
Interest	260,988	234,791

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
MANAGEMENT DISCUSSION AND ANALYSIS**

June 30, 2017

Table 2 (Continued)

	<u>2017</u>	<u>2016</u>
Inception of capital lease	-	2,500,000
Insurance recoveries	120,541	-
Miscellaneous	<u>185,115</u>	<u>103,489</u>
Total financing sources	<u>46,140,361</u>	<u>46,647,346</u>
Total Receipts	<u>51,705,414</u>	<u>52,140,921</u>

Program Disbursements

Instruction		
Regular	11,415,545	10,170,202
Special	3,644,775	3,264,011
Vocational	402,988	360,686
Student intervention services	168,823	132,903
Other	3,083,753	2,730,165
Support Services		
Pupils	1,673,264	1,581,698
Instructional staff	831,564	925,991
Board of education	61,204	63,708
Administration	1,792,019	1,741,666
Fiscal	445,775	527,654
Operation and maintenance of plant	2,173,356	2,159,465
Pupil transportation	1,135,893	1,120,755
Central	121,162	71,473
Operating of non-instructional services	1,205,693	1,242,717
Extracurricular activities	1,526,240	893,762
Capital outlay	29,403,978	10,111,442
Debt services	1,737,513	1,521,724
Refund of prior year receipts	<u>57,841</u>	<u>57,756</u>
Total disbursements	<u>60,881,386</u>	<u>38,677,778</u>
Increase (decrease) in net position	<u>\$ (9,175,972)</u>	<u>\$ 13,463,143</u>

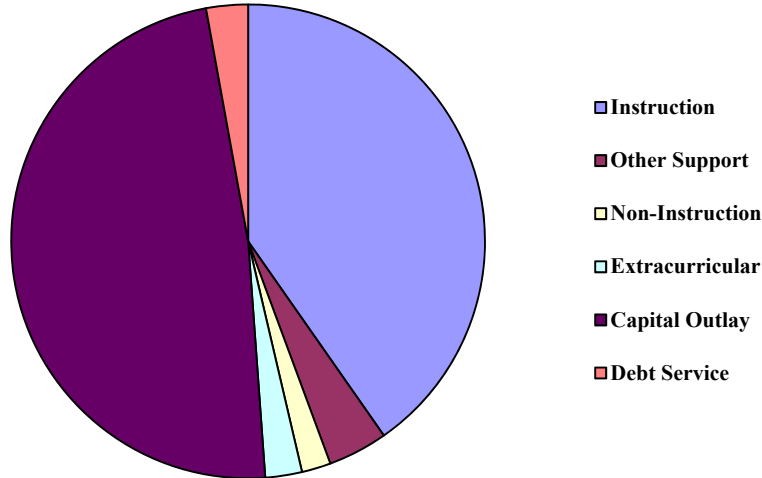
The total disbursements of \$60,881,386 were offset by program receipts of \$5,565,053 and by general receipts of \$46,140,361. Program receipts supported 9% of the total governmental disbursements. The primary sources of general receipts for governmental activities are derived from property taxes, income taxes and grants and entitlements. These receipt sources represent 88% of total governmental receipts.

The major program disbursement for governmental activities is for instruction, which accounts for 31% of all governmental disbursements. Other programs which support the instruction process, including pupils, instructional staff, and pupil transportation account for 6% of governmental disbursements. Maintenance of the District's facilities also represents a significant disbursement, 4%. Therefore, 41% of the District's disbursements are related to the primary functions of providing facilities and delivering education.

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

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2017**

Governmental Disbursements by Types



Instruction, Pupil, Instructional Staff, Transportation, Operation and Maintenance of Plant (\$24,529,961)

Other Support:

Other Support Services (\$2,478,001)

Food Services and Operation of Non-Instructional Services (\$1,205,693)

Extracurricular Activities (\$1,526,240)

Capital Outlay (\$29,403,978)

Debt Service (\$1,737,513)

Governmental Activities

Table 3 indicates the total cost of services and the net cost of services for governmental activities for 2017 and 2016. The statement of activities reflects the cost of program services and the charges for services, grants, contributions and interest offsetting those services. The net cost of services identifies the cost of those services supported by tax receipts and unrestricted state entitlements.

Table 3
Governmental Activities

	Total Cost of Services 2017	Net Cost of Services 2017	Total Cost of Services 2016	Net Cost of Services 2016
Instruction:				
Regular	\$ 11,415,545	\$ 9,236,833	\$ 10,170,202	\$ 8,178,608
Special	3,644,775	2,206,175	3,264,011	2,135,978
Vocational	402,988	263,948	360,686	310,000
Student intervention Services	168,823	168,823	132,903	132,903
Other	3,083,753	3,083,753	2,730,165	2,730,165

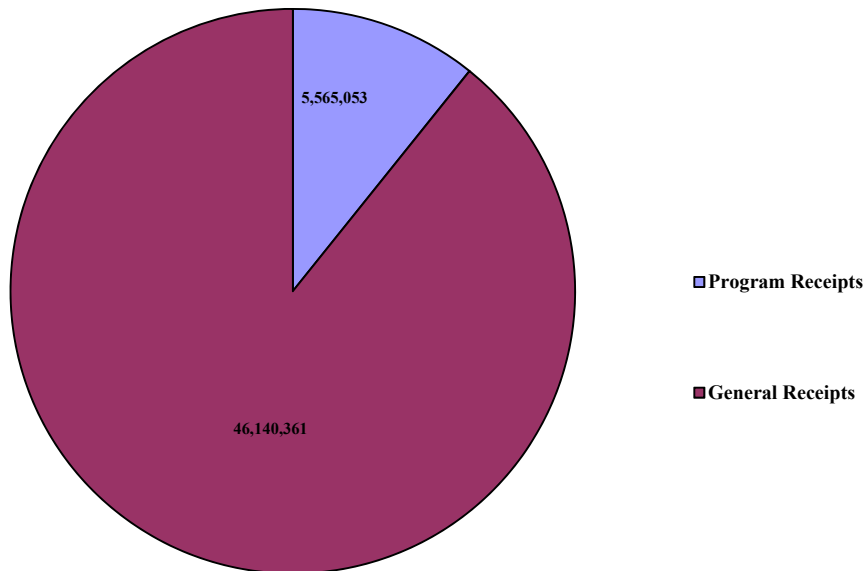
**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2017**

Table 3 (Continued)

