

DEFIANCE CITY SCHOOL DISTRICT

DEFIANCE COUNTY

FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2004



**Auditor of State
Betty Montgomery**

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 Steyer & Co., for the audit period July 1, 2003 through June 30, 2004. 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 cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

March 2, 2005

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Defiance City School District
Defiance, Ohio

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Defiance City School District (the School District) as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.


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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Defiance City School District, as of June 30, 2004, and the respective changes in financial position, and the respective budgetary comparison for the General Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2005, on our consideration of 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 9 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

STEYER & CO.
Certified Public Accountants

Defiance, Ohio
January 12, 2005

**DEFIANCE CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

The discussion and analysis of Defiance City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Highlights

Highlights for fiscal year 2004 are as follows:

- In total, net assets decreased \$652,127, which represents a 6 percent decrease from fiscal year 2003.
- General revenues were \$19,138,647, or 88 percent of total revenues, and reflect the School District's significant dependence on local property taxes, income taxes, and unrestricted State entitlements.
- The School District had \$22,328,320 in expenses related to governmental activities; only \$2,537,546 of these expenses, or 11 percent, was offset by program specific charges for services and sales, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$19,138,647 were utilized to provide for these programs.
- The School District has received payments in lieu of taxes related to tax abatement agreements with several companies that are making capital investments in the School District. These donations have been placed into a permanent improvement fund. Revenues received in fiscal year 2004 were \$60,376 and there were \$94,119 in expenditures and other financing uses. The Permanent Improvement Fund increased by \$10,254 during fiscal year 2004.
- The School District is part of the Northern Buckeye Education Council Employee Insurance Benefits Program with member school districts located primarily in Defiance, Fulton, Henry, and Williams Counties. As with many health insurance plans, the School District's per policy health insurance premiums increased 24 percent in fiscal year 2004 and are increasing another 21 percent in fiscal year 2005. This increase has had a significant impact on the School District's budget and continues to be a major factor in fiscal decisions.

Using the Basic Financial Statements

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

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

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

**DEFIANCE CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

Reporting the School District as a Whole

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2004. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

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

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

Reporting: the School District's Most Significant Funds

Fund financial statements provide detailed information about the School District's major funds. While the School District uses many funds to account for its financial transactions, the fund financial statements focus on the School District's most significant funds. The School District's only major governmental fund is the General Fund.

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

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

The School District as a Whole

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

Table 1 - Net Assets

	Governmental Activities		
	2004	2003	2002
<u>Assets:</u>			
Current and Other Assets	\$ 11,030,074	\$ 11,102,023	\$ 11,587,178
Capital Assets, Net	9,166,519	9,156,378	9,072,700
Total Assets	<u>20,196,593</u>	<u>20,258,401</u>	<u>20,659,878</u>

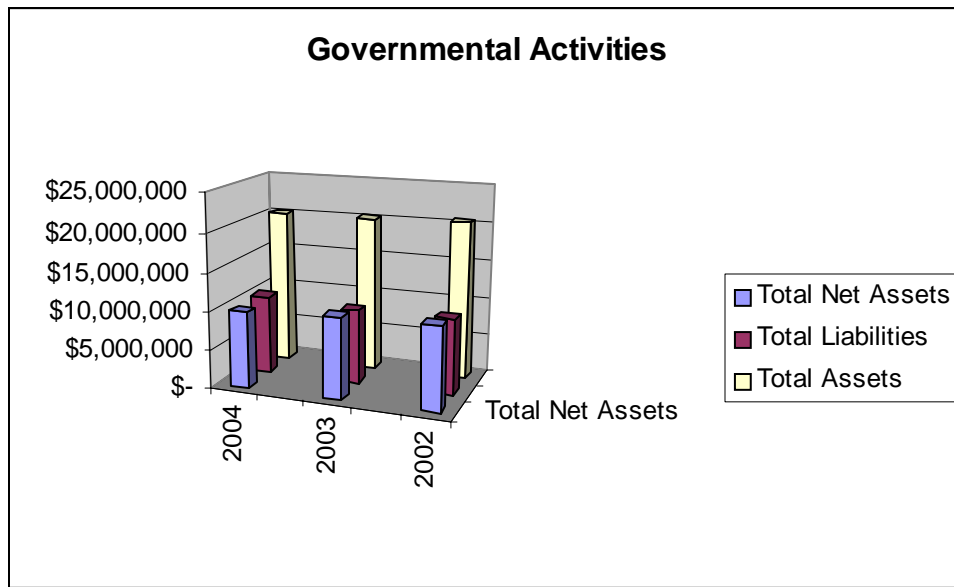
**DEFIANCE CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

Liabilities:

Current and Other Liabilities	8,591,820	7,780,151	7,873,507
Long-Term Liabilities	<u>1,680,082</u>	<u>1,901,432</u>	<u>2,041,545</u>
Total Liabilities	10,271,902	9,681,583	9,915,052

Net Assets:

Invested in Capital Assets, Net of Related Debt	8,676,488	8,503,877	8,389,062
Restricted	1,353,729	1,168,822	1,510,753
Unrestricted	<u>(105,526)</u>	<u>904,119</u>	<u>845,011</u>
Total	<u>\$ 9,924,691</u>	<u>\$ 10,576,818</u>	<u>\$ 10,744,826</u>



Total assets decreased \$401,477 from 2002 to 2003 and \$61,808 from 2003 to 2004. This reduction is less than 1 percent overall and is generally the result of lower cash balances in fiscal year 2003 and 2004. There is no particular individual asset account that had a great deal of fluctuation from the prior fiscal year.

At fiscal year end, capital assets represented 45 percent of total assets. Capital assets include land, land improvements, buildings and building improvements, furniture and equipment, and vehicles. The amount invested in capital assets net of related debt at June 30, 2004, was \$8,675,637. Capital assets are used to provide services to the students and are not available for future spending. Although the School District's investment in capital assets is reported net of related debt, it should be noted that resources to repay debt must be provided from other sources since capital assets may not be used to liquidate these liabilities.

Total liabilities increased \$591,170 during fiscal year 2004 representing a 6% increase. Total liabilities decreased \$233,469 from 2002 to 2003, which is a 2 percent decrease. In 2003, the district combined the General Obligation Bonds and Energy Conservation Loan into one new loan to take advantage of lower interest rates.

The increase in invested in capital assets, net of related debt is the result of principal payments made during the fiscal year reducing the outstanding debt applicable to capital assets.

**DEFIANCE CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

A portion of the School District's net assets, \$1,353,729, represents resources that are subject to external restriction on how they may be used. These restrictions result in a deficit unrestricted net assets balance of (\$105,526).

Table 2 reflects the changes in net assets for fiscal year 2003 to 2004.

