

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

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

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2019***



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The Board of Education
Defiance City School District
801 South Clinton Street
Defiance, Ohio 43512

We have reviewed the *Independent Auditor's Report* of the Defiance City School District, Defiance County, prepared by Julian & Grube, Inc., for the audit period from July 1, 2018 through June 30, 2019. 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

Keith Faber
Auditor of State
Columbus, Ohio

February 6, 2020

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

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Julian & Grube, Inc.

Serving Ohio Local Governments

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Independent Auditor's Report

Defiance City School District
Defiance County
801 South Clinton Street
Defiance, Ohio 43512

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying modified cash-basis financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Defiance City School District, Defiance County, Ohio, as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Defiance City School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Defiance City School District, Defiance County, Ohio, as of June 30, 2019, and the respective changes in modified cash financial position and the budgetary comparison for the General Fund thereof for the fiscal year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

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

Other Matters

Supplementary Information

Our audit was conducted to opine on the financial statements taken as a whole.

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

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

Other Information

We applied no procedures to management's discussion & analysis as listed in the table of contents. Accordingly, we express no opinion or any other assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2019, on our consideration of the Defiance City School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Defiance City School District's internal control over financial reporting and compliance.



Julian & Grube, Inc.
December 3, 2019

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

The management's discussion and analysis of the Defiance City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2019, within the limitations of the District's modified cash basis of accounting. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the modified cash-basis financial statements and the notes to the financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2019 are as follows:

- The total net cash position of the District decreased \$2,703,036 or 14.17% from fiscal year 2018.
- General cash receipts accounted for \$27,260,149 or 79.44% of total governmental activities cash receipts. Program specific cash receipts accounted for \$7,054,452 or 20.56% of total governmental activities cash receipts of \$34,314,601.
- The District had \$37,017,637 in cash disbursements related to governmental activities; \$7,054,452 of these cash disbursements were offset by program specific charges for services, grants or contributions. General revenues of \$27,260,149 were not sufficient to cover the remaining cash disbursements.
- The District's major fund is the general fund. The general fund had \$29,454,305 in cash receipts and other financing sources and \$29,649,498 in cash disbursements. The general fund's fund cash balance decreased \$195,193 from a fund cash balance of \$12,300,548 in June 30, 2018 to a fund cash balance of \$12,105,355 at June 30, 2019.

Using this Annual Report

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the District's cash basis of accounting.

The Statement of Net Position – Modified Cash Basis and Statement of Activities – Modified Cash Basis provide information about the activities of the whole District, presenting an aggregate view of the District's cash basis finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, there is only one major governmental fund, the general fund.

Reporting the District as a Whole

Statement of Net Position – Modified Cash Basis and the Statement of Activities – Modified Cash Basis

The Statement of Net Position – Modified Cash Basis and Statement of Activities – Modified Cash Basis answer the question, "How did we do financially during 2019?" These statements include *only net position* using the *modified cash basis of accounting*, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year's receipts and disbursements if the cash is actually received or paid.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

These two statements report the District's net cash position and changes in those assets on a modified cash basis. This change in net position is important because it tells the reader that, for the District as a whole, the modified cash basis financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, mandated federal and state programs and other factors.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not collected) and liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

In the Statement of Net Position – Modified Cash Basis and Statement of Activities – Modified Cash Basis the governmental activities include District's programs and services including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The Statement of Net Position – Modified Cash Basis and Statement of Activities – Modified Cash Basis can be found on pages 13-14 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental fund is the general fund. The analysis of the District's major governmental fund begins on page 9.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The governmental fund statements provide a detailed view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer cash basis financial resources that can be readily spent to finance various District programs. The governmental fund statements can be found on pages 15-17 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

The District's only fiduciary funds are a private-purpose trust fund and agency funds. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position - Modified Cash Basis and Statement of Changes in Fiduciary Net Position - Modified Cash Basis which are reported on pages 18-19. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Financial Statements

The notes provide additional information that is essential to full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21-57 of this report.

Government-Wide Financial Analysis

Recall that the Statement of Net Position – Modified Cash Basis provides the perspective of the District as a whole. The table below provides a summary of the District's net cash position at June 30, 2019 and June 30, 2018.

| | Net Position - Modified Cash Basis | |
|---------------------------------------|---|------------------------------------|
| | Governmental Activities 2019 | Governmental Activities 2018 |
| | <u>2019</u> | <u>2018</u> |
| <u>Assets</u> | | |
| Equity in pooled cash and investments | \$ 16,368,728 | \$ 19,071,764 |
| Total assets | <u>16,368,728</u> | <u>19,071,764</u> |
| <u>Net Position</u> | | |
| Restricted | 3,247,041 | 4,774,034 |
| Unrestricted | <u>13,121,687</u> | <u>14,297,730</u> |
| Total net position | <u>\$ 16,368,728</u> | <u>\$ 19,071,764</u> |

The total net position of the District decreased \$2,703,036 which represents a 14.17% decrease from fiscal year 2018. A portion of the District's net position, \$3,247,041, represents resources that are subject to external restrictions on how they may be used. The remaining balance of government-wide unrestricted net position of \$13,121,687 may be used to meet the government's ongoing obligations to citizens and creditors.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

The table below shows the changes in net position on the modified cash basis for fiscal year 2019 and 2018.

Change in Net Position - Modified Cash Basis

| | Governmental Activities 2019 | Governmental Activities 2018 |
|--|------------------------------------|------------------------------------|
| | <u>2019</u> | <u>2018</u> |
| Receipts: | | |
| Program receipts: | | |
| Charges for services and sales | \$ 2,679,116 | \$ 2,591,613 |
| Operating grants, contributions and interest | 4,339,194 | 2,869,143 |
| Capital grants, contributions and interest | <u>36,142</u> | <u>13,617</u> |
| Total program receipts | <u>7,054,452</u> | <u>5,474,373</u> |
| General receipts: | | |
| Property taxes | 7,607,667 | 7,491,146 |
| Income taxes | 1,911,754 | 1,837,974 |
| Grants and entitlements not restricted | | |
| to specific programs | 17,190,405 | 22,156,487 |
| Receipts from sale of capital assets | 3,045 | 84,914 |
| Receipts in lieu of taxes | 120,929 | - |
| Gifts and donations | - | 88,769 |
| Investment earnings | 403,310 | 282,436 |
| Insurance recoveries | - | 126,614 |
| Miscellaneous | <u>23,039</u> | <u>213,073</u> |
| Total general receipts | <u>27,260,149</u> | <u>32,281,413</u> |
| Total receipts | <u>34,314,601</u> | <u>37,755,786</u> |

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Change in Net Position - Modified Cash Basis (Continued)

| | Governmental Activities 2019 | Governmental Activities 2018 |
|---|------------------------------------|------------------------------------|
| Cash Disbursements: | | |
| Instruction: | | |
| Regular | \$ 12,511,160 | \$ 12,020,434 |
| Special | 4,614,524 | 4,147,275 |
| Vocational | 442,832 | 423,000 |
| Student intervention services | 54,324 | 82,892 |
| Other | 3,155,859 | 3,234,817 |
| Support services: | | |
| Pupil | 2,048,711 | 1,964,769 |
| Instructional staff | 829,547 | 800,593 |
| Board of education | 97,533 | 62,117 |
| Administration | 1,827,086 | 1,844,226 |
| Fiscal | 537,938 | 544,412 |
| Operations and maintenance | 2,535,362 | 2,374,272 |
| Pupil transportation | 1,184,628 | 1,338,682 |
| Central | 201,311 | 142,085 |
| Operation of non instructional services | 1,240,336 | 1,125,490 |
| Extracurricular | 1,012,838 | 1,006,409 |
| Facilities acquisition and construction | 2,587,709 | 22,417,806 |
| Debt service | 2,135,939 | 1,745,588 |
| Refund of prior yeat receipts | - | 35,082 |
| | <u>37,017,637</u> | <u>55,309,949</u> |
| Total cash disbursements | | |
| | (2,703,036) | (17,554,163) |
| Change in net position | | |
| Net position at beginning of year | <u>19,071,764</u> | <u>36,625,927</u> |
| Net position at end of year | <u>\$ 16,368,728</u> | <u>\$ 19,071,764</u> |

Governmental Activities

Governmental net position decreased by \$2,703,036 in fiscal year 2019 from fiscal year 2018. Total governmental disbursements of \$37,017,637 were offset by program receipts of \$7,054,452 and general receipts of \$27,260,149. Program receipts supported 19.06% of the total governmental disbursements. The largest governmental disbursement was instructional which totaled \$20,778,699.

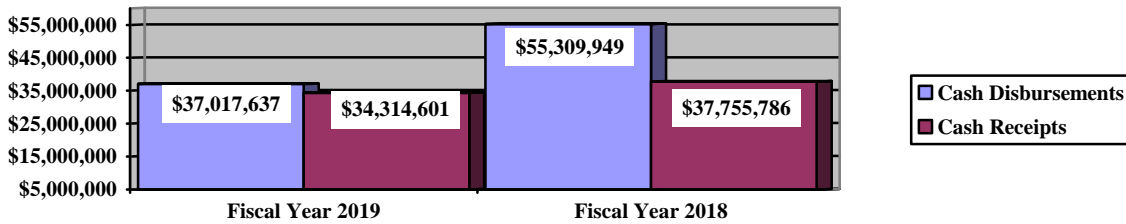
The primary sources of receipts for governmental activities are derived from taxes, and unrestricted grants and entitlements. These receipt sources represent 77.84% of total governmental receipts. Real estate property is reappraised every six years. General receipts decreased due to less state foundation funding. Overall, program receipts increased as a result of earmarked special education funding received through State of Ohio Foundation being reported as a program receipt in fiscal year 2019 versus a general receipt in 2018.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

The graph below presents the District's governmental activities cash receipts and cash disbursements for fiscal years 2019 and 2018.