Support services:				
Pupils	1,673,264	1,667,588	1,581,698	1,557,876
Instructional staff	831,564	813,354	925,991	909,665
Board of education	61,204	61,204	63,708	63,708
Administration	1,792,019	1,792,019	1,741,666	1,741,666
Fiscal	445,775	434,377	527,654	516,104
Operation and maintenance of plant	2,173,356	2,094,929	2,159,465	2,081,114
Pupil Transportation	1,135,893	1,135,893	1,120,755	1,120,755
Central	121,162	114,618	71,473	64,971
Non-Instructional Services	1,205,693	(11,757)	1,242,717	27,557
Extracurricular Activities	1,526,240	1,093,118	893,762	(57,044)
Capital Outlay	29,403,978	29,366,104	10,111,442	10,090,697
Debt Service	1,737,513	1,737,513	1,521,724	1,521,724
Refund of Prior Year Receipts	<u>57,841</u>	<u>57,841</u>	<u>57,756</u>	<u>57,756</u>
Total Disbursements	<u>\$ 60,881,386</u>	<u>\$ 55,316,333</u>	<u>\$ 38,677,778</u>	<u>\$ 33,184,203</u>

The dependence upon tax receipts and unrestricted state entitlements for governmental activities is demonstrated in the previous table. Approximately 80% of instruction activities, 99% of support services, and 99% of capital outlay disbursements are supported through taxes and other general receipts.

Governmental Activities – General vs. Program Receipts



**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2017**

The District's Funds

The District's governmental funds are accounted for using the modified cash basis of accounting on the fund financial statements. Including Other Financing Sources and Uses, total governmental funds had receipts of \$51,705,414 and disbursements of \$60,881,386 in fiscal year 2017. The overall negative change for 2017 is \$9,175,972 in fund balance for the fiscal year, primarily attributable to outlays for the construction of the new high school.

General Fund

Fund balance at June 30, 2017 was \$11,757,385, including \$11,627,524 of unassigned fund balance. Unassigned fund balance comprised 99% of the total fund balance. General fund disbursements and other financing uses were \$26,443,359 or 43% of total governmental disbursements.

Classroom Facilities Fund

Fund balance at June 30, 2017 was \$18,845,447, which is a 26% decrease from the amount in FY16 of \$25,467,613 due to the increase in expenditures from the construction of the new high school.

General Fund Budgeting Highlights

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

During fiscal year 2017, the District amended its General Fund budget as needed. Final budgeted receipts and other financing sources in the amount of \$29,061,092 were higher than the original budgeted receipts and other financing sources of \$28,170,030, which represented a 3% change. The actual receipts and other financing sources of \$29,073,905 was \$12,813 higher than the final budget amounts.

General fund original budgeted disbursements and other financing uses of \$26,502,007 were increased to \$27,785,251, which represented a 5% change. The actual disbursements and other financing uses for fiscal year 2017 totaled \$26,828,918 which was \$956,333 less than the final budgeted disbursements and other financing uses, due to conservative estimates of disbursements and extreme watching over each and every expenditure.

Debt

The District's outstanding debt obligations at fiscal year-end consisted of Various Purpose and Refunding bonds of \$23,385,000. For further information regarding the District's long-term obligation, see Note 13 to the basic financial statements.

Current Issues

The Defiance City School District continues to be extremely responsible in spending of the tax payer dollars and all other funds for the district. The challenges of the ever-changing economy and state funding continue to be a challenge and the district remains a strong service provider to the students of the Defiance area.

The citizens of the Defiance City Schools' community continue to show strong support of the district by passing levies when needed. The District continues to work with OFCC and meets

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
MANAGEMENT DISCUSSION AND ANALYSIS**

June 30, 2017

monthly to meet current deadlines for the new 6-12 Building Project. The district was sensitive to the need to have two separate wings for the complex and has ensured there will be separate entrances for grades 6-8 and grades 9-12. The location of the new school will bring all students in the district together on one large campus by having a connector road linking the two buildings.

The Superintendent, Treasurer, Administrators, Staff and Board of Education continue to aggressively market the District to local and area students to increase enrollment. The all-day kindergarten services, as well as developmental kindergarten and school-wide programs to help combat the outgoing enrollment; are excellent examples of the hard-working staff. The addition of an outstanding Outdoor Complex will also increase the desire of local students to continue the stellar education they receive at Defiance City Schools.

Contacting the District's Financial Management

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

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
June 30, 2017

	Governmental Activities
ASSETS	
Equity in Pooled Cash and Investments	\$ 36,625,927
NET POSITION	
Restricted for Debt Service	\$ 1,350,358
Restricted for Capital Outlay	20,629,494
Restricted for Other Purposes	1,144,453
Unrestricted	13,501,622
Total Net Position	\$ 36,625,927

See accompanying notes to the Basic Financial Statements.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2017

	Program Cash Receipts			Capital Grants and Contributions	Governmental Activities	Net (Disbursements) Receipts and Changes in Net Position
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions			
Governmental Activities						
Instruction:						
Regular	\$ 11,415,545	\$ 1,417,137	\$ 761,575	\$ -		\$ (9,236,833)
Special	3,644,775	457,657	980,943	-		(2,206,175)
Vocational	402,988	-	139,040	-		(263,948)
Student Intervention Services	168,823	-	-	-		(168,823)
Other	3,083,753	-	-	-		(3,083,753)
Support Services:						
Pupils	1,673,264	-	5,676	-		(1,667,588)
Instructional Staff	831,564	-	18,210	-		(813,354)
Board of Education	61,204	-	-	-		(61,204)
Administration	1,792,019	-	-	-		(1,792,019)
Fiscal	445,775	6,149	5,249	-		(434,377)
Operation and Maintenance of Plant	2,173,356	-	78,427	-		(2,094,929)
Pupil Transportation	1,135,893	-	-	-		(1,135,893)
Central	121,162	1,144	5,400	-		(114,618)
Operation of Non-Instructional Services	1,205,693	339,028	878,422	-		11,757
Extracurricular Activities	1,526,240	401,145	31,977	-		(1,093,118)
Capital Outlay	29,403,978	19,352	-	18,522		(29,366,104)
Debt Service:						
Principal	635,000	-	-	-		(635,000)
Interest and Fiscal Charges	1,102,513	-	-	-		(1,102,513)
Refund of Prior Year Receipts	57,841	-	-	-		(57,841)
Totals	\$ 60,881,386	\$ 2,641,612	\$ 2,904,919	\$ 18,522		(55,316,333)
General Receipts						
Taxes						
Income Taxes						1,770,055
Property and Other Local Taxes						7,401,402
Grants and Entitlements not Restricted to Specific Programs						36,351,019
Gifts and Donations						47,641
Investment Earnings						260,988
Miscellaneous						185,115
Other Receipts:						
Proceeds from Sale of Capital Assets						3,600
Insurance Recoveries						120,541
Total General Receipts						46,140,361
Change in Net Position						(9,175,972)
Net Position Beginning of Year						45,801,899
Net Position End of Year						\$ 36,625,927