Table 2 - Change in Net Assets

	Governmental Activities	
	2004	2003
<u>Revenues:</u>		
<u>Program Revenues:</u>		
Charges for Services and Sales	\$ 757,268	\$ 772,434
Operating Grants and Contributions	1,780,278	2,153,705
Capital Grants and Contributions	-	45,206
Total Program Revenues	2,537,546	2,971,345
<u>General Revenues:</u>		
Property Taxes and Other Local Taxes	6,760,622	5,880,818
Income Taxes	1,456,120	1,317,960
Loss on Sale of Capital Assets	(6,955)	-
Payment in Lieu of Taxes	(16,718)	55,209
Grants and Entitlements	10,658,300	9,229,591
Gifts and Donations	137,688	-
Investment Earnings	32,780	96,645
Extracurricular Activities	-	26,422
Rent	16,112	21,670
Proceeds from Sale of Fixed Assets	3,728	-
Miscellaneous	96,970	85,860
Total General Revenues	19,138,647	16,714,175
Total Revenues	21,676,193	19,685,520
 <u>Expenses:</u>		
<u>Instruction:</u>		
Regular	8,986,278	9,106,831
Special	2,496,002	2,052,673
Vocational	267,931	227,709
Other	1,136,995	-
<u>Support Services:</u>		
Pupils	960,055	890,000
Instructional Staff	821,532	755,245
Board of Education	253,031	147,253
Administration	1,865,057	1,584,144
Fiscal	423,978	402,522
Operation and Maintenance of Plant	2,127,089	2,081,156
Pupil Transportation	710,764	648,938
Central	98,724	103,542
Operation of Non-Instructional Services	1,130,047	1,077,413
Extracurricular Activities	700,265	737,724
Capital Outlay	333,791	-
Interest and Fiscal Charges	16,781	38,378
Total Expenses	22,328,320	19,853,528
Decrease in Net Assets	\$ (652,127)	\$ (168,008)

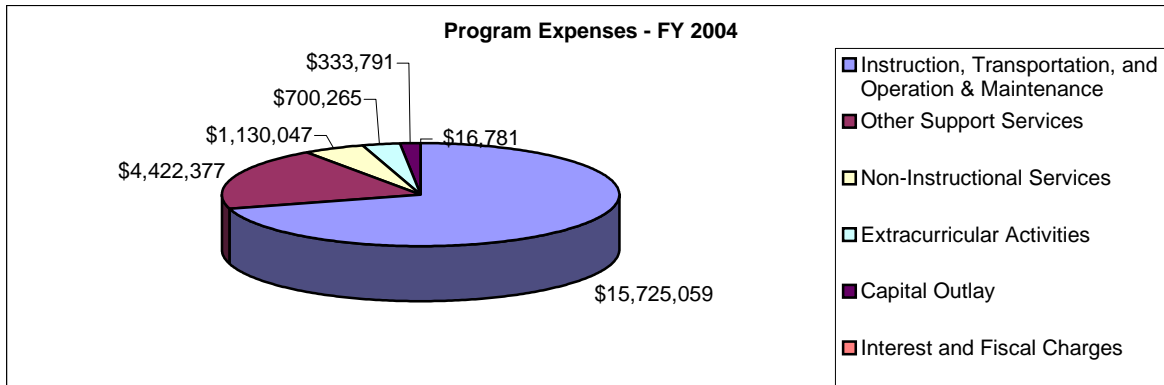
**DEFIANCE CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

Net assets of the School District's governmental activities decreased by \$652,127 or 6 percent. Total expenses of \$22,328,320 were offset by program revenues of \$2,537,546 and general revenues of \$21,676,193. Program revenues supported 11 percent of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, income taxes, grants and entitlements. These revenue sources represent 87 percent of total governmental revenue.

The major program expenses for governmental activities are for instruction, which accounts for 58 percent of all governmental expenses. Other programs which support the instruction process, including pupils, instructional staff, and pupil transportation account for 11 percent of governmental expenses. Maintenance of the School District's facilities also represents a significant expense, 10 percent. Therefore, 79 percent of the School District's expenses are related to the primary functions of providing facilities and delivering education.

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



Governmental Activities

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

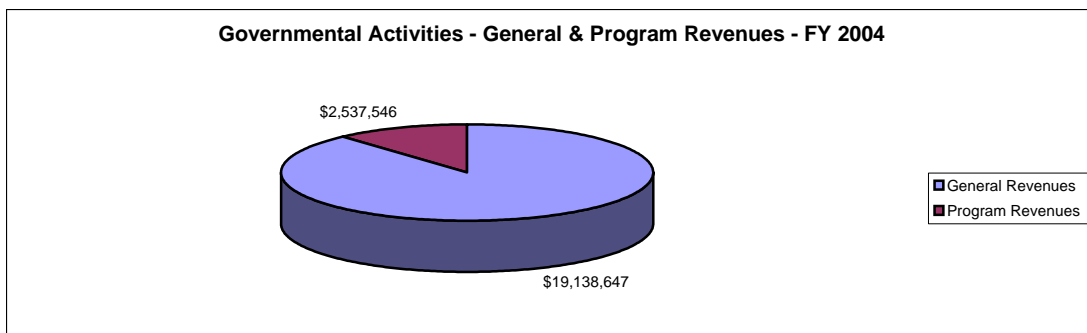
Table 3 - Governmental Activities

	Total Cost of Services 2004	Net Cost of Services 2004	Total Cost of Services 2003	Net Cost of Services 2003
Instruction:				
Regular	\$ 8,986,278	\$ 8,600,717	\$ 9,106,831	\$ 8,643,620
Special	2,496,002	1,937,493	2,052,673	803,387
Vocational	267,931	267,689	227,709	226,663
Other	1,136,995	1,135,955	-	-
Support Services:				
Pupils	960,055	939,777	890,000	880,582
Instructional Staff	821,532	599,596	755,245	755,245
Board of Education	253,031	252,803	147,253	147,253
Administration	1,865,057	1,809,699	1,584,144	1,584,144
Fiscal	423,978	423,592	402,522	384,841

**DEFIANCE CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

Operation and Maintenance of Plant	2,127,089	2,124,843	2,081,156	2,081,156
Pupil Transportation Central	710,764	692,231	648,938	579,582
	98,724	98,530	103,542	79,042
Operation of Non-Instructional Services	1,130,047	85,972	1,077,413	134,047
Extracurricular Activities	700,265	471,305	737,724	544,243
Capital Outlay	333,791	333,791	-	-
Interest and Fiscal Charges	16,781	16,781	38,378	38,378
Total Expenses	<u>\$ 22,328,320</u>	<u>\$19,790,774</u>	<u>\$19,853,528</u>	<u>\$16,882,183</u>

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is demonstrated in the above table. Over 93 percent of instruction activities are supported through taxes and other general revenues. Non-instructional programs received over 92 percent of their funding through program revenues. This includes not only cafeteria sales and state and federal subsidies and donated commodities food service operations, it also includes operating grants received on behalf of the parochial schools, St. John's Catholic School, St. Mary's Catholic School, St. John Lutheran School, and the Seventh Day Adventist School. Approximately 31 percent of extracurricular activities expenses are also covered by program revenues. These program revenues are the result of music and athletic fees, ticket sales, and gate receipts at musical and athletic events.



The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. Total governmental funds had revenues of \$21,730,792 in fiscal year 2004 compares to \$19,773,205 in fiscal year 2003 and expenditures of \$22,432,861 compared to \$20,735,133, respectively. The overall change in fund balance was a decrease of \$698,341, or 21 percent.

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During fiscal year 2004, the School District did not amend its General Fund budget as needed. Final budgeted revenues and other financing sources, in the amount of \$18,083,770, were the same as the original budgeted revenues.

General Fund original budgeted expenditures and other financing uses of \$19,025,995 were increased to \$20,587,730. The actual expenditures and other financing uses for fiscal year 2004

**DEFIANCE CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

totaled \$19,052,201, which was \$1,535,529 less than the final budgeted expenditures.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the School District had \$9,166,519 invested in capital assets (net of accumulated depreciation), an increase of \$10,141, or less than 1 percent. For further information regarding the School District's capital assets, see Note 9 to the basic financial statements.

Debt

The School District's outstanding debt obligations at fiscal year end consisted of an energy conservation loan, in the amount of \$446,250. The School District's long-term obligations also included a capital lease for equipment, in the amount of \$44,556, and compensated absences. For further information regarding the School District's long-term obligations, see Note 14 to the basic financial statements.