Governmental Activities - Total Cash Receipts vs. Total Cash Disbursements



The statement of activities – modified cash basis shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for fiscal years 2019 and 2018. That is, it identifies the cost of these services supported by tax receipts, unrestricted State grants and entitlements, and other general cash receipts.

Governmental Activities

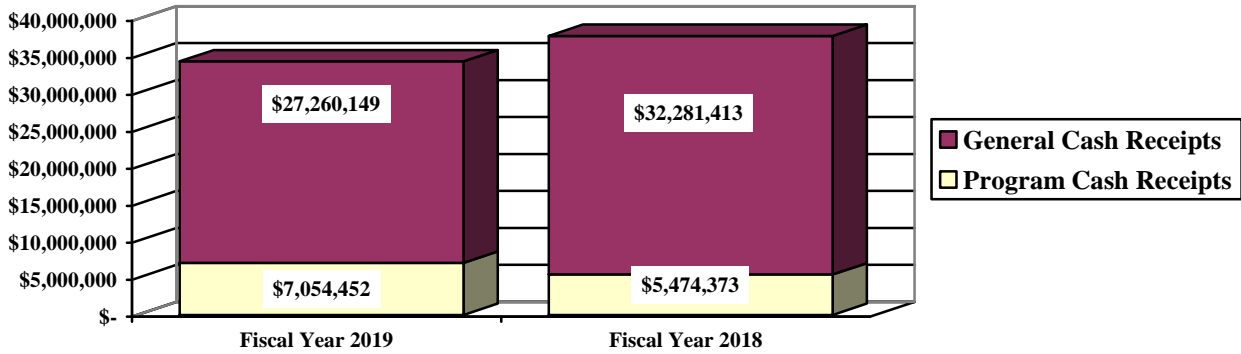
| | Total Cost of Services 2019 | Net Cost of Services 2019 | Total Cost of Services 2018 | Net Cost of Services 2018 |
|---|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| Program disbursements | | | | |
| Instruction: | | | | |
| Regular | \$ 12,511,160 | \$ 10,905,805 | \$ 12,020,434 | \$ 9,764,488 |
| Special | 4,614,524 | 1,333,463 | 4,147,275 | 2,934,958 |
| Vocational | 442,832 | 291,754 | 423,000 | 281,961 |
| Student intervention services | 54,324 | 54,324 | 82,892 | 82,892 |
| Other | 3,155,859 | 3,155,859 | 3,234,817 | 3,234,817 |
| Support services: | | | | |
| Pupil | 2,048,711 | 2,000,247 | 1,964,769 | 1,964,769 |
| Instructional staff | 829,547 | 823,738 | 800,593 | 798,113 |
| Board of education | 97,533 | 97,533 | 62,117 | 62,117 |
| Administration | 1,827,086 | 1,826,927 | 1,844,226 | 1,844,226 |
| Fiscal | 537,938 | 537,938 | 544,412 | 533,260 |
| Operations and maintenance | 2,535,362 | 2,486,442 | 2,374,272 | 2,296,017 |
| Pupil transportation | 1,184,628 | 1,062,054 | 1,338,682 | 1,338,682 |
| Central | 201,311 | 188,904 | 142,085 | 135,942 |
| Operation of non-instructional services | 1,240,336 | (42,197) | 1,125,490 | (106,800) |
| Extracurricular activities | 1,012,838 | 552,888 | 1,006,409 | 521,490 |
| Facilities acquisition and construction | 2,587,709 | 2,551,567 | 22,417,806 | 22,367,974 |
| Debt service | 2,135,939 | 2,135,939 | 1,745,588 | 1,745,588 |
| Refund of prior year receipts | - | - | 35,082 | 35,082 |
| Total program disbursements | \$ 37,017,637 | \$ 29,963,185 | \$ 55,309,949 | \$ 49,835,576 |

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

The dependence upon general cash receipts for governmental activities is apparent; with only 19.06% of cash disbursements supported through program cash receipts during 2019.

Governmental Activities - General and Program Cash Receipts



Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The District's governmental funds are accounted for using the modified cash basis of accounting.

The District's governmental funds reported a combined fund balance of \$16,368,728, which is \$2,703,036 lower than last year's total of \$19,071,764. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2019 and June 30, 2018, for all major and nonmajor governmental funds.

| <u>Funds</u> | <u>Fund Cash Balance June 30, 2019</u> | <u>Fund Cash Balance June 30, 2018</u> | <u>Increase (decrease)</u> |
|-----------------------------|--|--|--------------------------------|
| General | \$ 12,105,355 | \$ 12,300,548 | \$ (195,193) |
| Other Nonmajor Governmental | <u>4,263,373</u> | <u>6,771,216</u> | <u>(2,507,843)</u> |
| Total | <u>\$ 16,368,728</u> | <u>\$ 19,071,764</u> | <u>\$ (2,703,036)</u> |

General Fund

The District's only major fund is the general fund. The general fund had cash receipts and other financing sources of \$29,454,305 and cash disbursements of \$29,649,498 in 2019. The general fund's fund balance decreased \$195,193 or 1.59% from 2018 to 2019 due to a continuing trend of disbursements outpacing receipts.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

The table that follows assists in illustrating the cash receipts of the general fund.

| | <u>2019</u> <u>Amount</u> | <u>2018</u> <u>Amount</u> | <u>Percentage</u> <u>Change</u> |
|------------------------------|------------------------------|------------------------------|------------------------------------|
| <u>Cash Receipts:</u> | | | |
| Taxes | \$ 8,219,431 | \$ 8,196,722 | 0.28 % |
| Tuition and fees | 1,891,783 | 1,785,283 | 5.97 % |
| Receipts in lieu of taxes | 120,929 | - | 100.00 % |
| Earnings on investments | 301,883 | 93,215 | 223.86 % |
| Extracurricular | 54,509 | 57,559 | (5.30) % |
| Other local revenues | 57,322 | 204,352 | (71.95) % |
| Intergovernmental | <u>18,805,403</u> | <u>18,742,811</u> | 0.33 % |
| Total | <u>\$ 29,451,260</u> | <u>\$ 29,079,942</u> | 1.28 % |

Overall, general fund cash receipts remained consistent with prior year, with an increase of 1.28%. The increase in tuition and fees of \$106,500 or 5.97% was due to an increase in open enrollment. Higher interest rates on investments resulted in an increase in earnings on investments. The decrease in other local revenues of \$147,030 or 71.95% was due to a decrease in reimbursements and rebates. Extracurricular receipts decreased due to less amounts received related to sales, admissions and fees from music, public service and sports related activities.

The table that follows assists in illustrating the disbursements of the general fund.

| | <u>2019</u> <u>Amount</u> | <u>2018</u> <u>Amount</u> | <u>Percentage</u> <u>Change</u> |
|---|------------------------------|------------------------------|------------------------------------|
| <u>Cash Disbursements</u> | | | |
| Instruction | \$ 19,335,323 | \$ 18,424,143 | 4.95 |
| Support services | 8,941,752 | 8,838,402 | 1.17 |
| Extracurricular | 651,380 | 626,915 | 3.90 |
| Facilities acquisition and construction | 30,861 | 228,836 | (86.51) |
| Debt service | <u>690,182</u> | <u>352,675</u> | 95.70 |
| Total | <u>\$ 29,649,498</u> | <u>\$ 28,470,971</u> | 4.14 |

Overall disbursements increased 4.14% from fiscal year 2018. Instruction disbursements increased \$911,180, or 4.95%, due to increased special instruction disbursements for providing instruction to students with special needs. Extracurricular expenditures increased due to increased student participation in after school activities. Facilities acquisition and construction decreased as the District completed it's building project. Debt service disbursements increased as a result of additional capital lease payments being made in fiscal year 2019.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

Budgeting Highlights - General Fund

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

For the general fund, final budgetary basis receipts and other financing sources of \$30,077,603 were higher than the original budget estimates of \$29,734,128. Actual cash receipts of \$30,118,132 were higher than final budget estimates by \$40,529.

The final and original budgetary basis disbursements and other financing uses were \$31,755,832 and \$32,703,742 respectively. The actual budgetary basis disbursements and other financing uses of \$30,441,686 were \$1,314,146 less than the final budget estimates.

Capital Assets and Debt Administration

Capital Assets

The District does not record capital assets in the accompanying cash basis basic financial statements, but records payments for capital assets as disbursements. The District had \$2,587,709 in facilities acquisition and construction disbursements during fiscal year 2019.

Debt Administration

At June 30, 2019, the District had \$22,620,000 in general obligation bonds, \$1,690,000 in lease purchase obligation, and \$528,545 in capital lease obligations outstanding. Of this total \$958,560 is due within one year and \$23,879,985 is due in more than one year. The following table summarizes the obligations outstanding.

| | <u>Governmental Activities 2019</u> | <u>Governmental Activities 2018</u> |
|-----------------------------|---|---|
| 2014 Various purpose bonds | \$ 17,795,000 | \$ 18,165,000 |
| 2015 Refunding bonds | 4,825,000 | 4,865,000 |
| Lease purchase obligation | 1,690,000 | 2,000,000 |
| Capital lease obligations | <u>528,545</u> | <u>723,861</u> |
| Total long-term obligations | <u>\$ 24,838,545</u> | <u>\$ 25,753,861</u> |

Refer to Note 12 to the basic financial statements for further detail.