See accompanying notes to the Basic Financial Statements.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
STATEMENT OF MODIFIED CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
June 30, 2017

	<u>General Fund</u>	<u>Classroom Facilities Fund</u>	<u>All Other Governmental</u>	<u>Total Governmental Funds</u>
ASSETS				
Current Assets				
Equity in Pooled Cash and Investments	\$ 11,757,385	\$ 18,845,447	\$ 6,023,095	\$ 36,625,927
<i>Total Assets</i>	<u>\$ 11,757,385</u>	<u>\$ 18,845,447</u>	<u>\$ 6,023,095</u>	<u>\$ 36,625,927</u>
 FUND BALANCES				
Restricted	\$ 20,184	\$ 18,845,447	\$ 4,319,200	\$ 23,184,831
Committed	-	-	1,744,237	1,744,237
Assigned	109,677	-	-	109,677
Unassigned	<u>11,627,524</u>	<u>-</u>	<u>(40,342)</u>	<u>11,587,182</u>
<i>Total Fund Balances</i>	<u>\$ 11,757,385</u>	<u>\$ 18,845,447</u>	<u>\$ 6,023,095</u>	<u>\$ 36,625,927</u>

See accompanying notes to the Basic Financial Statements.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN MODIFIED CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED JUNE 30, 2017

	General Fund	Classroom Facilities Fund	All Other Governmental Funds	Total Governmental Funds
RECEIPTS				
Property and Other Local Taxes	\$ 6,263,761	\$ -	\$ 1,137,641	\$ 7,401,402
Income Tax	1,770,055	-	-	1,770,055
Intergovernmental	18,429,950	18,302,923	2,541,587	39,274,460
Interest	46,415	151,722	62,849	260,986
Tuition and Fees	1,919,736	-	-	1,919,736
Rent	18,594	-	757	19,351
Extracurricular Activities	81,710	-	319,436	401,146
Gifts and Donations	14,279	-	33,362	47,641
Customer Sales and Services	7,293	-	324,215	331,508
Miscellaneous	140,174	-	14,814	154,988
<i>Total Receipts</i>	<u>28,691,967</u>	<u>18,454,645</u>	<u>4,434,661</u>	<u>51,581,273</u>
DISBURSEMENTS				
Instruction				
Regular	10,930,585	-	484,960	11,415,545
Special	2,790,265	-	854,510	3,644,775
Vocational	402,988	-	-	402,988
Student Intervention Services	54,675	-	114,148	168,823
Other	3,083,753	-	-	3,083,753
Support Services				
Pupils	1,651,730	-	21,534	1,673,264
Instructional Staff	809,563	-	22,001	831,564
Board of Education	61,204	-	-	61,204
Administration	1,780,203	-	11,816	1,792,019
Fiscal	417,747	-	28,028	445,775
Operation and Maintenance of Plant	2,087,951	-	85,405	2,173,356
Pupil Transportation	1,135,893	-	-	1,135,893
Central	110,362	-	10,800	121,162
Operation of Non-				
Instructional Services	-	-	1,205,693	1,205,693
Extracurricular Activities	606,929	-	919,311	1,526,240
Capital Outlay	260,711	25,076,811	4,066,456	29,403,978
Debt Service				
Principal	200,000	-	435,000	635,000
Interest	58,800	-	1,043,713	1,102,513
<i>Total Disbursements</i>	<u>26,443,359</u>	<u>25,076,811</u>	<u>9,303,375</u>	<u>60,823,545</u>
<i>Excess of Receipts Over</i>				
<i>(Under) Disbursements</i>	2,248,608	(6,622,166)	(4,868,714)	(9,242,272)
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Assets	3,200	-	400	3,600
Refund of Prior Year Expenditures	(13,553)	-	194	(13,359)
Transfers In	258,199	-	415,813	674,012
Insurance Recoveries	120,541	-	-	120,541
Refund of Prior Year Receipts	(44,482)	-	-	(44,482)
Transfers Out	(258,199)	-	(415,813)	(674,012)
<i>Total Other Financing Sources (Uses)</i>	<u>65,706</u>	<u>-</u>	<u>594</u>	<u>66,300</u>
<i>Net Change in Fund Balances</i>	2,314,314	(6,622,166)	(4,868,120)	(9,175,972)
<i>Fund Balance at Beginning of Year</i>	9,443,071	25,467,613	10,891,215	45,801,899
<i>Fund Balance at End of Year</i>	<u>\$ 11,757,385</u>	<u>\$ 18,845,447</u>	<u>\$ 6,023,095</u>	<u>\$ 36,625,927</u>

See accompanying notes to the Basic Financial Statements.