Current Issues

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

During fiscal year 2003, the Board of Education started receiving collections of revenues on a five-year emergency levy, which was approved by voters in 2002. During the levy campaign, the Board and management informed citizens that the proposed levy would not provide adequate revenues for that five-year period of time and that a small levy would be needed to supplement the revenue stream sometime in year three or four. The Board and management at this time indeed plan to place a levy on the ballot sometime in either 2005 or 2006. The type, term and size of this levy is undecided at this time.

The Board has continued to discuss the issue of how to proceed with its aging facilities. The School District houses its students in seven school buildings. These buildings include four elementary (K-4) buildings, a middle school (5-6), a junior high (7-8), and senior high (9-12). The community takes great pride in its neighborhood schools, but as time goes on, these buildings continue to need repair as well as provide inefficiencies both physically and educationally. The Board has begun to develop a facilities master plan for submission to the Ohio School Facilities Commission. An application for an exceptional needs grant has also been submitted to the OSFC and is currently being considered, with our School District being on the top three list of schools for consideration.

The Board of Education has also begun the process to aggressively market the School District to local and area students to increase enrollment. The Board looks forward to highlighting the many successful programs that the School District has to offer to young people in the Defiance area. Additional enrollment will result in additional revenues for the School District.

Contacting the School District's Financial Management

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

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
STATEMENT OF NET ASSETS
JUNE 30, 2004

	<u>Governmental Activities</u>
ASSETS	
Current Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 3,458,856
Cash and Cash Equivalents with Fiscal Agent	206
Accounts Receivable	4,223
Accrued Interest Receivable	1,224
Intergovernmental Receivable	159,840
Income Taxes Receivable	592,472
Prepaid Items	23,858
Inventory Held for Resale	21,778
Property Taxes Receivable	6,767,617
Noncurrent Assets	
Nondepreciable Capital Assets	1,004,940
Depreciable Capital Assets, Net	<u>8,161,579</u>
Total Assets	20,196,593
LIABILITIES	
Current Liabilities	
Accounts Payable	85,120
Accrued Wages and Benefits Payable	1,764,938
Matured Compensated Absences Payable	112,340
Intergovernmental Payable	637,838
Deferred Revenue	5,986,657
Accrued Interest Payable	4,927
NonCurrent Liabilities	
Long-Term Liabilities	
Due Within One Year	206,948
Due in More Than One Year	<u>1,473,134</u>
Total Liabilities	10,271,902
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	8,676,488
Restricted For:	
Set Asides	504,242
Capital Outlay	397,433
Debt Service	4,927
Other Purposes	447,127
Unrestricted	<u>(105,526)</u>
Total Net Assets	<u>\$ 9,924,691</u>

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

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Expenses</u>	<u>Program Revenues</u> Charges for Services and Sales	<u>Operating</u> Grants and Contribution	Net (Expense) Revenue and Changes in Net <u>Assets</u> Governmental <u>Activities</u>
Governmental Activities:				
Instruction:				
Regular	\$ 8,986,278	\$ 80,236	\$ 305,325	\$ (8,600,717)
Special	2,496,002	1,800	556,709	(1,937,493)
Vocational	267,931	242	-	(267,689)
Other	1,136,995	1,040	-	(1,135,955)
Support Services:				
Pupils	960,055	862	19,416	(939,777)
Instructional Staff	821,532	570	221,366	(599,596)
Board of Education	253,031	228	-	(252,803)
Administration	1,865,057	1,659	53,699	(1,809,699)
Fiscal	423,978	386	-	(423,592)
Operation and Maintenance of Plant	2,127,089	2,062	184	(2,124,843)
Pupil Transportation	710,764	648	17,885	(692,231)
Central	98,724	194	-	(98,530)
Operation of Non-Instructional Services	1,130,047	438,381	605,694	(85,972)
Extracurricular Activities	700,265	228,960	-	(471,305)
Capital Outlay	333,791	-	-	(333,791)
Interest and Fiscal Charges	16,781	-	-	(16,781)
<i>Total Governmental Activities</i>	<u>\$ 22,328,320</u>	<u>\$ 757,268</u>	<u>\$ 1,780,278</u>	(19,790,774)
General Revenues:				
Property and Other Local Taxes				6,760,622
Income Taxes				1,456,120
Gain on Sale of Capital Assets				(6,955)
Grants and Entitlements not Restricted to Specific Progr				10,658,300
Gifts and Donations				137,688
Investment Earnings				32,780
Payments in Lieu of Taxes				(16,718)
Rent				16,112
Miscellaneous				96,970
Proceeds from Sale of Fixed Assets				<u>3,728</u>
<i>Total General Revenues</i>				<u>19,138,647</u>
<i>Change in Net Assets</i>				(652,127)
<i>Net Assets Beginning of Year - Note 3</i>				<u>10,576,818</u>
<i>Net Assets End of Year</i>				<u>\$ 9,924,691</u>

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

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
BALANCE SHEET -
GOVERNMENTAL FUNDS
JUNE 30, 2004

	<u>General Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:			
Equity in Pooled Cash and Cash Equivalents	\$ 2,022,348	\$ 932,502	\$ 2,954,850
Cash and Cash Equivalents with Fiscal Agent	-	206	206
Accounts Receivable	3,800	423	4,223
Accrued Interest Receivable	1,224	-	1,224
Intergovernmental Receivable	-	159,840	159,840
Income Taxes Receivable	592,472	-	592,472
Prepaid Items	23,858	-	23,858
Inventory Held for Resale	-	21,778	21,778
Property Taxes Receivable	6,767,617	-	6,767,617
Retricted Assets:			
Equity in Pooled Cash and Cash Equivalents	504,242	-	504,242
Advances to Other Funds	<u>68,000</u>	<u>-</u>	<u>68,000</u>
<i>Total Assets</i>	<u>\$ 9,983,561</u>	<u>\$ 1,114,749</u>	<u>\$ 11,098,310</u>
LIABILITIES:			
Accounts Payable	\$ 51,268	\$ 33,852	\$ 85,120
Accrued Wages and Benefits	1,609,559	155,379	1,764,938
Matured Compensated Absences Payable	104,372	7,968	112,340
Intergovernmental Payable	309,620	34,377	343,997
Deferred Revenue	6,115,437	-	6,115,437
Advances From Other Funds	<u>-</u>	<u>68,000</u>	<u>68,000</u>
<i>Total Liabilities</i>	<u>8,190,256</u>	<u>299,576</u>	<u>8,489,832</u>
FUND BALANCES:			
Reserved:			
Reserved for Encumbrances	69,211	69,197	138,408
Reserved for Inventory	-	21,778	21,778
Reserved for Prepaid Items	23,858	-	23,858
Reserved for Property Taxes	652,180	-	652,180
Reserved for Capital Improvements	504,242	-	504,242
Reserved for Advances	68,000	-	68,000
Unreserved, Undesignated, Reported in:			-
General Fund	475,814	-	475,814
Special Revenue Funds	-	347,772	347,772
Capital Projects Funds	<u>-</u>	<u>376,426</u>	<u>376,426</u>
<i>Total Fund Balances</i>	<u>1,793,305</u>	<u>815,173</u>	<u>2,608,478</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 9,983,561</u>	<u>\$ 1,114,749</u>	<u>\$ 11,098,310</u>

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

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET ASSETS
JUNE 30, 2004

Total Fund Balances - Governmental Funds		\$ 2,608,478
<i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Captial assets used in governmental activities are not financial resources and therefore are not reported in the funds		9,166,519
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds		128,544
Intergovernmental payable includes contractually required pension contributions not expected to be paid with available expendable resources and therefore not reported in the funds		(293,841)
Some liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Accrued Interest Payable	(4,927)	
Notes Payable	(446,250)	
Compensated Absences	(1,189,276)	
Capital Leases	(44,556)	
	(1,685,009)	(1,685,009)
<i>Net Assets of Governmental Activities</i>		<u><u>\$ 9,924,691</u></u>