Current Financial Related Activities

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

The citizens of the Defiance City Schools' community continue to show strong support of the District by passing levies when needed. The District has just completed building a new Middle School/High School in conjunction with OFCC. This complex was co-funded by the state at 71%, leaving only 29% to be paid by the District. The District was sensitive to the need to have two separate wings for the complex and there are separate entrances for grades 6-8 and grades 9-12. The location of the new school brings all students in the District together on one large campus by having a connector road linking the two buildings.

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

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Cheryl Swisher, CFO/Treasurer, Defiance City School District, 801 S. Clinton Street, Defiance, Ohio 43512.

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

STATEMENT OF NET POSITION - MODIFIED CASH BASIS
JUNE 30, 2019

| | <u>Governmental Activities</u> |
|---|---|
| Assets: | |
| Equity in pooled cash and investments | <u>\$ 16,368,728</u> |
| Net position: | |
| Restricted for: | |
| Debt service. | \$ 860,680 |
| Capital improvements | 857,561 |
| Classroom facilities maintenance | 823,964 |
| Food service operations | 522,362 |
| Student activities | 118,005 |
| Locally funded programs | 1,052 |
| State funded programs. | 29,772 |
| Federally funded programs | 33,645 |
| Unrestricted | <u>13,121,687</u> |
| Total net position. | <u>\$ 16,368,728</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

| | Cash Disbursements | Charges for Services and Sales | Program Receipts | | Net (Disbursements) Receipts and Changes in Net Position |
|---|-----------------------|--------------------------------------|--|--|--|
| | | | Operating Grants and Contributions | Capital Grants and Contributions | |
| Governmental activities: | | | | | |
| Instruction: | | | | | |
| Regular | \$ 12,511,160 | \$ 1,510,336 | \$ 95,019 | \$ - | \$ (10,905,805) |
| Special | 4,614,524 | 382,061 | 2,899,000 | - | (1,333,463) |
| Vocational | 442,832 | - | 151,078 | - | (291,754) |
| Student intervention services | 54,324 | - | - | - | (54,324) |
| Other | 3,155,859 | - | - | - | (3,155,859) |
| Support services: | | | | | |
| Pupil | 2,048,711 | - | 48,464 | - | (2,000,247) |
| Instructional staff | 829,547 | - | 5,809 | - | (823,738) |
| Board of education | 97,533 | - | - | - | (97,533) |
| Administration | 1,827,086 | - | 159 | - | (1,826,927) |
| Fiscal | 537,938 | - | - | - | (537,938) |
| Operations and maintenance | 2,535,362 | 34,283 | 14,637 | - | (2,486,442) |
| Pupil transportation | 1,184,628 | - | 122,574 | - | (1,062,054) |
| Central | 201,311 | 5,959 | 6,448 | - | (188,904) |
| Operation of non-instructional services: | | | | | |
| Food service operations | 969,813 | 347,280 | 722,488 | - | 99,955 |
| Other non-instructional services | 270,523 | - | 212,765 | - | (57,758) |
| Extracurricular activities | 1,012,838 | 399,197 | 60,753 | - | (552,888) |
| Facilities acquisition and construction | 2,587,709 | - | - | 36,142 | (2,551,567) |
| Debt service: | | | | | |
| Principal retirement | 1,031,953 | - | - | - | (1,031,953) |
| Interest and fiscal charges | 1,103,986 | - | - | - | (1,103,986) |
| Total governmental activities | \$ 37,017,637 | \$ 2,679,116 | \$ 4,339,194 | \$ 36,142 | (29,963,185) |

General receipts:

| | |
|--|----------------------|
| Property taxes levied for: | |
| General purposes | 6,307,677 |
| Debt service | 1,198,664 |
| Classroom facilities and maintenance | 101,326 |
| Payments in lieu of taxes | 120,929 |
| Income taxes levied for: | |
| General purposes | 1,911,754 |
| Grants and entitlements not restricted to specific programs | 17,190,405 |
| Investment earnings | 403,310 |
| Sale of capital assets | 3,045 |
| Miscellaneous | 23,039 |
| Total general receipts | 27,260,149 |
| Change in net position | (2,703,036) |
| Net position at beginning of year | 19,071,764 |
| Net position at end of year | \$ 16,368,728 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ASSETS AND FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2019

| | General | Nonmajor Governmental Funds | Total Governmental Funds |
|--|---------------|-----------------------------------|--------------------------------|
| Assets: | | | |
| Equity in pooled cash and investments. | \$ 12,105,355 | \$ 4,263,373 | \$ 16,368,728 |
| Fund balances: | | | |
| Restricted: | | | |
| Debt service | \$ - | \$ 860,680 | \$ 860,680 |
| Capital improvements | - | 857,561 | 857,561 |
| Classroom facilities maintenance | - | 823,964 | 823,964 |
| Food service operations | - | 522,362 | 522,362 |
| Student activities | - | 118,005 | 118,005 |
| Non-public schools | - | 18,969 | 18,969 |
| Targeted academic assistance | - | 4,045 | 4,045 |
| Other purposes. | - | 41,455 | 41,455 |
| Committed: | | | |
| Capital improvements | - | 1,016,390 | 1,016,390 |
| Assigned: | | | |
| Student instruction | 31,438 | - | 31,438 |
| Student and staff support. | 157,260 | - | 157,260 |
| Subsequent year's appropriations | 2,277,579 | - | 2,277,579 |
| School supplies | 31,682 | - | 31,682 |
| Unassigned (deficit). | 9,607,396 | (58) | 9,607,338 |
| Total fund balances | \$ 12,105,355 | \$ 4,263,373 | \$ 16,368,728 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN
FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

| | <u>General</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|----------------------|--|---|
| Receipts: | | | |
| From local sources: | | | |
| Property taxes | \$ 6,307,677 | \$ 1,299,990 | \$ 7,607,667 |
| Income taxes. | 1,911,754 | - | 1,911,754 |
| Payment in lieu of taxes | 120,929 | - | 120,929 |
| Tuition. | 1,793,695 | - | 1,793,695 |
| Earnings on investments | 301,883 | 145,017 | 446,900 |
| Charges for services | - | 347,280 | 347,280 |
| Extracurricular. | 54,509 | 350,359 | 404,868 |
| Classroom materials and fees | 98,088 | - | 98,088 |
| Rental income | 34,283 | 902 | 35,185 |
| Contributions and donations | 2,040 | 52,635 | 54,675 |
| Contract services. | 7,643 | - | 7,643 |
| Other local receipts | 13,356 | 14,611 | 27,967 |
| Intergovernmental - state | 18,458,867 | 449,223 | 18,908,090 |
| Intergovernmental - federal | 346,536 | 2,200,279 | 2,546,815 |
| Total receipts | <u>29,451,260</u> | <u>4,860,296</u> | <u>34,311,556</u> |
| Disbursements: | | | |
| Current: | | | |
| Instruction: | | | |
| Regular. | 12,418,884 | 92,276 | 12,511,160 |
| Special | 3,263,424 | 1,351,100 | 4,614,524 |
| Vocational | 442,832 | - | 442,832 |
| Student intervention services | 54,324 | - | 54,324 |
| Other | 3,155,859 | - | 3,155,859 |
| Support services: | | | |
| Pupil | 2,006,591 | 42,120 | 2,048,711 |
| Instructional staff | 824,075 | 5,472 | 829,547 |
| Board of education | 97,533 | - | 97,533 |
| Administration | 1,826,928 | 158 | 1,827,086 |
| Fiscal | 508,603 | 29,335 | 537,938 |
| Operations and maintenance | 2,317,958 | 217,404 | 2,535,362 |
| Pupil transportation | 1,165,009 | 19,619 | 1,184,628 |
| Central | 195,055 | 6,256 | 201,311 |
| Operation of non-instructional services: | | | |
| Food service operations. | - | 969,813 | 969,813 |
| Other non-instructional services | - | 270,523 | 270,523 |
| Extracurricular activities | 651,380 | 361,458 | 1,012,838 |
| Facilities acquisition and construction. | 30,861 | 2,556,848 | 2,587,709 |
| Debt service: | | | |
| Principal retirement. | 618,645 | 413,308 | 1,031,953 |
| Interest and fiscal charges | 71,537 | 1,032,449 | 1,103,986 |
| Total disbursements | <u>29,649,498</u> | <u>7,368,139</u> | <u>37,017,637</u> |
| Excess of disbursements over receipts | (198,238) | (2,507,843) | (2,706,081) |
| Other financing sources: | | | |
| Sale of assets | 3,045 | - | 3,045 |
| Net change in fund balances | (195,193) | (2,507,843) | (2,703,036) |
| Fund balances at beginning of year. | <u>12,300,548</u> | <u>6,771,216</u> | <u>19,071,764</u> |
| Fund balances at end of year. | <u>\$ 12,105,355</u> | <u>\$ 4,263,373</u> | <u>\$ 16,368,728</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|---|-------------------------|----------------------|----------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Receipts: | | | | |
| From local sources: | | | | |
| Property taxes | \$ 6,227,255 | \$ 6,307,677 | \$ 6,307,677 | \$ - |
| Income taxes | 1,887,379 | 1,911,754 | 1,911,754 | - |
| Payment in lieu of taxes | 119,387 | 120,929 | 120,929 | - |
| Tuition | 1,770,826 | 1,782,693 | 1,793,695 | 11,002 |
| Earnings on investments | 297,591 | 269,114 | 301,434 | 32,320 |
| Classroom materials and fees | 29,199 | 30,942 | 29,576 | (1,366) |
| Rental income | 33,846 | 31,099 | 34,283 | 3,184 |
| Contributions and donations | 1,283 | 1,300 | 1,300 | - |
| Contract services | 7,546 | 7,714 | 7,643 | (71) |
| Other local receipts | 13,185 | 23,806 | 13,356 | (10,450) |
| Intergovernmental - state | 18,223,518 | 18,469,574 | 18,458,867 | (10,707) |
| Intergovernmental - federal | 342,118 | 329,138 | 346,536 | 17,398 |
| Total receipts | <u>28,953,133</u> | <u>29,285,740</u> | <u>29,327,050</u> | <u>41,310</u> |
| Disbursements: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 13,439,148 | 12,661,323 | 12,563,188 | 98,135 |
| Special | 3,510,584 | 3,344,735 | 3,281,761 | 62,974 |
| Vocational | 475,751 | 456,958 | 444,741 | 12,217 |
| Student intervention services | 54,324 | 54,324 | 54,324 | - |
| Other | 3,399,028 | 3,293,963 | 3,173,935 | 120,028 |
| Support services: | | | | |
| Pupil | 2,152,757 | 2,064,750 | 2,012,438 | 52,312 |
| Instructional staff | 906,015 | 872,098 | 846,960 | 25,138 |
| Board of education | 104,334 | 107,729 | 97,533 | 10,196 |
| Administration | 1,969,530 | 1,934,751 | 1,841,154 | 93,597 |
| Fiscal | 552,327 | 537,849 | 516,326 | 21,523 |
| Operations and maintenance | 2,625,858 | 2,654,917 | 2,454,702 | 200,215 |
| Pupil transportation | 1,352,438 | 1,312,236 | 1,264,285 | 47,951 |
| Central | 213,165 | 213,369 | 199,271 | 14,098 |
| Extracurricular activities | 640,271 | 630,911 | 598,538 | 32,373 |
| Facilities acquisition and construction | 33,013 | 53,388 | 30,861 | 22,527 |
| Debt service: | | | | |
| Principal retirement | 310,000 | 310,000 | 310,000 | - |
| Interest and fiscal charges | 45,245 | 45,245 | 45,245 | - |
| Total disbursements | <u>31,783,788</u> | <u>30,548,546</u> | <u>29,735,262</u> | <u>813,284</u> |
| Excess of disbursements over receipts | <u>(2,830,655)</u> | <u>(1,262,806)</u> | <u>(408,212)</u> | <u>854,594</u> |
| Other financing sources (uses): | | | | |
| Refund of prior year's expenditures | 80,572 | 82,394 | 81,613 | (781) |
| Refund of prior year's receipts | (13,327) | (13,327) | - | 13,327 |
| Transfers in | 697,417 | 706,424 | 706,424 | - |
| Transfers (out) | (906,627) | (1,193,959) | (706,424) | 487,535 |
| Sale of assets | 3,006 | 3,045 | 3,045 | - |
| Total other financing sources (uses) | <u>(138,959)</u> | <u>(415,423)</u> | <u>84,658</u> | <u>500,081</u> |
| Net change in fund balance | (2,969,614) | (1,678,229) | (323,554) | 1,354,675 |
| Unencumbered fund balance | | | | |
| at beginning of year | 11,956,482 | 11,956,482 | 11,956,482 | - |
| Prior year encumbrances appropriated | 252,047 | 252,047 | 252,047 | - |
| Unencumbered fund balance at end of year | <u>\$ 9,238,915</u> | <u>\$ 10,530,300</u> | <u>\$ 11,884,975</u> | <u>\$ 1,354,675</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET POSITION - MODIFIED CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2019