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 YEAR ENDED JUNE 30, 2017

	Original Budget	Final Budget	Actual	Variance With Final Budget
REVENUES				
Property and Other Local Taxes	\$ 6,100,000	\$ 6,263,761	\$ 6,263,761	\$ -
Income Tax	1,702,165	1,770,055	1,770,055	-
Intergovernmental	18,336,392	18,429,951	18,429,950	(1)
Interest	30,050	45,061	46,415	1,354
Tuition and Fees	1,760,018	1,921,844	1,919,736	(2,108)
Rent	10,000	16,500	18,594	2,094
Extracurricular Activities	68,265	81,773	81,710	(63)
Gifts and Donations	11,740	16,065	14,279	(1,786)
Customer Sales and Services	6,400	8,500	7,293	(1,207)
Miscellaneous	140,000	124,842	140,172	15,330
<i>Total Revenues</i>	<u>28,165,030</u>	<u>28,678,352</u>	<u>28,691,965</u>	<u>13,613</u>
EXPENDITURES				
Current Instruction				
Regular	10,777,682	11,031,040	10,940,655	90,385
Special	2,551,992	2,845,096	2,797,940	47,156
Vocational	415,055	411,577	403,438	8,139
Student Intervention Services	14,305	57,850	54,675	3,175
Other	2,872,586	3,095,478	3,093,103	2,375
Support Services				
Pupils	1,639,449	1,708,140	1,652,639	55,501
Instructional Staff	776,537	841,719	811,674	30,045
Board of Education	76,400	71,140	64,280	6,860
Administration	1,697,515	1,862,403	1,788,298	74,105
Fiscal	362,464	432,891	420,634	12,257
Operation and Maintenance of Plant	2,493,339	2,278,520	2,111,003	167,517
Pupil Transportation	1,304,348	1,257,478	1,136,525	120,953
Central	136,018	118,968	111,084	7,884
Extracurricular Activities				
Academic Oriented Activities	139,220	140,039	138,386	1,653
Sport Oriented Activities	367,507	388,852	383,704	5,148
School and Public				
Service Co-Curricular Activities	109,493	92,324	85,135	7,189
Capital Outlay				
Building Improvement Services	461,188	302,730	212,602	90,128
Other Facilities Acquisition and Construction	48,109	48,109	48,109	-
Debt Service				
Principal	200,000	200,000	200,000	-
Interest	58,800	58,800	58,800	-
<i>Total Expenditures</i>	<u>26,502,007</u>	<u>27,243,154</u>	<u>26,512,684</u>	<u>730,470</u>
Excess of Revenues Over (Under) Expenditures	1,663,023	1,435,198	2,179,281	744,083
OTHER FINANCING SOURCES (USES)				
Transfers In	-	258,199	258,199	-
Proceeds from Sale of Capital Assets	4,000	4,000	3,200	(800)
Insurance Recoveries	-	120,541	120,541	-
Refund of Prior Year Expenditures	1,000	(13,898)	(13,553)	345
Transfers Out	-	(258,199)	(258,199)	-
Refund of Prior Year Receipts	-	(270,000)	(44,482)	225,518
Total Other Financing Sources (Uses)	<u>5,000</u>	<u>(159,357)</u>	<u>65,706</u>	<u>225,063</u>
Net Change in Cash Basis Fund Balances	1,668,023	1,275,841	2,244,987	969,146
<i>Fund Balance at Beginning of Year</i>	9,223,554	9,223,554	9,223,554	-
<i>Prior Year Encumbrances Appropriated</i>	219,518	219,518	219,518	-
<i>Fund Balance at End of Year</i>	<u>\$ 11,111,095</u>	<u>\$ 10,718,913</u>	<u>\$ 11,688,059</u>	<u>\$ 969,146</u>

See accompanying notes to the Basic Financial Statements.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
STATEMENT OF FIDUCIARY NET POSITION - MODIFIED CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2017

	Private Purpose Trust	Agency
ASSETS		
Current Assets		
Equity in Pooled Cash and Investments	\$ 14,039	\$ 70,375
LIABILITIES		
Current Liabilities:		
Undistributed Monies		\$ 70,375
NET POSITION		
Held in Trust for Scholarships	\$ 14,039	

See accompanying notes to the Basic Financial Statements.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
MODIFIED CASH BASIS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Private Purpose Trust
ADDITIONS:	
Gifts and contributions	\$ 10,095
Total additions	10,095
DEDUCTIONS:	
Payments in accordance with trust agreements	10,095
Total deductions	10,095
Changes in net position	-
Net position beginning of year	14,039
Net position end of year	\$ 14,039

See accompanying notes to the Basic Financial Statements.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – DESCRIPTION OF THE DISTRICT AND REPORTING ENTITY

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

It is staffed by 141 classified employees and 184 certified teaching personnel who provide services to 2629 students and other community members. The District currently operates three instructional/support buildings and a preschool in conjunction with the Northwest Education Service Center.

Reporting Entity

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations for which the District authorizes the issuance of debt or the levying of taxes or determines the budget if there is also the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the District.

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

The District participates in jointly governed organizations and insurance pools. These organizations are the Northwest Ohio Computer Association, the Northern Buckeye Education Council, the Four County Career Center, the Northwestern Ohio Educational Research Council, Inc., the Northwest Ohio Special Education Regional Resource Center, the Northwest Ohio Regional Professional Development Center, the Northern Buckeye Health Plan/OHI, and the Northern Buckeye Health Plan's Workers' Compensation Group Rating Plan. These organizations are presented in Notes 15 and 16 to the basic financial statements.

The District's management believes these financial statements present all activities for which the District is financially accountable.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are presented on the modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. Following are the more significant of the District's accounting policies.

A. Basis of Presentation

The District's basic financial statements consist of government-wide financial statements, including a statement of net position 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 position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

Fund Financial Statements

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

B. Fund Accounting

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

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

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

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3. The funds of the financial reporting entity are described below:

Governmental Funds

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

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

Classroom Facilities Fund – The Classroom Facilities Fund is used to account for revenues and expenditures in connection with contracts entered into by the school district and the Ohio Facilities Construction Commission for the building and equipping of classroom facilities.

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

Fiduciary Funds

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

C. Change in Basis of Accounting

Last year the District reported fund financial statements using the cash basis of accounting as prescribed by the State Auditor's Office. This year the District has implemented the modified cash basis of accounting.

The District's financial statements are prepared using the *modified* cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the District are described in the appropriate section in this note.

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

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

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

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Budgetary Process

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

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

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

Tax Budget

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

Estimated Resources

The County Budget Commission certifies its actions to the District by March 1. As part of this certification, the District receives the official certificate of estimated resources which states the projected receipts of each fund. On or about July 1 this certificate is amended to include any unencumbered balances from the preceding fiscal year. Prior to June 30, the District must revise its budget so that the total contemplated disbursements from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying financial statements do not include July 1, 2016 unencumbered fund balances. However, those fund balances are available for appropriations.

Appropriations

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

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

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Encumbrances

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

Lapsing of Appropriations

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

E. Cash and Investments

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

During fiscal year 2017, investments included negotiable certificates of deposit, federal agency securities, money market accounts, and STAR Ohio. Negotiable certificates of deposit and federal agency securities are reported at fair market value. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2017.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Total interest receipts credited to the General Fund during fiscal year 2017 was \$46,415, which includes \$1,383 assigned from other funds.

Investments of the District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments. Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

F. Capital Assets

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

G. Inventory and Prepaid Items

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

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Accumulated Leave

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

I. Interfund Receivable/Payable

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

J. Interfund Transactions

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

K. Long-Term Debt

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

L. Intergovernmental Receipts

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

M. Employer Contributions to Cost-Sharing Pension Plans

The District recognizes disbursements for employer contributions to cost-sharing plans when they are paid. As described in Notes 10 and 11, the employer contributions include portions for pension benefits and for postretirement health care benefits.

N. Equity Classifications

GOVERNMENT-WIDE STATEMENTS

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

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

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net position restricted for other purposes include resources restricted for public school support programs, athletic programs, employee termination benefits, classroom facilities and maintenance tax levy proceeds, and federal and state grants restricted to cash disbursement for specified purposes. The District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net positions are available. There were not any positions restricted by enabling legislation as of June 30, 2017.

O. Fund Balance

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

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

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

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

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

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

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

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 3 – COMPLIANCE

A. Compliance

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

NOTE 4 – FUND BALANCE

Fund balance can be classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in governmental funds.