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

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	General Fund	All Other Governmental Funds	Total Governmental Funds
REVENUES			
Property Taxes	\$ 6,701,442	\$ -	\$ 6,701,442
Income Taxes	1,549,041	-	1,549,041
Intergovernmental	10,549,168	1,889,410	12,438,578
Interest	37,505	1,492	38,997
Tuition and Fees	10,480	82,070	92,550
Extracurricular Activities	-	226,722	226,722
Rent	16,112	1,909	18,021
Customer Sales and Services	7,522	438,687	446,209
Gifts and Donations	-	137,688	137,688
Payments in Lieu of Taxes	-	(16,718)	(16,718)
Miscellaneous	<u>22,773</u>	<u>75,489</u>	<u>98,262</u>
<i>Total Revenues</i>	18,894,043	2,836,749	21,730,792
EXPENDITURES			
Current:			
Instruction:			
Regular	8,692,036	423,288	9,115,324
Special	1,966,191	506,392	2,472,583
Vocational	269,836	(14)	269,822
Other	1,136,995	-	1,136,995
Support Services:			
Pupils	923,174	16,207	939,381
Instructional Staff	601,113	183,519	784,632
Board of Education	252,999	-	252,999
Administration	1,795,863	46,202	1,842,065
Fiscal	426,137	-	426,137
Operation and Maintenance of Plant	1,999,867	468	2,000,335
Pupil Transportation	712,777	14,929	727,706
Central	212,529	-	212,529
Operation of Non-Instructional Services	-	1,088,332	1,088,332
Extracurricular Activities	374,489	276,490	650,979
Capital Outlay	300,387	33,404	333,791
Debt Service			
Principal	12,945	148,750	161,695
Interest	<u>3,519</u>	<u>14,037</u>	<u>17,556</u>
<i>Total Expenditures</i>	<u>19,680,857</u>	<u>2,752,004</u>	<u>22,432,861</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	(786,814)	84,745	(702,069)
OTHER FINANCING SOURCES AND USES			
Proceeds from Sale of Fixed Assets	3,728	-	3,728
Transfers In	-	162,787	162,787
Transfers Out	<u>(162,787)</u>	<u>-</u>	<u>(162,787)</u>
<i>Total Other Financing Sources and Uses</i>	<u>(159,059)</u>	<u>162,787</u>	<u>3,728</u>
<i>Net Change in Fund Balances</i>	(945,873)	247,532	(698,341)
<i>Fund Balance at Beginning of Year</i>	<u>2,739,178</u>	<u>567,641</u>	<u>3,306,819</u>
<i>Fund Balance at End of Year</i>	<u>\$ 1,793,305</u>	<u>\$ 815,173</u>	<u>\$ 2,608,478</u>

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

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Total Net Change in Fund Balances - Governmental Funds \$ (698,341)

Amounts reported for governmental activities in the statement of activities are different because

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	17,651
Governmental funds only report the disposal of fixed assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	(7,510)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(50,817)
Repayment of loan and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	162,470
Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represent contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	<u>(75,580)</u>
<i>Change in Net Assets of Governmental Activities</i>	<u><u>\$ (652,127)</u></u>

The accompanying notes are an integral part of these 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 FISCAL YEAR ENDED JUNE 30, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES:				
Property Taxes	\$ 6,479,464	\$ 6,479,464	\$ 6,519,262	\$ 39,798
Income Taxes	1,519,935	1,519,935	1,394,900	(125,035)
Intergovernmental	9,788,296	9,788,296	10,552,498	764,202
Investment Income	125,000	125,000	42,124	(82,876)
Tuition and Fees	8,290	8,290	8,940	650
Rentals	21,805	21,805	19,146	(2,659)
Charges for Services	23,246	23,246	10,463	(12,783)
Miscellaneous	<u>80,740</u>	<u>80,740</u>	<u>20,513</u>	<u>(60,227)</u>
Total Revenues	18,046,776	18,046,776	18,567,846	521,070
EXPENDITURES:				
Current:				
Instruction:				
Regular	9,358,914	8,969,048	8,604,598	364,450
Special	1,898,917	2,085,514	1,952,123	133,391
Vocational	279,842	280,630	276,684	3,946
Other	482,446	1,186,622	1,136,995	49,627
Support Services:				
Pupils	936,226	989,805	924,024	65,781
Instructional Staff	651,800	666,496	613,834	52,662
Board of Education	140,833	254,522	248,456	6,066
Administration	1,690,112	1,722,127	1,687,902	34,225
Fiscal	397,997	451,246	424,583	26,663
Operation and Maintenance of Plant	1,801,710	2,399,656	1,842,727	556,929
Pupil Transportation	651,456	723,382	707,583	15,799
Central	180,364	218,337	101,733	116,604
Extracurricular Activities	<u>398,864</u>	<u>402,317</u>	<u>368,172</u>	<u>34,145</u>
Total Expenditures	<u>18,869,481</u>	<u>20,349,702</u>	<u>18,889,414</u>	<u>1,460,288</u>
Excess of Revenues Over Expenditures	(822,705)	(2,302,926)	(321,568)	1,981,358
OTHER FINANCING SOURCES AND USES:				
Proceeds from Sale of Assets	5,000	5,000	3,728	(1,272)
Refund of Prior Year Expenditures	31,994	31,994	-	(31,994)
Advances In	-	-	7,000	7,000
Advances Out	(75,000)	(75,000)	-	75,000
Transfers Out	<u>(81,514)</u>	<u>(163,028)</u>	<u>(162,787)</u>	<u>241</u>
Total Other Financing Sources and Uses	<u>(119,520)</u>	<u>(201,034)</u>	<u>(152,059)</u>	<u>48,975</u>
Net Change in Fund Balances	(942,225)	(2,503,960)	(473,627)	2,030,333
Fund Balance at Beginning of Year	2,388,495	2,388,495	2,388,495	-
Prior Year Encumbrances Appropriated	<u>5,466</u>	<u>5,466</u>	<u>5,466</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ 1,451,736</u>	<u>\$ (109,999)</u>	<u>\$ 1,920,334</u>	<u>\$ 2,030,333</u>

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

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Private Purpose Trust
ADDITIONS	\$ -
DEDUCTIONS	
Payments in Accordance with Trust Agreements	450
Change in Net Assets	(450)
Net Assets at Beginning of Year	460
Net Assets at End of Year	\$ 10

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

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2004**

	Private Purpose Trust	Agency Fund
ASSETS		
Equity in Pooled Cash and Cash Equivalents	\$ 10	\$ <u>74,320</u>
LIABILITIES		
Due to Students	-	\$ 74,320
NET ASSETS		
Held in Trust for Scholarships	\$ 10	

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

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 1 - Description of the School District and Reporting Entity

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

The School District is the 196th largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by one hundred-fifteen classified employees, one hundred seventy-eight certified teaching personnel, and sixteen administrative employees who provide services to 2,985 students and other community members. The School District currently operates seven instructional/support buildings.