| | Private-Purpose Trust | |
|---|------------------------------|---------------|
| | Scholarship | Agency |
| Assets: | | |
| Equity in pooled cash and investments | \$ 14,039 | \$ 76,883 |
| Net position: | | |
| Held in trust for scholarships | \$ 14,039 | \$ - |
| Undistributed monies | - | 2,441 |
| Held on behalf of students | - | 74,442 |
| Total net position. | \$ 14,039 | \$ 76,883 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - MODIFIED CASH BASIS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

| | Private-Purpose Trust |
|--|----------------------------------|
| | Scholarship |
| Additions: | |
| Gifts and contributions. | \$ 2,725 |
| Deductions: | |
| Payments in accordance with trust agreements | 2,952 |
| Change in net position | (227) |
| Net position at beginning of year. | 14,266 |
| Net position at end of year | \$ 14,039 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 1 - DESCRIPTION OF THE DISTRICT AND REPORTING ENTITY

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

It is staffed by 126 classified employees and 197 certified teaching personnel who provide services to 2,457 students and other community members. The District currently operates three instructional/support buildings and a preschool in conjunction with the Northwest Education Service Center.

Reporting Entity

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations for which the District authorizes the issuance of debt or the levying of taxes or determines the budget if there is also the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the District. Based upon the application of these criteria, the District has no component units.

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

A. Basis of Presentation

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

B. Fund Accounting

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

Governmental Funds

The District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other non-exchange transactions as governmental funds. The District's major governmental 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 District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Other governmental funds of the District are used to account for (a) financial resources that are restricted to the payment of long-term debt principal, interest and related costs, (b) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets, and (c) specific receipt sources that are restricted or committed to a disbursement for specified purposes other than debt service or capital projects.

Fiduciary Funds

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

C. Basis of Accounting

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

D. Budgetary Process

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

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

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

Tax Budget

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

Estimated Resources

The County Budget Commission certifies its actions to the District by March 1. As part of this certification, the District receives the official certificate of estimated resources which states the projected receipts of each fund. On or about July 1 this certificate is amended to include any unencumbered balances from the preceding fiscal year. Prior to June 30, the District must revise its budget so that the total contemplated disbursements from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying financial statements do not include July 1, 2018 unencumbered fund balances. However, those fund balances are available for appropriations.

Appropriations

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

Encumbrances

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

Lapsing of Appropriations

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

E. Cash and Investments

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

During fiscal year 2019, investments were limited to nonnegotiable certificates of deposit (nonnegotiable CD’s), negotiable certificates of deposit (negotiable CD’s), Federal Home Loan Mortgage Corporation (FHLMC) securities, U.S. government money market mutual funds, and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio).

Under the District’s modified cash basis of accounting, the District reports negotiable CD’s, FHLMC securities, and U.S. government money market mutual funds at fair value which is based on quoted market prices. Nonnegotiable CD’s are reported at cost. STAR Ohio is reported at net asset value.

In fiscal year 2019, the District invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of 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 has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, “Certain External Investment Pools and Pool Participants.” The District measures its investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

For fiscal year 2019, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$50 million. STAR Ohio reserves the right to limit the transaction to \$100 million, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Total interest receipts credited to the general fund during fiscal year 2019 was \$301,883, which includes \$26,925 assigned from other funds.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

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

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

F. Capital Assets

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

G. Inventory and Prepaid Items

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

H. Accumulated Leave

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

I. Interfund Receivable/Payable

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

J. Interfund Transactions

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

K. Long-Term Debt

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

L. Intergovernmental Receipts

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

M. Employer Contributions to Cost-Sharing Pension Plans

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

N. Pensions/Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension/OPEB liability and net OPEB asset, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension/OPEB plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension/OPEB plans report investments at fair value.

O. Net Cash Position

Net cash position is reported as restricted when there are limitations imposed on its use either through enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The District did not have any net cash position restricted by enabling legislation at June 30, 2019.

The District first applies restricted resources when a disbursement is incurred for purposes for which both restricted and unrestricted net cash position is available.

P. Fund Balance

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

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

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2019, the District has implemented GASB Statement No. 83, “*Certain Asset Retirement Obligations*” and GASB Statement No. 88, “*Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*”.

GASB Statement No. 83 addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability. The implementation of GASB Statement No. 83 did not have an effect on the financial statements of the District.

GASB Statement No. 88 improves the information that is disclosed in notes to the basic financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The implementation of GASB Statement No. 88 did not have an effect on the financial statement of the District.

B. Deficit Fund Balances

Fund balances at June 30, 2019 included the following individual fund deficit:

| <u>Nonmajor fund</u> | <u>Deficit</u> |
|----------------------|----------------|
| IDEA Part B | <u>\$ 58</u> |

This deficit cash balance resulted from a lag between disbursements made by the District and reimbursements from grantors and are allowable under Ohio Revised Code §3315.20.

C. Compliance

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 4 – BUDGETARY BASIS OF ACCOUNTING

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

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

| Net Change in Fund Balance | <u>General fund</u> |
|-----------------------------------|---------------------|
| Budget basis | \$ (323,554) |
| Funds budgeted elsewhere ** | (17,167) |
| Adjustment for encumbrances | <u>145,528</u> |
| Modified cash basis | <u>\$ (195,193)</u> |

** The uniform school supplies fund and public school support fund are legally budgeted as a separate special revenue funds; however, they are considered part of the general fund for financial reporting purposes.

NOTE 5 – DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 5 – DEPOSITS AND INVESTMENTS - (CONTINUED)

3. Written repurchase agreements in the securities listed above provided the fair value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio and with certain limitations bonds and other obligations of political subdivisions of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. 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
7. The State Treasurer's investment pool, the State Treasury Asset Reserve of Ohio (STAR Ohio); and,
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one-hundred-eighty days and two-hundred-seventy days, respectively, in an amount not to exceed forty percent of the interim monies available for investment at any one time.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, or by the financial institutions participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

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

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

A. Cash on Hand

At June 30, 2019, the District had \$4,275 in undeposited cash on hand, which is included on the financial statements of the District as part of "Equity in Pooled Cash and Investments".