The constraints placed on fund balance at June 30, 2017 for the major governmental funds and all other governmental funds are presented as follows:

<u>Fund Balance</u>	<u>General</u>	<u>Classroom Facilities</u>	<u>All Other Governmental Funds</u>	<u>Total</u>
Restricted for:				
Debt payment	\$ -	\$ -	\$ 1,350,358	\$ 1,350,358
Food service operations	-	-	355,956	355,956
Regular instruction	-	-	864	864
Auxiliary services	-	-	27,677	27,677
District managed activity	-	-	126,733	126,733
Special instruction	-	-	9,005	9,005
Students	-	-	45	45
Capital improvements	-	18,845,447	2,448,562	21,294,009
School bus	<u>20,184</u>	<u>-</u>	<u>-</u>	<u>20,184</u>
Total restricted	<u>20,184</u>	<u>18,845,447</u>	<u>4,319,200</u>	<u>23,184,831</u>
Committed to:				
Capital improvements	-	-	1,744,237	1,744,237
Assigned to:				
Unpaid obligations	69,325	-	-	69,325
Other purposes	<u>40,352</u>	<u>-</u>	<u>-</u>	<u>40,352</u>
Total assigned	<u>109,677</u>	<u>-</u>	<u>-</u>	<u>109,677</u>
Unassigned	<u>11,627,524</u>	<u>-</u>	<u>(40,342)</u>	<u>11,587,182</u>
Total fund balances	<u>\$ 11,757,385</u>	<u>\$ 18,845,447</u>	<u>\$ 6,023,095</u>	<u>\$ 36,625,927</u>

NOTE 5 – BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 5 – BUDGETARY BASIS OF ACCOUNTING (CONTINUED)

the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget.

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

<u>Net Change in Fund Balance</u>	<u>General Fund</u>
Modified cash basis (as reported)	\$ 2,314,314
Outstanding encumbrances	(67,873)
Perspective difference:	
Activity of funds reclassified for for cash reporting purposes	(1,454)
Budgetary basis	\$ 2,244,987

As part of Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting", certain funds which are legally budgeted in separate special revenue funds (uniform school supplies and public school support funds) are considered part of the General fund on cash basis.

NOTE 6 – DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 6 – DEPOSITS AND INVESTMENTS (CONTINUED)

agreement by at least 2% and be marked to market daily, and the term of the agreement must not exceed thirty days;

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

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

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

A. Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Defiance City School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$1,400,174 of the School District's bank balance of \$1,725,561 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

The School District has no deposit policy for custodial risk beyond the requirements of State Statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

B. Investments

Investments are reported at fair value. As of June 30, 2017, the District had the following investments:

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 6 – DEPOSITS AND INVESTMENTS (CONTINUED)

<u>Description</u>	<u>Fair Value</u>	<u>Maturity</u> <u>(Years)</u>	
		<u>Less Than 1</u>	<u>1-5</u>
Federal Home Loan Mortgage Corporation (FHLMC)	\$ 576,884	\$ -	\$ 576,884
Federal National Mortgage Association (FNMA)	1,042,862	314,603	728,259
US Treasury Bonds	1,027,850	1,027,850	-
Negotiable Certificates of Deposit	7,207,179	2,867,233	4,339,946
Money Market Mutual Funds/Cash	5,851,947	5,851,947	-
STAR Ohio	<u>19,539,232</u>	<u>19,539,232</u>	<u>-</u>
Total Cost	<u>\$ 35,245,954</u>	<u>\$ 29,600,865</u>	<u>\$ 5,645,089</u>

C. Interest Rate Risk

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

D. Credit Risk

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

E. Custodial Credit Risk

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

F. Concentration of Credit Risk

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

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 6 – DEPOSITS AND INVESTMENTS (CONTINUED)

Mortgage Association, and Federal Home Loan Mortgage Corporation represents 3% and 2%, respectively, of the District’s total investments.

NOTE 7 – INCOME TAXES

The District levies a voted tax of 0.5% for general operations on the income of residents and of estates. The tax was effective on January 1, 1992, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax receipts are credited to the General Fund.

NOTE 8 – PROPERTY TAXES

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

Property taxes include amounts levied against all real and public utility property located in the area served by the District. Real property tax revenues received in calendar year 2017 represent the collection calendar year 2016 taxes. Real property taxes received in calendar year 2017 were levied after April 1, 2016, on the assessed values as of January 1, 2016, the lien date. Assessed values for real property taxes are established by State statute at 35% 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 real and tangible personal property taxes for 2017 were levied after April 1, 2016, on the assessed values as of December 31, 2015, the lien date. Public utility real property is assessed at 35% of true value; public utility tangible personal property currently is assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The District receives property taxes from Defiance and Paulding Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2017, are available to finance fiscal year 2017 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which fiscal year 2017 taxes were collected are:

	2016 Second-Half Collections		2017 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/residential	\$ 191,027,600	77.93	\$ 191,766,790	77.86
Industrial/commercial	38,381,800	15.66	38,347,310	15.56
Public utility	<u>15,705,550</u>	<u>6.41</u>	<u>16,192,560</u>	<u>6.58</u>
Total assessed value	<u>\$ 245,114,950</u>	<u>100.00</u>	<u>\$ 246,306,660</u>	<u>100.00</u>
Total rate per \$1,000 of assessed valuation	\$ 49.20		\$ 48.90	

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 9 – RISK MANAGEMENT

A. Employee Insurance Benefits Program

The District participates in the Optimal Health Initiative Consortium (OHI), a public entity shared risk pool consisting of educational entities within Defiance, Fulton, Henry, and Williams Counties and other eligible governmental entities. The District pays monthly premiums to the OHI for the benefits offered to its employees including medical, dental, vision, and life insurance. The OHI 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.

B. Workers' Compensation Group Program

The District participates in the Northern Buckeye Health Plan, Northern Division of OHI (NBHP) Workers' Compensation Group Rating Plan (The Plan), an insurance purchasing pool. The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. The Executive Director of the NBHP coordinates the management and administration of the program.

C. Comprehensive

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2017, the District contracted for the following insurance coverage:

	Amount of Coverage
The Liberty Mutual Insurance Company:	
General Liability	
Per Occurrence	\$ 1,000,000
Total per Year	2,000,000
Umbrella Liability	
Per Occurrence	10,000,000
Total per Year	10,000,000
Building and contents	91,383,163
The Netherlands Insurance Company:	
Vehicle liability	1,000,000
Uninsured/Underinsured motorist	1,000,000

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

NOTE 10 – DEFINED BENEFIT PENSION PLANS

Pensions are a component of exchange transactions - between an employer and its employees - of salaries and benefits for employee services. Pensions are provided to an employee - on a deferred-payment basis - as part of the total compensation package offered by an employer for employee services each financial period.