Reporting Entity

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

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

The School District's reporting entity includes the following:

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

The School District participates in six jointly governed organizations and two insurance pools. These organizations are the Northwest Ohio Computer Association, the Northern Buckeye Education Council, the Four County Career Center, the Northwestern Ohio Educational Research Council, Inc., the Northwest Ohio Special Education Regional Resource Center, the Northwest Ohio Regional Professional Development Center, the Northern Buckeye Education Council Employee Insurance Benefits Program, and the Northern Buckeye Education Council Workers' Compensation Group Rating Plan. These organizations are presented in Notes 18 and 19 to the basic financial statements.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

B. Fund Accounting

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

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Governmental Funds

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

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

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

Fiduciary Funds

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

C. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions

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

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

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

Deferred Revenues

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

Property taxes for which there was an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, are recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

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

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

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

E. Budgetary Process

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

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

The appropriation resolution is subject to amendment throughout the fiscal year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

F. Cash and Investments

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

Cash and cash equivalents held for the School District by the Northwest Ohio Educational Service Center is reflected as "Cash and Cash Equivalents with Fiscal Agent".

During fiscal year 2004, investments included nonnegotiable certificates of deposit and STAR Ohio. Nonnegotiable certificates of deposit are reported at cost. 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, 2004.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2004 was \$37,505, which includes \$10,181 assigned from other School District funds.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Inventory

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

I. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by enabling legislation. Restricted assets in the General Fund represent amounts required by State statute to be set aside for the acquisition and construction of capital improvements.

J. Capital Assets

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

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

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

<u>Description</u>	<u>Useful Lives</u>
Land Improvements	10 - 50 years
Buildings and Building Improvements	10 - 118 years
Furniture, Fixtures, and Equipment	4 - 40 years
Vehicles	8 - 15 years

K. Interfund Assets/Liabilities

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

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

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

L. Compensated Absences

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

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

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

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

M. Accrued Liabilities and Long-Term Obligations

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

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

N. Net Assets

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

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

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O. Fund Balance Reserves

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

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

P. Interfund Transactions

Transfers within governmental activities are eliminated on the government-wide financial statements.

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

Q. Extraordinary and Special Items

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

R. Estimates

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

Note 3 - Accountability and Compliance

A. Accountability

At June 30, 2004, the Food Service, Uniform Supplies, School Net Plus, Eisenhower Grant and Improving Teacher Quality special revenue funds had deficit fund balances, in the amount of \$53,717, \$14,721, \$1, \$404 and \$22,994, respectively, resulting from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit fund balances; however, this is done when cash is needed rather than when the accruals occur.

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B. Compliance

The following funds had appropriations in excess of estimated resources plus available balances for the fiscal year ended June 30, 2004.

<u>Fund Type/Fund</u>	<u>Estimated Resources Plus Available Balances</u>	<u>Appropriations</u>	<u>Excess</u>
Special Revenue Funds			
Auxiliary Services Fund	\$ 300,111	\$ 472,878	\$ 172,767
Summer School Subsidy	10,000	51,187	41,187
Alternative Educ. Challenge	29,109	44,083	14,974
Part B-IDEA	418,674	527,030	108,356
Title I	451,732	487,048	35,316
Title V	19,621	30,527	10,906
Title II-A	177,546	234,024	56,478
Uniform School Supplies	130,205	190,933	60,728
Capital Projects Funds			
School Net Plus	5,434	88,550	83,116

The Board of Education is monitoring budgetary controls to avoid future violations of budgetary compliance.

Note 4 - Budgetary Basis of Accounting

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

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

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

Net Change in Fund Balance	
GAAP Basis	\$ (945,873)
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2003, Received in Cash FY 2004	929,768
Accrued FY 2004, Not Yet Received in Cash	(690,360)
Expenditure Accruals:	
Accrued FY 2003, Paid in Cash FY 2004	(1,748,912)
Accrued FY 2004, Not Yet Paid in Cash	2,074,819
Prepaid Items	(23,858)
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(69,211)
Budget Basis	<u>\$ (473,627)</u>

Note 5 - Deposits and Investments

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies 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.

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

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;

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

Investments may only be made through specified dealers and institutions. Payment on 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.

At fiscal year end, the School District had \$206 in cash and cash equivalents held by the Northwest Ohio Educational Service Center, which is presented as "Cash and Cash Equivalents with Fiscal Agent". The Educational Service Center holds this flow through grant money for the School District together with that of other school districts, and therefore, the School District cannot classify this money by risk under GASB Statement No. 3.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

At fiscal year end, the carrying amount of the School District's deposits was \$3,375,789, which includes \$3,930 cash on hand, and the bank balances totaled \$4,042,421. Of the bank balances, \$200,000 was covered by federal depository insurance and \$3,842,421 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

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The School District's investments are categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The School District's investment in STAR Ohio is unclassified since it is not evidenced by securities that exist in physical or book entry form. At June 30, 2004, the fair value of funds on deposit with STAR Ohio was \$157,633.

The classification of cash and cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting". A reconciliation between the classification of cash and cash equivalents and investments on the financial statements and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No.9	\$ 3,537,558	\$ -
Cash on Hand	(3,930)	-
Cash and Cash Equivalents with Educational Service Center	(206)	-
Investments:		
STAR Ohio	(157,633)	157,633
GASB Statement No.3	\$ 3,375,789	\$ 157,633

Note 6 - Receivables

Receivables at June 30, 2004, consisted of accounts (student fees and billings for user charged services), accrued interest, intergovernmental, income taxes, and property taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	Amounts
Governmental Activities	
Other Governmental Funds	
Food Service	\$ 22,263
Special Education, Part B-IDEA	104,465
Title I	27,231
Innovative Programs, Title V	5,881
Total Intergovernmental Receivables	\$ 159,840

Note 7 - Income Taxes

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

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Note 8 - Property Taxes

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property taxes received in calendar year 2004 represent the collection of calendar year 2002 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed values as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2004 represent the collection of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien on December 31, 2003, was levied after April 1, 2003, and is collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2004 (other than public utility property) represent the collection of calendar year 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 24 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Defiance and Paulding Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2004, and for which there was an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reflected as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2004, was \$652,180 in the General Fund. The amount available as an advance at June 30, 2003, was \$470,000 in the General Fund.

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

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The assessed values upon which fiscal year 2004 taxes were collected are:

	2003 Second-Half Collections		2004 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$162,766,300	68.73%	\$164,124,770	69.58%
Industrial/Commercial	33,514,910	14.15%	33,986,320	14.41%
Public Utility	10,772,370	4.55%	11,168,310	4.74%
Tangible Personal Property	29,758,340	12.57%	26,592,934	11.27%
Total Assessed Value	<u>\$236,811,920</u>	<u>100.00%</u>	<u>\$235,872,334</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$ 44.30		\$ 44.30	

Note 9 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Balance at 6/30/03	Additions	Reductions	Balance at 6/30/04
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$ 1,004,940	\$ -	\$ -	\$ 1,004,940
Total Nondepreciable Capital Assets	1,004,940	-	-	1,004,940
Depreciable Capital Assets				
Land Improvements	1,556,035	-	-	1,556,035
Buildings and Building Improvements	8,141,337	216,742	-	8,358,079
Furniture, Fixtures, and Equipment	3,707,877	251,967	(19,988)	3,939,856
Vehicles	1,328,220	123,957	(86,711)	1,365,466
Total Depreciable Capital Assets	14,733,469	592,666	(106,699)	15,219,436
Less Accumulated Depreciation				
Land Improvements	(366,754)	(67,506)	-	(434,260)
Buildings and Building Improvements	(3,360,892)	(138,690)	-	(3,499,582)
Furniture, Fixtures, and Equipment	(2,103,691)	(255,447)	16,310	(2,342,828)
Vehicles	(750,694)	(113,372)	82,879	(781,187)
Total Accumulated Depreciation	(6,582,031)	(575,015)	99,189	(7,057,857)
Depreciable Capital Assets, Net	8,151,438	17,651	(7,510)	8,161,579
Governmental Activities Capital Assets, Net	<u>\$ 9,156,378</u>	<u>\$ 17,651</u>	<u>\$ (7,510)</u>	<u>\$ 9,166,519</u>

Depreciation expense was charged to governmental functions as follows:

	Amounts
Instruction:	
Regular	\$ 86,393
Special	10,031
Vocational	3,817
Support Services:	
Pupils	1,892
Instructional Staff	27,377
Board of Education	32
Administration	23,750
Fiscal	1,825
Operation and Maintenance of Plant	170,019
Pupil Transportation	101,709
Central	32,315
Non-Instructional Services	17,102
Extracurricular Activities	98,753
Total Depreciation Expense	<u>\$ 575,015</u>

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Note 10 - Interfund Assets/Liabilities

At June 30, 2003, the General Fund had an interfund receivable and other governmental funds had an interfund payable, in the amount of \$75,000, resulting from short-term loans made to other governmental funds. At June 30, 2004, this remaining balance has been reclassified as Advances to Other Funds due to the length of time needed for repayment.