B. Deposits

At June 30, 2019, the carrying amount of all District deposits was \$7,520,298 and the bank balance of all District deposits was \$7,677,626. Of the bank balance, \$5,077,182 was covered by the FDIC and \$2,600,444 was collateralized through the Ohio Pooled Collateral System (OPCS).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 5 – DEPOSITS AND INVESTMENTS - (CONTINUED)

Custodial credit risk is the risk that, in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by (1) eligible securities pledged to the District and deposited with a qualified trustee by the financial institution as security for repayment whose fair value at all times shall be at least 105 percent of the deposits being secured, or (2) participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total fair value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State. For 2019, the District's financial institutions were approved for a collateral rate of 102 percent through the OPCS. Although all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the District to a successful claim by the FDIC.

C. Investments

As of June 30, 2019, the District had the following investments and maturities:

| Measurement/ Investment type | Measurement Value | Investments Maturities | |
|--|----------------------|------------------------|---------------------|
| | | Less Than 1 Year | 1 to 5 Years |
| Fair Value: | | | |
| Negotiable CD's | \$ 3,637,094 | \$ 1,815,520 | \$ 1,821,574 |
| FHLMC | 749,337 | - | 749,337 |
| U.S. government money market mutual funds | 228,421 | 228,421 | - |
| Net Asset Value: | | | |
| STAR Ohio | <u>4,320,225</u> | <u>4,320,225</u> | <u>-</u> |
| Total | <u>\$ 8,935,077</u> | <u>\$ 6,364,166</u> | <u>\$ 2,570,911</u> |

The weighted average maturity of investments is 0.59 years.

D. Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by GAAP as applied to the District's modified cash basis of accounting. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The District's investments in U.S. government money market funds are valued using quoted market prices in active markets (Level 1 inputs). The District's investments in FHLMC securities and negotiable CD's are valued using quoted prices in markets that are not considered to be active, dealer quotations or alternative pricing sources for similar assets or liabilities for which all significant inputs are observable, either directly or indirectly (Level 2 inputs).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 5 – DEPOSITS AND INVESTMENTS - (CONTINUED)

E. Interest Rate Risk

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

F. Credit Risk

The FHLMC securities were rated AA+ and Aaa by Standard & Poor’s and Moody’s Investor Services, respectively. Standard & Poor’s has assigned the U.S. government money market mutual fund and STAR Ohio a AAAm money market rating. The negotiable CD’s were not rated but are fully insured by the FDIC. The District has no investment policy that would further limit its investment choices.

G. Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District’s investments in FHLMC securities are exposed to custodial credit risk as they are uninsured, unregistered, and held by the counterparty’s trust department or agent in the District’s name. The District has no investment policy dealing with custodial credit risk beyond the requirements of State statute which prohibit payment for investments prior to the delivery of the securities representing the investments to the treasurer or qualified trustee.

H. Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer, however State statute limits investments in commercial paper and bankers' acceptances to 40% of the interim monies available for investment at any one time. The following table includes the percentage of each investment type held by the District at June 30, 2019:

| <u>Measurement/ Investment type</u> | <u>Measurement Value</u> | <u>% of Total</u> |
|--|------------------------------|-------------------|
| Fair Value: | | |
| Negotiable CD's | \$ 3,637,094 | 40.70 |
| FHLMC | 749,337 | 8.39 |
| U.S. government money market mutual funds | 228,421 | 2.56 |
| Net Asset Value: | | |
| STAR Ohio | <u>4,320,225</u> | <u>48.35</u> |
| Total | <u>\$ 8,935,077</u> | <u>100.00</u> |

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 5 – DEPOSITS AND INVESTMENTS - (CONTINUED)

I. Reconciliation of Cash and Investments to the Statement of Net Position

The following is a reconciliation of cash and investments as reported in the note disclosure above to cash and investments as reported on the statement of net position:

Cash and investments per note disclosure

| | |
|-----------------------------|----------------------|
| Carrying amount of deposits | \$ 7,520,298 |
| Investments | 8,935,077 |
| Cash on hand | <u>4,275</u> |
| Total | <u>\$ 16,459,650</u> |

Cash and investments per statement of net position

| | |
|----------------------------|----------------------|
| Governmental activities | \$ 16,368,728 |
| Private-purpose trust fund | 14,039 |
| Agency Funds | <u>76,883</u> |
| Total | <u>\$ 16,459,650</u> |

NOTE 6 – INCOME TAXES

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

NOTE 7 – PROPERTY TAXES

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

Property taxes include amounts levied against all real and public utility property located in the area served by the District. Real property tax revenues received in calendar year 2019 represent the collection calendar year 2018 taxes. Real property taxes received in calendar year 2019 were levied after April 1, 2018, on the assessed values as of January 1, 2018, the lien date. Assessed values for real property taxes are established by State statute at 35% of appraised fair value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility real and tangible personal property taxes for 2019 were levied after April 1, 2018, on the assessed values as of December 31, 2017, the lien date. Public utility real property is assessed at 35% of true value; public utility tangible personal property currently is assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 7 – PROPERTY TAXES - (CONTINUED)

The District receives property taxes from Defiance and Paulding Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2019, are available to finance fiscal year 2020 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which fiscal year 2019 taxes were collected are:

| | 2018 Second Half Collections | | 2019 First Half Collections | |
|---|---------------------------------|----------------|--------------------------------|----------------|
| | <u>Amount</u> | <u>Percent</u> | <u>Amount</u> | <u>Percent</u> |
| Agricultural/residential and other real estate | \$ 244,514,730 | 93.53 | \$ 249,987,000 | 93.56 |
| Public utility personal | <u>16,910,260</u> | <u>6.47</u> | <u>17,194,790</u> | <u>6.44</u> |
| Total | <u>\$ 261,424,990</u> | <u>100.00</u> | <u>\$ 267,181,790</u> | <u>100.00</u> |
| Tax rate per \$1,000 of assessed valuation | \$ 49.20 | | \$ 49.45 | |

NOTE 8 – RISK MANAGEMENT

A. Employee Insurance Benefits Program

The District participates in the Optimal Health Initiative Consortium (OHI), a public entity shared risk pool consisting of educational entities within Defiance, Fulton, Henry, and Williams Counties and other eligible governmental entities. The District pays monthly premiums to the OHI for the benefits offered to its employees including medical, dental, vision, and life insurance. The OHI is responsible for the management and operations of the Program. The agreement for the program provides for additional assessments to all participants if the premiums are insufficient to pay the program costs for the fiscal year. Upon withdrawal from the Program, a participant is responsible for any claims not processed and paid and any related administrative costs.

B. Workers' Compensation Group Program

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 8 – RISK MANAGEMENT - (CONTINUED)

C. Comprehensive

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2019, the District contracted for the following insurance coverage:

| | Amount of Coverage |
|---------------------------------------|-----------------------|
| The Liberty Mutual Insurance Company: | |
| General Liability | |
| Per Occurrence | \$ 1,000,000 |
| Total per Year | 2,000,000 |
| Umbrella Liability | |
| Per Occurrence | 10,000,000 |
| Total per Year | 10,000,000 |
| Building and contents | 123,694,077 |
| The Liberty Mutual Insurance Company: | |
| Vehicle liability | 1,000,000 |
| Uninsured/Underinsured motorist | 1,000,000 |

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

NOTE 9 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

The net pension liability represents the District’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (CONTINUED)

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

| | Eligible to Retire on or before August 1, 2017 * | Eligible to Retire after August 1, 2017 |
|------------------------------|---|--|
| Full benefits | Age 65 with 5 years of services credit; or Any age with 30 years of service credit | Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit |
| Actuarially reduced benefits | Age 60 with 5 years of service credit; or Age 55 with 25 years of service credit | Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit |

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

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

Effective January 1, 2018, SERS cost-of-living adjustment (COLA) changed from a fixed 3% annual increase to one based on the Consumer Price Index (CPI-W) with a cap of 2.5% and a floor of 0%. SERS also has the authority to award or suspend the COLA, or to adjust the COLA above or below CPI-W. SERS suspended the COLA increases for 2018, 2019 and 2020 for current retirees, and confirmed their intent to implement a four-year waiting period for the state of a COLA for future retirees.

Funding Policy - Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10% for plan members and 14% for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2019, the allocation to pension, death benefits, and Medicare B was 13.5%. The remaining 0.5% of the employer contribution rate was allocated to the Health Care Fund.

The District's contractually required contribution to SERS was \$466,977 for fiscal year 2019.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (CONTINUED)

Plan Description - State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB Plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2% of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

The DC Plan allows members to place all their member contributions and 9.53% of the 14% employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.47% of the 14% employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12% of the 14% member rate goes to the DC Plan and the remaining 2% is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (CONTINUED)

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For fiscal year 2019, plan members were required to contribute 14% of their annual covered salary. The District was required to contribute 14%; the entire 14% was the portion used to fund pension obligations. The fiscal year 2019 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was \$1,853,451 for fiscal year 2019.

Net Pension Liability

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the projected contributions of all participating entities.

Following is information related to the proportionate share:

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|--|--------------------|--------------------|---------------|
| Proportion of the net pension liability prior measurement date | 0.10666740% | 0.10518413% | |
| Proportion of the net pension liability current measurement date | <u>0.10884160%</u> | <u>0.10970450%</u> | |
| Change in proportionate share | <u>0.00217420%</u> | <u>0.00452037%</u> | |
| Proportionate share of the net pension liability | \$ 6,233,560 | \$ 24,121,556 | \$ 30,355,116 |

Actuarial Assumptions - SERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (CONTINUED)

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2018, are presented below:

| | |
|--|--|
| Wage inflation | 3.00% |
| Future salary increases, including inflation | 3.50% to 18.20% |
| COLA or ad hoc COLA | 2.50%, on and after April 1, 2018, COLA's for future retirees will be delayed for three years following commencement |
| Investment rate of return | 7.50% net of investments expense, including inflation |
| Actuarial cost method | Entry age normal (level percent of payroll) |

For 2018, the mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates. Mortality among disabled members was based upon the RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

The most recent experience study was completed for the five year period ended June 30, 2015.