The net pension liability represents the District's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings

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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017**

NOTE 10 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the District's obligation for this liability to annually required payments. The District cannot control benefit terms or the manner in which pensions are financed; however, the District does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholding from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

Plan Description – School Employees Retirement System (SERS)

Plan Description – the District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before <u>August 1, 2017*</u>	Eligible to Retire on or after <u>August 1, 2017</u>
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit or Age 55 with 25 years of service credit	Age 62 with 10 years of service credit or Age 60 with 25 years of service credit

*Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members are established and may be amended by the SERS'

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 10 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent. No amount of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The District's contractually required contribution to SERS was \$579,198 for the fiscal year 2017.

Plan Description – State Teachers Retirement System (STRS)

Plan Description – the District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB Plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC Plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 10 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 12 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was \$1,713,430 for fiscal year 2017.

Net Pension Liability

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$ 7,863,682	\$33,535,308	\$41,398,990
Proportion of the Net Pension Liability	0.1074409%	0.1001861%	

Actuarial Assumptions – SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement NO. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 10 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2016, are presented below:

Wage Inflation	3.00 Percent
Future Salary Increases, including Inflation	3.50 percent to 18.2 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used was based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females.

The most recent experience study was completed June 30, 2015.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating an arithmetic-weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	<u>10.00</u>	3.00
Total	<u>100.00</u> %	

Discount Rate The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from

**DEFIANCE CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 10 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
The District's proportionate share of the net pension liability	<u>\$ 10,411,025</u>	<u>\$ 7,863,682</u>	<u>\$5,731,450</u>

Actuarial Assumptions – STRS

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expense
Cost-of-Living Adjustment (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year, for members retiring after August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022 – Scale AA) for Males and Females. Males' ages are set back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set-back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017**

NOTE 10 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

<u>Asset Class</u>	<u>Target Allocation</u>		<u>Long Term Expected Real Rate of Return</u>	
Domestic Equity	31.00	%	8.00	%
International Equity	26.00		7.85	
Alternatives	14.00		8.00	
Fixed Income	18.00		3.75	
Real Estate	10.00		6.75	
Liquidity Reserves	<u>1.00</u>		3.00	
Total	<u>100.00</u>	%	7.61	%

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included.

Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2016.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (<u>6.75%</u>)	Current Discount Rate (<u>7.75%</u>)	1% Increase (<u>8.75%</u>)
The District's proportionate share of the net pension liability	<u>\$ 44,565,699</u>	<u>\$ 33,535,308</u>	<u>\$24,230,522</u>

Changes Between Measurement Date and Report Date – In March 2017, the STRS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of July 1, 2016. The most significant changes are a reduction in the expected investment return to 7.45% from 7.75% and a change to updated generational mortality tables. Although the exact amount of these changes is not known, the impact to the District's net pension liability is expected to be significant.

NOTE 11 – POST EMPLOYMENT BENEFITS

A. School Employee Retirement System

The District participates in two cost-sharing multiple-employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 11 – POST EMPLOYMENT BENEFITS (CONTINUED)

hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14% of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2017, no allocation of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than a actuarially determined amount; for 2017, this amount was \$23,500.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending of the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2017, 2016, and 2015 were \$57,529, \$54,667, and \$55,196 respectively. The full amount had been contributed for all three years.

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

B. State Teachers Retirement System

The District contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888)227-7877.

Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions

NOTE 12 – OTHER EMPLOYEE BENEFITS

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.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 12 – OTHER EMPLOYEE BENEFITS (CONTINUED)

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

Health Care Benefits

The District provides medical, dental, vision, and life insurance to most employees through the Optimal Health Initiative Consortium Insurance Benefits Program.

NOTE 13 – LONG-TERM OBLIGATIONS

Changes in the District’s long-term obligations during fiscal year 2017 were as follows:

	<u>Interest Rate</u>	<u>Balance 06/30/16</u>	<u>New Issues</u>	<u>Reductions</u>	<u>Balance 06/30/17</u>	<u>Due Within One Year</u>
2014 Various Purpose Bonds						
Serial Bonds	1.5-5.0%	\$ 8,675,000	\$ -	\$ 425,000	\$ 8,250,000	\$ 315,000
Term Bonds	5.0%	3,595,000	-	-	3,595,000	-
Term Bonds	5.0%	6,635,000	-	-	6,635,000	-
2015 Refunding Bonds						
Serial Bonds	1.0-4.0%	4,125,000	-	10,000	4,115,000	40,000
Capital Appreciation Bonds	8.90%	175,000	-	-	175,000	-
Term Bonds	3.25%	615,000	-	-	615,000	-
Total Governmental Long Term Obligations		<u>\$ 23,820,000</u>	<u>\$ -</u>	<u>\$ 435,000</u>	<u>\$ 23,385,000</u>	<u>\$ 355,000</u>

2014 Various Purpose Bonds – On August 28, 2014, the District issued \$19,005,000 in voted general obligation bonds for constructing, improving, making additions to school buildings and related site development, and retiring bonds previously issued for such purposes. The bond issue included serial and term bonds in the amounts of \$8,775,000 and \$10,230,000, respectively. The bonds will be retired with a voted property tax levy from the debt service fund.

2014 Serial Bonds – The Current Interest Bonds were issued for a twenty-fiscal year period with final maturity on December 1, 2034. The remaining principal amount to be redeemed as of June 30, 2017, is \$8,250,000.

2014 Term Bonds – The Term Bonds maturing on December 1, 2039 are subject to mandatory sinking fund redemption at redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1, 2035 for \$615,000, December 31, 2036 for \$695,000, December 1, 2037 for \$735,000 and December 31, 2038 for \$775,000. The remaining \$775,000 principal amount of the Bonds due December 1, 2039 is to be paid at stated maturity.

The Term Bonds maturing on December 1, 2046 are subject to mandatory sinking fund redemption at redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1, 2040 for \$815,000, December 31, 2041 for \$855,000, December 1, 2042 for \$900,000, December 31, 2043 for \$945,000, December 1, 2044 for \$990,000 and December 31, 2045 for \$1,040,000. The remaining \$1,090,000 principal amount of the Bonds due December 1, 2046 is to be paid at stated maturity.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 13 – LONG-TERM OBLIGATIONS (CONTINUED)

2015 Refunding Bonds – On March 11, 2015, the District issued \$4,990,000 in voted general obligation bonds for retiring bonds previously issued. The bond issue included serial, capital appreciation and term bonds in the amounts of \$4,200,000, \$175,000 and \$615,000, respectively. The bonds will be retired with a voted property tax levy from the debt service fund.