	June 30, 2004		June 30, 2003	
	Interfund Receivable	Interfund Payable	Interfund Receivable	Interfund Payable
General	\$ -	\$ -	\$ 75,000	\$ -
Other Governmental:				
Food Service	-	-	-	40,000
Athletics	-	-	-	35,000
	-	-	-	75,000
Totals	\$ -	\$ -	\$ 75,000	\$ 75,000
	Advance To Other Funds	Advance From Other Funds	Advance To Other Funds	Advance From Other Funds
General	\$ 68,000	\$ -	\$ -	\$ -
Other Governmental:				
Food Service	-	40,000	-	-
Athletics	-	28,000	-	-
	-	68,000	-	-
Totals	\$ 68,000	\$ 68,000	\$ -	\$ -

Note 11 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School District contracted for the following insurance coverage.

Indiana Insurance Company:	
General Liability	
Per Occurrence	\$ 1,000,000
Total per Year	2,000,000
Umbrella Liability	
Per Occurrence	4,000,000
Total per Year	4,000,000
Building and contents	59,588,753
Cincinnati Insurance:	
Boiler Insurance	25,000,000
Auto Owners Insurance Company:	
Each Accident	1,000,000

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

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

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

Note 12 - Defined Benefit Pension Plans

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

All certified employees of the District are eligible to participate in the State Teachers Retirement System of Ohio, a cost-sharing, multiple-employer public employee retirement system.

The STRS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and survivor benefits based on eligible service credit to plan members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. The STRS of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the STRS of Ohio. Interested parties may obtain a copy by making a written request to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio 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. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

The Ohio Revised Code provides statutory authority for the School District and employee contributions of 14% and 10%, respectively. The contribution requirements of plan members and the School District are established and may be amended by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. At June 30, 2004, 13% was allocated to fund the pension benefit and 1% to fund health care. The District's contributions to the STRS of Ohio for the fiscal years ending June 30, 2004, 2003, and 2002 were \$947,704, \$1,173,614, and \$971,165, respectively: 51 percent being paid in 2004 and 100 percent has been contributed for the years ended 2003 and 2002.

STRS provides postemployment health care benefits to retirees and their dependents. Coverage includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Ohio Revised Code, the State Teachers Retirement Board has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. Benefits are funded on a pay-as-you-go basis through an allocation of employer contributions to a Health Care Reserve Fund. For the fiscal year ended June 30, 2004, the board-allocated employer contributions are equal to 1% of covered payroll to the Health Care Reserve Fund, which amounted to \$81,484 for the School District. The balance in the Health Care Reserve Fund was \$3.1 billion on June 30, 2004. For the fiscal year ended June 30, 2004, the net health care costs paid by STRS Ohio were \$268,739,000. There were 111,853 eligible benefit recipients.

B. School Employees Retirement System of Ohio (SERS of Ohio)

All non-certified employees of the School District, with minor exceptions, performing duties that do not require a certificate issued by the Ohio Department of Education are eligible to participate in the School Employees Retirement System of Ohio, a cost-sharing multiple-employer public employee retirement system. The SERS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. The School Employees Retirement System issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. Interested parties may obtain a copy by making a written request to SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

The Ohio Revised Code provides statutory authority for the School District and employee contributions of 14% and 10% respectively. The contribution rates are determined actuarially, and are established and may be amended, up to statutory amounts, by the School Employees Retirement Board (Retirement Board) within the rates allowed by State statute. The required employer contribution rate is allocated to basic retirement benefits and health care by the Retirement Board. At June 30, 2004, 9.09% was allocated to fund the pension benefit and 4.91% to fund health care. The District's required contributions to the SERS of Ohio for the years ending June 30, 2004, 2003, and 2002 were \$108,432, \$169,290, and \$113,108, respectively: 96 percent has been paid for the year ended 2004 and 100 percent has been paid for 2003 and 2002.

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The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

At June 30, 2004, the healthcare allocation is 4.91%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between minimum pay and the member's pay, prorated for partial service credit. For fiscal year 2004, the minimum pay has been established as \$25,400. The amount contributed to fund health care benefits, including the surcharge, amounted to \$222,844 for fiscal year 2004.

Health care benefits are financed on a pay-as-you-go basis. The number of retirees and covered dependents currently receiving benefits is approximately 62,000. The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits was \$300.8 million.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2004, none of the Board of Education members have elected Social Security.

Note 13 - Other Employee Benefits

A. Compensated Absences

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

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

B. Health Care Benefits

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

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 14 - Long-Term Obligations

Changes in the School District's long-term obligations during fiscal year 2004 were as follows:

	Interest Rate	Balance at 6/30/03	Additions	Reductions	Balance at 6/30/04	Amounts due within One year
Energy Conservation loan	2.65%	\$ 595,000	\$ -	\$ 148,750	\$ 446,250	\$ 148,750
Compensated absences payable		1,248,931	18,229	77,884	1,189,276	44,343
Capital leases payable		57,501	-	12,945	44,556	13,855
Total Governmental Activities long-term obligations		<u>\$1,901,432</u>	<u>\$ 18,229</u>	<u>\$ 239,579</u>	<u>\$1,680,082</u>	<u>\$ 206,948</u>

Energy Conservation Loan - On February 18, 2003, the School District obtained a loan, in the amount of \$595,000, with an interest rate of 2.65 percent. The loan will mature in fiscal year 2007. The loan is being retired from the Bond Retirement debt service fund.

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

At June 30, 2004, the School District's overall legal debt margin was \$21,228,510 with an unvoted legal debt margin of \$235,872.

Principal and interest requirements to retire the energy conservation loan outstanding at June 30, 2004, were as follows.

Fiscal Year Ending June 30,	Principal	Interest	Total
2005	\$ 148,750	\$ 10,840	\$ 159,590
2006	148,750	6,898	155,648
2007	148,750	2,957	151,707
	<u>\$ 446,250</u>	<u>\$ 20,695</u>	<u>\$ 466,945</u>

Note 15 - Capital Leases - Lessee Disclosure

The School District has entered into a capitalized lease for equipment. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures on the statement of revenues, expenditures, and changes in fund balances for the governmental funds. Principal payments in 2004 were \$12,945.

	Governmental Activities
Property under Capital Lease	\$ 69,595
Less Accumulated Depreciation	(26,680)
Total June 30, 2004	<u>\$ 42,915</u>

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2004.

Fiscal Year Ending June 30,	Principal	Interest	Total
2005	\$ 13,855	\$ 2,609	\$ 16,464
2006	14,829	1,635	16,464
2007	15,872	592	16,464
	<u>\$ 44,556</u>	<u>\$ 4,836</u>	<u>\$ 49,392</u>

Note 16 - Set Asides

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

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2004.