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (CONTINUED)

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

| | 1% Decrease (6.50%) | Current Discount Rate (7.50%) | 1% Increase (8.50%) |
|--|------------------------|-------------------------------------|------------------------|
| District's proportionate share of the net pension liability | \$ 8,780,439 | \$ 6,233,560 | \$ 4,098,172 |

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2018 actuarial valuation are presented below:

| | July 1, 2018 |
|--------------------------------------|---|
| Inflation | 2.50% |
| Projected salary increases | 12.50% at age 20 to 2.50% at age 65 |
| Investment rate of return | 7.45%, net of investment expenses, including inflation |
| Payroll increases | 3.00% |
| Cost-of-living adjustments (COLA) | 0.0%, effective July 1, 2017 |

For the July 1, 2018, actuarial valuation, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50% of rates through age 69, 70% of rates between ages 70 and 79, 90% of rates between ages 80 and 84, and 100% of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90% of rates for males and 100% of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the July 1, 2018 valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (CONTINUED)

STRS Ohio's investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

| Asset Class | Target Allocation** | Long Term Expected Real Rate of Return * |
|----------------------|------------------------|---|
| Domestic Equity | 28.00 % | 7.35 % |
| International Equity | 23.00 | 7.55 |
| Alternatives | 17.00 | 7.09 |
| Fixed Income | 21.00 | 3.00 |
| Real Estate | 10.00 | 6.00 |
| Liquidity Reserves | 1.00 | 2.25 |
| Total | <u>100.00 %</u> | |

*10-Year geometric nominal returns, which include the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

**The Target Allocation percentage is effective as of July 1, 2017. Target weights will be phased in over a 24-month period concluding on July 1, 2019.

Discount Rate - The discount rate used to measure the total pension liability was 7.45% as of June 30, 2018. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2018. Therefore, the long-term expected rate of return on pension plan investments of 7.45% was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2018.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.45%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45%) or one-percentage-point higher (8.45%) than the current rate:

| | 1% Decrease (6.45%) | Current Discount Rate (7.45%) | 1% Increase (8.45%) |
|--|------------------------|-------------------------------------|------------------------|
| District's proportionate share of the net pension liability | \$ 35,226,358 | \$ 24,121,556 | \$ 14,722,849 |

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 10 - DEFINED BENEFIT OPEB PLANS

Net OPEB Liability/Asset

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

The net OPEB liability/asset represents the District's proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position. The net OPEB liability/asset calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting these estimates annually.

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

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability/asset. Resulting adjustments to the net OPEB liability/asset would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

Plan Description - School Employees Retirement System (SERS)

Health Care Plan Description - The District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 10 - DEFINED BENEFIT OPEB PLANS - (CONTINUED)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14% of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2019, 0.5% of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2019, this amount was \$21,600. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2019, the District's surcharge obligation was \$58,603.

The surcharge added to the allocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The District's contractually required contribution to SERS was \$75,898 for fiscal year 2019.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14% of covered payroll. For the fiscal year ended June 30, 2019, STRS did not allocate any employer contributions to post-employment health care.

Net OPEB Liability/Asset

The net OPEB liability/asset was measured as of June 30, 2018, and the total OPEB liability/asset used to calculate the net OPEB liability/asset was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability/asset was based on the District's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share:

| | SERS | STRS | Total |
|---|--------------------|--------------------|----------------|
| Proportion of the net OPEB liability prior measurement date | 0.10795930% | 0.10518410% | |
| Proportion of the net OPEB liability/asset current measurement date | <u>0.11020890%</u> | <u>0.10970450%</u> | |
| Change in proportionate share | <u>0.00224960%</u> | <u>0.00452040%</u> | |
| Proportionate share of the net OPEB liability | \$ 3,057,493 | \$ - | \$ 3,057,493 |
| Proportionate share of the net OPEB asset | \$ - | \$ (1,762,839) | \$ (1,762,839) |

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 10 - DEFINED BENEFIT OPEB PLANS - (CONTINUED)

Actuarial Assumptions - SERS

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

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

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2018, are presented below:

| | |
|--|--|
| Wage inflation | 3.00% |
| Future salary increases, including inflation | 3.50% to 18.20% |
| Investment rate of return | 7.50% net of investments expense, including inflation |
| Municipal bond index rate: | |
| Measurement date | 3.62% |
| Prior measurement date | 3.56% |
| Single equivalent interest rate, net of plan investment expense, including price inflation: | |
| Measurement date | 3.70% |
| Prior measurement date | 3.63% |
| Medical trend assumption: | |
| Medicare | 5.375 to 4.75% |
| Pre-Medicare | 7.25 to 4.75% |

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120% of male rates and 110% of female rates. RP-2000 Disabled Mortality Table with 90% for male rates and 100% for female rates set back five years.

The most recent experience study was completed for the five year period ended June 30, 2015.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 10 - DEFINED BENEFIT OPEB PLANS - (CONTINUED)

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50%, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

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

Discount Rate - The discount rate used to measure the total OPEB liability at June 30, 2018 was 3.70%. The discount rate used to measure total OPEB liability prior to June 30, 2018 was 3.63%. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00% of projected covered employee payroll each year, which includes a 1.50% payroll surcharge and 0.50% of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2026. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2025 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.62%, as of June 30, 2018 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. A municipal bond rate of 3.56% was used as of June 30, 2017. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates - The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.70%) and higher (4.70%) than the current discount rate (3.70%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.25% decreasing to 3.75%) and higher (8.25% decreasing to 5.75%) than the current rate.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 10 - DEFINED BENEFIT OPEB PLANS - (CONTINUED)

| | 1% Decrease (2.70%) | Current Discount Rate (3.70%) | 1% Increase (4.70%) |
|---|------------------------|-------------------------------------|------------------------|
| District's proportionate share of the net OPEB liability | \$ 3,710,027 | \$ 3,057,493 | \$ 2,540,808 |

| | 1% Decrease (6.25 % decreasing to 3.75 %) | Current Trend Rate (7.25 % decreasing to 4.75 %) | 1% Increase (8.25 % decreasing to 5.75 %) |
|---|---|---|---|
| District's proportionate share of the net OPEB liability | \$ 2,466,836 | \$ 3,057,493 | \$ 3,839,628 |

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2018, actuarial valuation, compared with July 1, 2017, are presented below:

| | July 1, 2018 | July 1, 2017 |
|--------------------------------------|---|---|
| Inflation | 2.50% | 2.50% |
| Projected salary increases | 12.50% at age 20 to 2.50% at age 65 | 12.50% at age 20 to 2.50% at age 65 |
| Investment rate of return | 7.45%, net of investment expenses, including inflation | 7.45%, net of investment expenses, including inflation |
| Payroll increases | 3.00% | 3.00% |
| Cost-of-living adjustments (COLA) | 0.00% | 0.00%, effective July 1, 2017 |
| Discounted rate of return | 7.45% | N/A |
| Blended discount rate of return | N/A | 4.13% |
| Health care cost trends | | 6 to 11% initial, 4.50% ultimate |
| | Initial | Ultimate |
| Medical | | |
| Pre-Medicare | 6.00% | 4.00% |
| Medicare | 5.00% | 4.00% |
| Prescription Drug | | |
| Pre-Medicare | 8.00% | 4.00% |
| Medicare | -5.23% | 4.00% |

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50% of rates through age 69, 70% of rates between ages 70 and 79, 90% of rates between ages 80 and 84, and 100% of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90% of rates for males and 100% of rates for females, projected forward generationally using mortality improvement scale MP-2016.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 10 - DEFINED BENEFIT OPEB PLANS - (CONTINUED)

Actuarial assumptions used in the June 30, 2018, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Assumption Changes Since the Prior Measurement Date - The discount rate was increased from the blended rate of 4.13% to the long-term expected rate of return of 7.45% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB). Valuation year per capita health care costs were updated.

Benefit Term Changes Since the Prior Measurement Date - The subsidy multiplier for non-Medicare benefit recipients was increased from 1.90% to 1.944% per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased effective January 1, 2019 and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 1, 2020.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

| Asset Class | Target Allocation** | Long Term Expected Real Rate of Return * |
|----------------------|------------------------|---|
| Domestic Equity | 28.00 % | 7.35 % |
| International Equity | 23.00 | 7.55 |
| Alternatives | 17.00 | 7.09 |
| Fixed Income | 21.00 | 3.00 |
| Real Estate | 10.00 | 6.00 |
| Liquidity Reserves | 1.00 | 2.25 |
| Total | <u>100.00 %</u> | |

*10-Year geometric nominal returns, which include the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

** The Target Allocation percentage is effective as of July 1, 2017. Target weights will be phased in over a 24-month period concluding on July 1, 2019.

Discount Rate - The discount rate used to measure the total OPEB asset was 7.45% as of June 30, 2018. A discount rate used to measure the total OPEB liability was 4.13% as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on health care plan investments of 7.45% was used to measure the total OPEB asset as of June 30, 2018.