2015 Serial Bonds – The Current Interest Bonds were issued for a nineteen-fiscal year period with final maturity on December 1, 2033. The remaining principal amount to be redeemed as of June 30, 2017, is \$4,115,000.

2015 Capital Appreciation Bonds – The Capital Appreciation Bonds will mature December 31, 2027. Interest on the Bonds will accrue from the date of delivery until maturity at the stated interest. Interest on the Capital Appreciation Bonds will compound semiannually but will payable only at maturity.

2015 Term Bonds – The Term Bonds maturing on December 1, 2026 are subject to mandatory sinking fund redemption at redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1, 2023 for \$45,000, December 31, 2024 for \$45,000, and December 31, 2025 for \$50,000. The remaining \$475,000 principal amount of the Bonds due December 1, 2026 is to be paid at stated maturity.

Payment requirements to retire general obligation debt at June 30, 2017 are as follows:

<u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	355,000	1,037,913	1,392,913
2019	410,000	1,031,813	1,441,813
2020	420,000	1,024,176	1,444,176
2021	440,000	1,015,176	1,455,176
2022	520,000	997,951	1,517,951
2023-2027	3,345,000	4,554,946	7,899,946
2028-2032	4,555,000	4,114,689	8,669,689
2033-2037	4,420,000	2,661,870	7,081,870
2038-2042	3,955,000	1,749,625	5,704,625
2043-2047	<u>4,965,000</u>	<u>644,375</u>	<u>5,609,375</u>
Total	<u>\$ 23,385,000</u>	<u>\$ 18,832,534</u>	<u>\$ 42,217,534</u>

NOTE 14 – SET ASIDE REQUIREMENTS

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

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

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017**

NOTE 14 – SET ASIDE REQUIREMENTS (CONTINUED)

	Capital Acquisition
Current year set aside requirement	\$ 444,459
Current year offsets	(444,459)
Cash balance carried forward to FY 2017	-
Total restricted assets	\$ -

NOTE 15 – JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Computer Association

The District is a participant in the Northwest Ohio Computer Association (“NWOCA”), which is a computer consortium. NWOCA is an association of educational entities within the boundaries of Defiance, Fulton, Henry, and Williams Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member 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 2017, the District paid \$113,021 to NWOCA for various services. Financial information can be obtained from Robin Pfund, who serves as Treasurer, 209 Nolan Parkway, Archbold, Ohio 43502.

B. Northern Buckeye Education Council

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

C. Four County Career Center

The Four County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of five representatives from the Northwest Ohio Educational Service Center – one each from the counties of Defiance, Fulton, Henry, and Williams and one

additional representative; one representative from each of the city school districts; one representative from each of the exempted village school districts. The Four County Career Center possesses its own budgeting and taxing authority. To obtain financial information write to the Four County Career Center, Jennifer Bonner, who serves as Treasurer, 22-900 State Route 34, Archbold, Ohio 43502.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 15 – JOINTLY GOVERNED ORGANIZATIONS (CONTINUED)

D. Northwestern Ohio Educational Research Council, Inc.

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

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., 441 E. Market St., Celina, Ohio 45822.

E. Northwest Ohio Special Education Regional Resource Center

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

F. Northwest Ohio Regional Professional Development Center

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

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

NOTE 16 – GROUP PURCHASING POOLS

A. Employee Insurance Benefits Program

Optimal Health Initiative Consortium (OHI) Insurance Benefits Program (the Pool) is a public entity shared risk pool consisting of educational entities located in Defiance, Fulton, Henry, and Williams Counties. The Pool is governed by OHI and its participating members.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 16 – GROUP PURCHASING POOLS (CONTINUED)

The District contributed a total of \$2,998,140 to Northern Buckeye Health Plan, Northwest Division of OHI for all employee insurance plans. Financial information for the period can be obtained from Jenny Jostworth, Treasurer, at 10999 Reed Hartman Highway, Suite 304E, Cincinnati, Ohio 45242.

B. Workers' Compensation Group Rating Plan

The District participates in a group-rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code

The Northern Buckeye Health Plan, Northern Division of OHI (NBHP) Workers' Compensation Group Rating Plan (WCGRP) is an insurance purchasing pool. The WCGRP is governed by the Northern Buckeye Health Plan and the participating members of the WCGRP. The Executive Director of the NBHP coordinates the management and administration of the program.

NOTE 17 – CONTINGENCIES

Federal and State Grants

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2017.

NOTE 18 – LEASES

The District has entered into several leases for RICOH workroom equipment, copiers, printers and a duplicator and stand with Marlin Leasing. These leases are in terms of 60 months beginning in February 2013, May 2013, December 2013 and August 2014.

The District has also entered into a lease agreement with Hewlett-Packard Financial Services in June 2017 for Chrome Books. The lease is for a term of three years.

The District has also entered into a lease agreement with Kansas City Bank in September 2016 for Chrome Books. The lease is for a term of three years.

The District has also entered into several leases for busses with Blue Bird Capital. These leases are in terms of 48 months beginning in April 2015, September 2015, and July 2016.

The District has entered into a lease with the State Bank and Trust Company to provide for the construction, enlarging, improving, furnishing and equipping of school facilities. The lease is for a term of four months with seven annual renewal periods and one eighth renewal period of five months.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 18 – LEASES (CONTINUED)

Future lease payments are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2018	\$ 611,268
2019	699,471
2020	499,765
2021	352,546
2022	354,706
2023-2024	<u>1,089,323</u>
Total	<u>\$ 3,607,079</u>

NOTE 19 – DEFIANCE CITY SCHOOLS FOUNDATION

The Defiance City School Foundation (the Foundation) is a non-profit organization established to solicit funds from the general public to maintain, develop, increase, and extend the facilities and services of the Defiance City School. It also provides educational service opportunities to its students, staff, and faculty. The Foundation is governed by a Board of Trustees which is appointed by the Board of Education. The Board of Trustees possess its own contracting and budgeting authority, hires and fires personnel, and does not depend on the District for operational subsidies. In 2017, the Foundation contributed \$15,191 to the District for miscellaneous grant reimbursements.