	Textbooks	Capital Improvements
Balance June 30, 2003	\$ -	\$ 501,820
Current Year Set Aside Requirement	349,127	349,127
Qualifying Expenditures	(700,628)	(346,705)
Excess Qualifying Expenditures from FY 03	(357,457)	-
Balance June 30, 2004	<u>\$ (708,958)</u>	<u>\$ 504,242</u>
Amount Carried Forward to Fiscal Year 2005	<u>\$ -</u>	<u>\$ 504,242</u>

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

Note 17 - Interfund Transfers

During fiscal year 2004, the General Fund made transfers to other governmental funds, in the amount of \$162,787, to move receipts to the debt service fund as debt payments came due.

Note 18 - Jointly Governed Organizations

A. Northwest Ohio Computer Association

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

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

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 2004, the School District paid \$269,281 to NWOCA for various services. Financial information can be obtained from Cindy Siler, who serves as Treasurer, 22-900 State Route 34, Archbold, Ohio 43502.

B. Northern Buckeye Education Council

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

C. Four County Career Center

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

D. Northwestern Ohio Educational Research Council, Inc.

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials, and provide opportunities for training. The NOERC serves a twenty-five county area in Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., Box 456, Ashland, Ohio 44805.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

E. Northwest Ohio Special Education Regional Resource Center

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

F. Northwest Ohio Regional Professional Development Center

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

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

Note 19 - Insurance Pools

A. Northern Buckeye Education Council Employee Insurance Benefits Program

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

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

The School District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Northern Buckeye Education Council Workers' Compensation Group Rating Plan (Plan) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool. The Plan is governed by the Northern Buckeye Education Council and the participants of the Plan. The Executive Director of the NBEC coordinates the management and administration of the Plan. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

Note 20 - State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

Note 21 - Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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 School District at June 30, 2004.

B. Litigation

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

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Fiscal Year Ended June 30, 2004
(Non-GAAP Basis)

Federal Grantor/Pass Through Grantor Program Title	Project Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education</i>						
Nutrition Cluster:						
National School Lunch Program	043869-LL-P4	10.555	\$ 180,784	\$ -	\$ 180,784	\$ -
Special Milk Program for Children	043869-LL-P4	10.556	3,025	-	3,025	-
School Breakfast Program	043869-05-PU	10.553	19,430	-	19,430	-
Food Distribution Program	N/A	10.550	-	77,379	-	73,458
Total Department of Agriculture and Nutrition Cluster			203,239	77,379	203,239	73,458
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities</i>						
Medical Assistance Plan (Medicaid: Title XIX)	N/A	93.778	41,972	-	41,972	-
Total Department of Health and Human Services			41,972	-	41,972	-
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education</i>						
Special Education Cluster:						
Special Education, Part B-IDEA	043869-6B-SF	84.027	362,172	-	363,117	-
Total Special Education Cluster			362,172	-	363,117	-
Grants to Local Educational Agencies						
(ESEA Title I)	043869-CI-SI	84.010	528,737	-	433,356	-
Eisenhower Grant	043869-MS-SI	84.281	-	-	404	-
Innovative Educational Program						
Strategies (Title V)	043869-C2-S1	84.298	15,588	-	16,438	-
Title II-D Education Technology	043869-TJ-S1	84.318	12,175	-	6,901	-
ATIP Grants	043869-T4-S1	84.184C	598	-	2,709	-
Improving Teacher Quality (Title II-A)	043869-TR-S1	84.367	184,672	-	184,672	-
Safe and Drug-Free Schools (Title IV-A)	043869-DR-S1	84.186	19,425	-	10,558	-
Total Department of Education			1,123,367	-	1,018,155	-
TOTAL FEDERAL ASSISTANCE			\$ 1,368,578	\$ 77,379	\$ 1,263,366	\$ 73,458

DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2004

Note 1 - Significant Accounting Policies

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

Note 2 - Food Distribution

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. Monies are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2004, the District had \$21,778 of food commodities in inventory.

STEYER & CO.

Certified Public Accountants

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

REPORT ON INTERNAL CONTROL AND ON COMPLIANCE OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Education
Defiance City School District
Defiance, Ohio

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Defiance City School District, as of and for the year ended June 30, 2004, and have issued our report thereon dated January 12, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 2004-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

Compliance

As part of obtaining reasonable assurance about whether Defiance City School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2004-2 through 2004-10.

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

A handwritten signature in black ink that reads "Steyer & Co." The signature is written in a cursive, flowing style.

STEYER & CO.

Defiance, Ohio
January 12, 2005

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

Board of Education
Defiance City School District
Defiance, Ohio

Compliance

We have audited the compliance of the Defiance City School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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


In our opinion, Defiance City School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

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

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

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

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

STEYER & CO.

Defiance, Ohio
January 12, 2005

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____yes X no

Reportable condition(s) identified
not considered to be material weaknesses? X yes _____no

Noncompliance material to financial statements
noted? X yes _____no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____yes X no

Reportable condition(s) identified
not considered to be material weaknesses? _____yes X no

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

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027	Special Education, Part B-IDEA

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

Auditee qualified as a low-risk auditee? X yes _____no

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Section II - Financial Statement Findings

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

REPORTABLE CONDITIONS

Finding 2004-1 – Reportable Condition

During the course of our audit we determined that two new buses purchased during the fiscal year from the general fund were not included on the fixed asset system, and that two older buses that had been traded-in were still included on the fixed asset depreciation system. During additional testing we also noted that a Ricoh, System 2168 Copier was still on the asset listing, although it had also been traded-in. The effects of these conditions were that net depreciable capital assets and depreciation were understated. It is recommended that employees properly update the physical inventory and depreciation records annually to insure assets are added and deleted as required.

Finding 2004-2 – Non-Compliance Citation

Ohio Rev. Code §102.03(D) and (E), §2921.42(A), and §2921.43(A) in summary, state that employees and officials can be reimbursed for travel related to official business, training, etc. It follows therefore, that there should be adequate supporting documentation filed to determine if the request is for a valid and reasonable travel purpose.

During the testing of travel reimbursements for the fiscal year ended June 30, 2004, there were an instances where adequate supporting documentation was not available. In one instance, the reimbursement check was paid for \$36 more than the supporting documentation indicated.

The Treasurer should ensure that all checks are filed immediately in numeric order. Also, all receipts and supporting documentation should be secured to the copies of the checks so adequate detail is available to support the reimbursement.

Finding 2004-3 – Non-Compliance Citation

Ohio Rev. Code §3313.172 permits the Board of Education to lease or purchase one or more motor vehicles, provided that the motor vehicle is used solely for school purposes. If a school official is “on call” at anytime, usage for this purpose may be considered to be for school purposes. Any personal usage by those officials still should be documented and might be subject to “fringe benefit” tax considerations.

As of June 30, 2004, the school does not keep mileage logs or personal usage reports on any school vehicles. Employees should be informed of the restrictions on personal usage of school property.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Finding 2004-4 – Non-Compliance Citation

Ohio Rev. Code §9.38 states if the amount of public money to be deposited does not exceed \$1,000 and the receipts can be safeguarded, the Board of Education may adopt a policy permitting their Treasurer who receives this money to hold it past the next business day, but the deposit must be made no later than 3 business days after receiving it. If the amount of money exceeds \$1,000 or a lesser amount cannot be safeguarded, the Treasurer must then deposit the money on the next business day.

During the fiscal year ended June 30, 2004, the school had instances where amounts less than \$1,000 were received, but were not deposited within 3 business days. The school also had instances where amounts that exceeded \$1,000 were not deposited by the next business day:

<u>Description</u>	<u>Amount</u>	<u>Date Received</u>	<u>Date Deposited</u>
Cafeteria	102	11/6/2003	11/12/2003
Personal Property Taxes	69	11/6/2003	5/6/2004
Personal Property Taxes	37,119	12/29/2003	1/27/2004
Real Estate Taxes	11,308	2/27/2004	3/26/2004
Total	<u>48,598</u>		

The Treasurer needs to deposit all money received by the following business day, or within the following 3 business days, depending on the individual required circumstances.