Sensitivity of the District's Proportionate Share of the Net OPEB Asset to Changes in the Discount and Health Care Cost Trend Rate - The following table represents the net OPEB asset as of June 30, 2018, calculated using the current period discount rate assumption of 7.45%, as well as what the net OPEB asset would be if it were calculated using a discount rate that is one percentage point lower (6.45%) or one percentage point higher (8.45%) than the current assumption. Also shown is the net OPEB asset as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 10 - DEFINED BENEFIT OPEB PLANS - (CONTINUED)

| | 1% Decrease (6.45%) | Current Discount Rate (7.45%) | 1% Increase (8.45%) |
|---|------------------------|-------------------------------------|------------------------|
| District's proportionate share of the net OPEB asset | \$ 1,510,918 | \$ 1,762,839 | \$ 1,974,567 |
| | 1% Decrease | Current Trend Rate | 1% Increase |
| District's proportionate share of the net OPEB asset | \$ 1,962,615 | \$ 1,762,839 | \$ 1,559,952 |

NOTE 11 – OTHER EMPLOYEE BENEFITS

Compensated Absences

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

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

Health Care Benefits

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 12 – LONG-TERM OBLIGATIONS

A. Changes in the District’s long-term obligations during fiscal year 2019 were as follows:

| | Balance Outstanding <u>June 30, 2018</u> | <u>Additions</u> | <u>Reductions</u> | Balance Outstanding <u>June 30, 2019</u> | Amounts Due in <u>One Year</u> |
|------------------------------------|--|-------------------|----------------------|--|--------------------------------------|
| Governmental activities: | | | | | |
| 2014 Various Purpose Bonds | | | | | |
| Serial Bonds - 1.5 - 5.0% | \$ 7,935,000 | \$ - | \$ (370,000) | \$ 7,565,000 | \$ 380,000 |
| Term Bonds - 5.0% | 3,595,000 | - | - | 3,595,000 | - |
| Term Bonds - 5.0% | 6,635,000 | - | - | 6,635,000 | - |
| 2015 Refunding Bonds | | | | | |
| Serial Bonds - 1.0 - 4.0% | 4,075,000 | - | (40,000) | 4,035,000 | 40,000 |
| Term Bonds - 3.25% | 615,000 | - | - | 615,000 | - |
| Capital Appreciation Bonds - 8.90% | 175,000 | - | - | 175,000 | - |
| Lease purchase obligation | 2,000,000 | - | (310,000) | 1,690,000 | 315,000 |
| Capital lease obligations | <u>723,861</u> | <u>116,637</u> | <u>(311,953)</u> | <u>528,545</u> | <u>223,560</u> |
| Total long-term obligations | <u>\$ 25,753,861</u> | <u>\$ 116,637</u> | <u>\$(1,031,953)</u> | <u>\$ 24,838,545</u> | <u>\$ 958,560</u> |

2014 Various Purpose Bonds

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

The serial bonds were issued for a twenty-fiscal year period with final maturity on December 1, 2034. The remaining principal amount to be redeemed as of June 30, 2019, is \$7,565,000. The serial bonds are not subject to redemption prior to maturity.

The term bonds maturing on December 1, 2039 are subject to mandatory sinking fund redemption at redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 of each year as follows:

| <u>Year</u> | <u>Mandatory Sinking Fund Requirement</u> |
|-------------|---|
| 2035 | \$ 615,000 |
| 2036 | 695,000 |
| 2037 | 735,000 |
| 2038 | 775,000 |
| 2039 | <u>775,000</u> |
| Total | <u>\$ 3,595,000</u> |

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 12 – LONG-TERM OBLIGATIONS - (CONTINUED)

The term bonds maturing on December 1, 2046 are subject to mandatory sinking fund redemption at redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 of each year as follows:

| <u>Year</u> | <u>Mandatory Sinking Fund Requirement</u> |
|-------------|---|
| 2040 | \$ 815,000 |
| 2041 | 855,000 |
| 2042 | 900,000 |
| 2043 | 945,000 |
| 2044 | 990,000 |
| 2045 | 1,040,000 |
| 2046 | <u>1,090,000</u> |
| Total | <u>\$ 6,635,000</u> |

2015 Refunding Bonds

On May 11, 2015, the District issued \$4,990,000 in voted general obligation bonds for retiring bonds previously issued. The bond issued included serial, capital appreciation and term bonds in the amounts of \$4,200,000, \$175,000 and \$615,000, respectively. The bonds are being retired with a voted property tax levy from the debt service fund (a nonmajor governmental fund)

The serial bonds were issued for a nineteen-fiscal year period with final maturity on December 1, 2033. The remaining principal amount to be redeemed as of June 30, 2019, is \$4,035,000. The serial bonds are not subject to redemption prior to maturity.

The term bonds maturing on December 1, 2026 are subject to mandatory sinking fund redemption at redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 of each year as follows:

| <u>Year</u> | <u>Mandatory Sinking Fund Requirement</u> |
|-------------|---|
| 2023 | \$ 45,000 |
| 2024 | 45,000 |
| 2025 | 50,000 |
| 2026 | <u>475,000</u> |
| Total | <u>\$ 615,000</u> |

The capital appreciation bonds will mature December 31, 2027. Interest on the bonds will accrue from the date of delivery until maturity at the stated interest. Interest on the capital appreciation bonds will compound semiannually but will be payable only at maturity.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 12 – LONG-TERM OBLIGATIONS - (CONTINUED)

Lease Purchase Obligation

On March 24, 2016, the District entered into a \$2,500,000 lease purchase private placement obligation with State Bank and Trust Company to provide for the construction, enlarging, improving, furnishing, and equipping of school athletic facilities. The lease purchase obligation matures on December 1, 2023 and carries an interest rate of 2.45%. Principal and interest payments are due June 1 and December 1 through maturity. The constructed facilities are pledged as collateral for the lease purchase obligation. Principal and interest payments in fiscal year 2019 were \$310,000 and \$45,203, respectively. The lease purchase obligation is being retired from the general fund.

Capital Lease Obligations

See Note 17 for further information on the District’s capital lease obligations.

B. Future Debt Service Requirements

Principal and interest requirements to retire long-term obligations outstanding at fiscal year-end are as follows:

| Fiscal Year Ending June 30, | Serial & Term Bonds | | | Capital Appreciation Bonds | | |
|-----------------------------------|----------------------|---------------------|----------------------|----------------------------|-------------------|-------------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2020 | \$ 420,000 | \$ 1,024,175 | \$ 1,444,175 | \$ - | \$ - | \$ - |
| 2021 | 440,000 | 1,015,175 | 1,455,175 | - | - | - |
| 2022 | 520,000 | 997,950 | 1,517,950 | - | - | - |
| 2023 | 560,000 | 972,375 | 1,532,375 | - | - | - |
| 2024 | 590,000 | 944,770 | 1,534,770 | - | - | - |
| 2025-2029 | 3,430,000 | 4,255,211 | 7,685,211 | 175,000 | 355,000 | 530,000 |
| 2030-2034 | 5,665,000 | 3,322,449 | 8,987,449 | - | - | - |
| 2035-2039 | 3,410,000 | 2,299,194 | 5,709,194 | - | - | - |
| 2040-2044 | 4,290,000 | 1,337,500 | 5,627,500 | - | - | - |
| 2045-2047 | 3,120,000 | 239,000 | 3,359,000 | - | - | - |
| Total | <u>\$ 22,445,000</u> | <u>\$16,407,799</u> | <u>\$ 38,852,799</u> | <u>\$ 175,000</u> | <u>\$ 355,000</u> | <u>\$ 530,000</u> |

| Fiscal Year Ending June 30, | Lease Purchase Obligation | | |
|-----------------------------------|---------------------------|-------------------|---------------------|
| | Principal | Interest | Total |
| 2020 | \$ 315,000 | \$ 37,546 | \$ 352,546 |
| 2021 | 325,000 | 29,707 | 354,707 |
| 2022 | 335,000 | 21,621 | 356,621 |
| 2023 | 350,000 | 13,230 | 363,230 |
| 2024 | 365,000 | 4,471 | 369,471 |
| Total | <u>\$ 1,690,000</u> | <u>\$ 106,575</u> | <u>\$ 1,796,575</u> |

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 12 – LONG-TERM OBLIGATIONS - (CONTINUED)

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District’s legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District’s legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2019, are a voted debt margin of \$2,287,041 (including available funds of \$860,680) and an unvoted debt margin of \$267,182.

NOTE 13 – SET ASIDE REQUIREMENTS

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

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

| | <u>Capital Improvements</u> |
|---|---------------------------------|
| Set-aside balance June 30, 2018 | \$ - |
| Current year set-aside requirement | 453,418 |
| Current year offsets | <u>(453,418)</u> |
| Total | <u>\$ -</u> |
| Balance carried forward to fiscal year 2020 | <u>\$ -</u> |
| Set-aside balance June 30, 2019 | <u>\$ -</u> |

NOTE 14 – JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Computer Association

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 14 – JOINTLY GOVERNED ORGANIZATIONS - (CONTINUED)

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 2019, the District paid \$198,438 to NWOCA for various services. Financial information can be obtained from Tammy Butler, who serves as Treasurer, 209 Nolan Parkway, Archbold, Ohio 43502.

B. Northern Buckeye Education Council

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

C. Four County Career Center

The Four County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of five representatives from the Northwest Ohio Educational Service Center – one each from the counties of Defiance, Fulton, Henry, and Williams and one additional representative; one representative from each of the city Districts; one representative from each of the exempted village Districts. The Four County Career Center possesses its own budgeting and taxing authority. To obtain financial information write to the Four County Career Center, Connie Nicely, who serves as Treasurer, 22-900 State Route 34, Archbold, Ohio 43502.