SUPPLEMENTARY INFORMATION

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**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**
For the Year Ended June 30, 2017

FEDERAL GRANTOR

<i>Pass Through Grantor</i> Program Title _____	Federal CFDA Number _____	Passed Through to Subrecipients	Total Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Education:</i>			
<u>Child Nutrition Cluster:</u>			
School Breakfast Program – Cash Assistance	10.553	\$ _____ -	\$ _____ 125,974
National School Lunch Program			
Cash Assistance	10.555	-	594,125
Non-Cash Assistance (Food Distribution)		_____ -	_____ 94,664
Total National School Lunch Program		_____ -	_____ 688,789
Total U.S. Department of Agriculture		_____ -	_____ 814,763
U. S. DEPARTMENT OF EDUCATION			
<i>Passed Through Ohio Department of Education:</i>			
Title I Grants to Local Educational Agencies	84.010	_____ -	_____ 659,436
<u>Special Education Cluster:</u>			
Special education grants to states	84.027	-	633,146
Special education preschool grants	84.173	_____ 19,017	_____ 19,017
Total special education cluster		_____ 19,017	_____ 652,163
English Language Acquisition State Grant	84.365	_____ 2,172	_____ 2,172
Improving Teacher Quality State Grants	84.367	_____ -	_____ 119,539
Total U.S. Department of Education		_____ 21,189	_____ 1,433,310
Total Expenditures of Federal Awards		\$ _____ 21,189	\$ _____ 2,248,073

The accompanying notes are an integral part of this schedule.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2CFR 200.510(b)(6)
For the Year Ended June 30, 2017

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Defiance City School District, Defiance County, Ohio (the District's) under programs of the federal government for the year ended June 30, 2017. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE C – SUBRECIPIENTS

The District passes certain federal awards received from Ohio Department of Education to other governments or not-for-profit agencies (subrecipients). As Note B describes, the District reports expenditures of Federal awards to subrecipients when paid in cash. As a subrecipient, the District has certain compliance responsibilities, such as monitoring its subrecipients to help assure they use these subawards as authorized by laws, regulations, and the provisions of contracts or grant agreements, and that subrecipients achieve the award's performance goals.

NOTE D – CHILD NUTRITION CLUSTER

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

NOTE E – FOOD DONATION PROGRAM

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



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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

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

To the Board of Education:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the modified cash-basis 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 fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Defiance City School District's basic financial statements and have issued our report thereon dated October 13, 2017, wherein we noted, the Defiance City School District uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Defiance City School District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Defiance City School District's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Defiance City School District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Board of Education
Defiance City School District

Compliance and Other Matters

As part of reasonably assuring whether the Defiance City School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2017-001.

Defiance City School District's Response to Finding

Defiance City School District's response to the finding identified in our audit is described in the accompanying corrective action plan. We did not audit the Defiance City School District's response and, accordingly, we express no opinion on it.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Defiance City School District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Defiance City School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Julian & Grube, Inc.
October 13, 2017



Julian & Grube, Inc.
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333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance

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

To the Board of Education:

Report on Compliance for Each Major Federal Program

We have audited the Defiance City School District's compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect each of the Defiance City School District's major federal programs for the year ended June 30, 2017. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the Defiance City School District's major federal programs.

Management's Responsibility

The Defiance City School District's Management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the Defiance City School District's compliance for each of the Defiance City School District's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the Defiance City School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on each of the Defiance City School District's major programs. However, our audit does not provide a legal determination of the Defiance City School District's compliance.

Board of Education
Defiance City School District

Opinion on Each Major Federal Program

In our opinion, the Defiance City School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

The Defiance City School District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the Defiance City School District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Defiance City School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



Julian & Grube, Inc.
October 13, 2017

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2017**

1. SUMMARY OF AUDITOR'S RESULTS		
<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unmodified
<i>(d)(1)(ii)</i>	<i>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(ii)</i>	<i>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iii)</i>	<i>Was there any reported material noncompliance at the financial statement level (GAGAS)?</i>	Yes
<i>(d)(1)(iv)</i>	<i>Were there any material internal control weaknesses reported for major federal programs?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any significant deficiencies in internal control reported for major federal programs?</i>	No
<i>(d)(1)(v)</i>	<i>Type of Major Programs' Compliance Opinion</i>	Unmodified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under 2 CFR §200.516(a)?</i>	No
<i>(d)(1)(vii)</i>	<i>Major Programs (listed):</i>	Child Nutrition Cluster Special Education Cluster
<i>(d)(1)(viii)</i>	<i>Dollar Threshold: Type A/B Programs</i>	Type A: >\$750,000 Type B: all others
<i>(d)(1)(ix)</i>	<i>Low Risk Auditee under 2CFR § 200.520?</i>	No

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2017**

2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2017-001

Noncompliance

Ohio Revised Code Section 117.38 provides each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Revised Code Section 117.38. Ohio Administrative Code Section 117-2-03(B) requires the Defiance City School District (the "District") to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America (GAAP).

The District prepares its financial statements in accordance with the modified cash-basis of accounting in a report format similar to the requirements of Governmental Accounting Standards Board Statement 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. This presentation differs from (GAAP).

There would be variances on the financial statements between this accounting practice and GAAP that, while presumably material, cannot be reasonably determined at this time. Failure to prepare proper GAAP financial statements may result in the District being fined or other administrative remedies.

The District should prepare its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None

DEFIANCE CITY SCHOOLS

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BOARD OF EDUCATION

Mr. Wesley C. Moats
 President
Mrs. Christine Oberlin
 Vice President
Mrs. Cheryl Swisher
 CFO/Treasurer

BOARD OF EDUCATION

Mr. Mark Klein
 Member
Mr. Garry Rodenberger
 Member
Mr. Stephen K. Snavelly
 Member

CORRECTIVE ACTION PLAN
2 CFR 200.511(c)
JUNE 30, 2017

<u>Finding Number</u>	<u>Planned Corrective Action</u>	<u>Anticipated Completion Date</u>	<u>Responsible Contact Person</u>
2017-001	Management believes reporting on a basis of accounting other than generally accepted accounting principles (GAAP) is more cost efficient.	N/A	Cheryl Swisher, CFO/Treasurer

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**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
2 CFR 200.511(b)
JUNE 30, 2017**

Finding Number	Year Initially Occurred	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2016-001	2007	<u>Noncompliance:</u> Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(B) required the District to prepare its annual financial report in accordance with GAAP, however, the District prepared its annual financial report with the cash basis of accounting in a report format similar to the requirements in GASB Statement No. 34.	No	Repeated as finding 2017-001
2016-002	2016	<u>Material Weakness - Fund Balance Classification:</u> Governmental Accounting Standards Board (GASB) Statement No. 54 established criteria for reporting governmental fund balances. In fiscal year 2016, the District improperly classified/reported their fund balances.	Yes	N/A

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Dave Yost • Auditor of State

DEFIANCE CITY SCHOOL DISTRICT

DEFIANCE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 21, 2017**