Finding 2004-5 – Non-Compliance Citation

Ohio Rev. Code §5705.41 (B) provides that money should not be expended unless it has been appropriated.

During the fiscal year ended June 30, 2004, the school had instances where expenditures were in excess of appropriations at the legal level of control:

<u>Fund</u>	<u>Number of instances</u>
General	133
Special Revenue	311
Capital Projects	9
Private Purpose Trust	9
Agency	59
Total Instances	<u>521</u>

The treasurer should compare all requisitions to available appropriations and to available cash balances. No expenditure should be made until appropriations have been modified in compliance with the requirements of the Ohio Revised Code.

Finding 2004-6 – Non-Compliance Citation

Ohio Rev. Code §5705.36 requires in part that an amended certificate of available resources be obtained when a deficiency of revenue reduces available resources below the current level of appropriations.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

At June 30, 2004, the following funds had actual receipts below the amount certified as available by the budget commission and below the amount of appropriations:

	<u>Actual Receipts</u>	<u>Estimated Receipts</u>	<u>Variances</u>
Debt Service	-	711,944	711,944
Principal	63,012	84,031	21,019
Education Innovation Grant	-	2,130	2,130
Athletic	305,101	450,714	145,613
Auxiliary Services	229,557	300,538	70,981
Management Information Systems	7,068	9,517	2,449
ONenet Program	21,000	24,500	3,500
SchoolNet Professional Development	4,140	6,487	2,347
Textbook Subsidy	-	7,574	7,574
Ohio Reads	29,000	58,246	29,246
Safe Schools Help Line	2,700	15,059	12,359
Eisenhower Grant	-	3,482	3,482
Special Education, Part B-IDEA	362,172	425,739	63,567
Title VI	15,588	22,955	7,367
Safe and Drug Free Schools	19,425	20,783	1,358
Improving Teacher Quality	184,672	188,913	4,241
ATIP Grant	12,773	39,570	26,797
Permanent Improvements	60,376	117,732	57,356
Food Service	667,769	751,593	83,824
Uniform School Supplies	87,600	152,662	65,062
District Agency	3,389	6,133	2,744
Student Managed Activities	54,501	74,063	19,562

The treasurer should monitor appropriations and actual receipts throughout the fiscal year and obtain an amended certificate as needed for compliance with the requirements of the Ohio Revised Code.

Finding 2004-7 – Non-Compliance Citation

Ohio Rev. Code §5705.39 requires in part that the total appropriations from each fund shall not exceed the total of the estimated revenue available for expenditure there from, as certified by the budget commission.

At June 30, 2004, the following funds had appropriations in excess of the amount certified as available by the budget commission:

<u>Fund Type/Fund</u>	<u>Estimated Resources Plus Available Balances</u>	<u>Appropriations</u>	<u>Excess</u>
Special Revenue Funds			
Auxiliary Services Fund	\$ 300,111	\$ 472,878	\$ 172,767
Summer School Subsidy	10,000	51,187	41,187
Alternative Educ. Challenge	29,109	44,083	14,974
Part B-IDEA	418,674	527,030	108,356
Title I	451,732	487,048	35,316
Title V	19,621	30,527	10,906
Title II-A	177,546	234,024	56,478
Uniform School Supplies	130,205	190,933	60,728
Capital Projects Funds			
School Net Plus	5,434	88,550	83,116

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

The Treasurer should monitor appropriations and estimated revenue throughout the fiscal year and obtain an amended certificate as needed for compliance with the Ohio Revised Code.

Finding 2004-8 – Non-Compliance Citation

Ohio Rev. Code §5705.41(C) requires that all money expended must have a proper warrant drawn against an appropriate fund.

During the expenditure testing it was noted that one instance occurred where a check for \$107 was charged to an incorrect function.

The Treasurer should periodically review the automatic vendor coding so that similar coding errors are not repeated.

Finding 2004-9 – Non-Compliance Citation

Ohio Rev. Code §5705.41(D) requires proper certification and encumbrance of funds prior to the expenditure.

During the expenditure there were several instances of improper certification and encumbrance:

<u>Description</u>	<u>Number of instances</u>
Improper Encumbrance	4
Check Date before Invoice Date	1
Purchase Order Date before Requisition Date	1
Check Date before Purchase Order Date	1
Total Instances	<u>7</u>

The Treasurer should verify that the purchase orders cover all expenditures. Then and Now Certificates should be used when needed. Requisitions need to be prepared and dated prior to purchase orders, invoices and checks.

Finding 2004-10 – Non-Compliance Citation

Ohio Rev. Code §117.38 requires the school to publish a notice in the local newspaper stating that the financial report is available for public inspection at the Treasurer’s office.

The annual notice concerning fiscal year June 30, 2003, was never published in the newspaper during fiscal year 2004.

The Treasurer needs to file this notice as soon as the financial statements are complete to properly inform the public of their right to review public documents.

Section III - Federal Award Findings and Questioned Costs

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

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004**

Finding Number	Finding Summary	Fully Corrected?	Action Taken
2003-1	Title I reclassification	Yes	No similar condition observed in fiscal year June 30, 2004.
2003-2	Missing Athletic Fund Tickets	Yes	No similar condition observed in fiscal year June 30, 2004.
2003-3	Use of School District federal identification number	Yes	No similar condition observed in fiscal year June 30, 2004.
2003-4	Timely reconciliation of Athletic Department Cash Accounts	Yes	Monthly reconciliations were prepared on all Athletic Department Cash Accounts.
2003-5	Ohio Rev. Code §5705.41(B), expenditures exceeding appropriations	No	Not corrected. Citation reissued as Finding 2004-5.
2003-6	Ohio Rev. Code §5705.36, estimated receipts exceeding actual receipts	No	Not corrected. Citation reissued as Finding 2004-6.
2003-7	Ohio Rev. Code §5705.39, appropriations exceeding estimated resources	No	Not corrected. Citation reissued as Finding 2004-7.

**DEFIANCE CITY SCHOOL DISTRICT
DEFIANCE COUNTY**

**CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2004**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2004-1	The Treasurer will monitor the situation and take appropriate corrective action	June 30, 2005	Christopher S. Lee
2004-2	The Treasurer will monitor the situation and take appropriate corrective action	June 30, 2005	Christopher S. Lee
2004-3	The Treasurer will monitor the situation and take appropriate corrective action	June 30, 2005	Christopher S. Lee
2004-4	The Treasurer will monitor the situation and take appropriate corrective action	June 30, 2005	Christopher S. Lee
2004-5	The Treasurer will monitor the situation and take appropriate corrective action	June 30, 2005	Christopher S. Lee
2004-6	The Treasurer will monitor the situation and take appropriate corrective action	June 30, 2005	Christopher S. Lee
2004-7	The Treasurer will monitor the situation and take appropriate corrective action	June 30, 2005	Christopher S. Lee
2004-8	The Treasurer will monitor the situation and take appropriate corrective action	June 30, 2005	Christopher S. Lee
2004-9	The Treasurer will monitor the situation and take appropriate corrective action	June 30, 2005	Christopher S. Lee
2004-10	The Treasurer will monitor the situation and take appropriate corrective action	June 30, 2005	Christopher S. Lee



**Auditor of State
Betty Montgomery**

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DEFIANCE CITY SCHOOL DISTRICT

DEFIANCE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 15, 2005**