D. Northwestern Ohio Educational Research Council, Inc.

The Northwestern Ohio Educational Research Council, Inc. (NWOERC) 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 NWOERC serves a twenty-five county area of 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., P.O. Box 456, Ashland, Ohio 44805.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 15 – GROUP PURCHASING POOLS

A. Employee Insurance Benefits Program

The District participates in a group health insurance pool through the Northern Buckeye Health Plan (NBHP), Northwest Division of Optimal Health Initiative Consortium (OHI) Insurance Benefits Program. NBHP is a joint self-insurance arrangement created pursuant to the authority vested in Ohio Rev. Code Section 9.833. NBHP is a public entity shared risk pool consisting of educational entities located in Defiance, Fulton, Henry, and Williams Counties. NBHP is governed by OHI and its participating members.

The District contributed a total of \$3,395,741 to Northern Buckeye Health Plan, Northwest Division of OHI for all employee insurance plans. Financial information for the period can be obtained from Jenny Jostworth, Treasurer, at 10999 Reed Hartman Highway, Suite 304E, Cincinnati, Ohio 45242.

B. Workers' Compensation Group Rating Plan

The District participates in a group-rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Northern Buckeye Health Plan, Northern Division of OHI (NBHP) Workers' Compensation Group Rating Plan (WCGRP) is an insurance purchasing pool. The group was formed to create a workers' compensation group rating plan which would allow employers to group together to achieve a potentially lower premium rate than they may otherwise be able to acquire as individual employers. NBH has created a workers' compensation group rating and risk management program which will potentially reduce the workers' compensation premiums for the District.

NBHP has retained Sheakley Uniservice as the servicing agent to perform administrative, actuarial cost control, claims, and safety consulting services and unemployment claims services for program participants

NOTE 16 – CONTINGENCIES

A. Federal and State Grants

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2019.

B. Litigation

The District is involved in no material litigation as either plaintiff or defendant.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 17 – LEASES

In December 2013, the District entered into capital lease agreement with Marlin Leasing for the acquisition of RICOH copiers. The lease is for a term of five years and matured in October 2018. This lease was retired 50% from the general fund and 50% from the food service fund (a nonmajor governmental fund).

In August 2014, the District entered into capital lease agreement with Marlin Leasing for the acquisition of RICOH workroom equipment, copiers, printers and a duplicator and stand. This lease is for a term of five years and matured in January 2019. This lease was retired from the general fund.

In September 2016, the District entered into a capital lease agreement with Kansas City Bank for the acquisition of Chrome Books. The lease is for a term of three years and matured September 2018. This lease was retired from the general fund.

In June 2017, the District entered into a capital lease agreement with Hewlett-Packard Financial Services for the acquisition of Chrome Books. The lease is for a term of three years and matures August 2019. This lease is being retired from the general fund.

In January 2018, the District entered into a capital lease agreement with U.S. Bank Equipment Finance for the acquisition of copier equipment. The lease is for a term of five years and matures December 2022. This lease is being retired from the general fund.

In April 2018, the District entered into a capital lease agreement with TCF Financing for the acquisition of school buses. The lease is for a term of four years and matures April 2021. This lease is being retired from the general fund. In February 2019, the District entered into an additional capital lease agreement with TCF Financing for the acquisition of school buses. The lease is for a term of four years and matures March 2022. This lease is being retired from the general fund.

In January 2019, the District entered into a capital lease agreement with U.S. Bank Equipment Finance for the acquisition of copier equipment. The lease is for a term of five years and matures December 2023. This lease is being retired 75% from the general fund, 17% from the food service fund (a nonmajor governmental fund) and 8% from the district managed student activities fund (a nonmajor governmental fund).

Lease principal payments in fiscal year 2019, by fund, follows:

| <u>Fund</u> | <u>Amount</u> |
|-------------------------------------|--------------------------|
| General | \$ 308,645 |
| Nonmajor Governmental Funds: | |
| Food Service Fund | 2,457 |
| District Managed Student Activities | <u>851</u> |
| Total | <u><u>\$ 311,953</u></u> |

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 17 – LEASES - (CONTINUED)

The following is a schedule of the future minimum lease payments required under the District’s capital lease agreements and present value of the future minimum lease payments as of June 30, 2019.

| <u>Fiscal Year Ending June 30,</u> | <u>Amount</u> |
|------------------------------------|--------------------------|
| 2020 | \$ 247,269 |
| 2021 | 157,161 |
| 2022 | 111,399 |
| 2023 | 45,056 |
| 2024 | <u>13,177</u> |
| Total Minimum lease payments | 574,062 |
| Less: amount representing interest | <u>(45,517)</u> |
| Total | <u><u>\$ 528,545</u></u> |

NOTE 18 – DEFIANCE CITY SCHOOLS FOUNDATION

The Defiance City School Foundation (the “Foundation”) is a non-profit organization established to solicit funds from the general public to maintain, develop, increase, and extend the facilities and services of the Defiance City School. It also provides educational service opportunities to its students, staff, and faculty. The Foundation is governed by a Board of Trustees which is appointed by the Board of Education. The Board of Trustees possess its own contracting and budgeting authority, hires and fires personnel, and does not depend on the District for operational subsidies. In 2019, the Foundation contributed \$16,318 to the District for miscellaneous grant reimbursements.

NOTE 19 – COMMITMENTS

A. Contracts

As of June 30, 2019, the District has commitments with the following companies for a construction project.

| <u>Contractor</u> | <u>Amount Remaining On Contract</u> |
|-------------------------------------|---|
| Beilharz Architects Inc. | \$ 150,486 |
| Four Seasons Construction, LLC | 767 |
| Regency Construction Services, Inc. | 15,362 |
| Rudolph Libbe, Inc. | <u>30,010</u> |
| Total | <u><u>\$ 196,625</u></u> |

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 19 – COMMITMENTS - (CONTINUED)

B. Encumbrances

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at fiscal year-end may be reported as part of restricted, committed, or assigned classifications of fund cash balance. At fiscal year end, the District’s commitments for encumbrances in the governmental funds were as follows:

| <u>Fund</u> | <u>Year End Encumbrances</u> |
|-----------------------------|----------------------------------|
| General fund | \$ 146,563 |
| Nonmajor governmental funds | <u>758,560</u> |
| Total | <u>\$ 905,123</u> |

NOTE 20 - TAX ABATEMENTS ENTERED INTO BY OTHER GOVERNMENTS

Other governments have entered into property tax abatement agreements with property owners under Enterprise Zone Agreements (“EZAs”) and the Ohio Community Reinvestment Area (“CRA”) program within taxing districts of the District. The EZAs and CRA program are directive incentive tax exemption programs benefiting property owners who renovate or construct new buildings. Under these programs, the other governments have designated areas to encourage revitalization of the existing housing stock and the development of new structures.

The District has incurred a reduction in property tax receipts due to agreements entered into by other governments. During fiscal year 2019, the District’s property tax receipts were reduced under agreements entered into by other governments as follows:

| <u>Government Entering Into Agreement</u> | <u>Tax Abatement Program</u> | | <u>District Taxes Foregone</u> |
|---|------------------------------|-------------------|------------------------------------|
| | <u>CRA</u> | <u>Ezone</u> | |
| Defiance County | \$ - | \$ 103,367 | \$ 103,367 |
| City of Defiance | <u>17,184</u> | <u>-</u> | <u>17,184</u> |
| Total | <u>\$ 17,184</u> | <u>\$ 103,367</u> | <u>\$ 120,551</u> |

The District received \$54,262 in compensation payments for the forgone property taxes.

NOTE 21 – SIGNIFICANT SUBSEQUENT EVENT

On August 1, 2019, Mr. Robert Morton was named Superintendent of the District.

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SUPPLEMENTARY INFORMATION

**DEFIANCE CITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

| FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE | CFDA NUMBER | (C) PASS-THROUGH GRANT NUMBER | (D) PASSED THROUGH TO SUBRECIPIENTS | (A) CASH FEDERAL DISBURSEMENTS |
|---|----------------|--|--|---|
| U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION | | | | |
| Child Nutrition Cluster: | | | | |
| (F) School Breakfast Program | 10.553 | 2019 | \$ - | \$ 135,593 |
| (F) National School Lunch Program | 10.555 | 2019 | - | 562,943 |
| (E) National School Lunch Program - Food Donation | 10.555 | 2019 | - | 105,868 |
| Total National School Lunch Program | | | - | 668,811 |
| Total U.S. Department of Agriculture and Child Nutrition Cluster | | | - | 804,404 |
| U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION | | | | |
| (G)(1) Title I Grants to Local Educational Agencies | 84.010 | 2018 | - | 73,834 |
| (G)(1) Title I Grants to Local Educational Agencies | 84.010 | 2019 | - | 447,938 |
| Total Title I Grants to Local Educational Agencies | | | - | 521,772 |
| Special Education Cluster (IDEA): | | | | |
| Special Education-Grants to States (IDEA, Part B) | 84.027 | 2018 | - | 77,226 |
| Special Education-Grants to States (IDEA, Part B) | 84.027 | 2019 | - | 556,072 |
| Special Education-Grants to States (IDEA, Part B) - Catastrophic | 84.027 | 2019 | - | 2,950 |
| Total Special Education Grants to States (IDEA, Part B) | | | - | 636,248 |
| Special Education-Preschool Grants (IDEA Preschool) - Restoration | 84.173 | 2019 | 20,190 | 24,622 |
| Total Special Education Cluster (IDEA) | | | 20,190 | 660,870 |
| Twenty-First Century Community Learning Centers | 84.287 | 2018 | - | 42,040 |
| Twenty-First Century Community Learning Centers | 84.287 | 2019 | - | 149,121 |
| Total Twenty-First Century Community Learning Centers | | | - | 191,161 |
| English Language Acquisition State Grant | 84.365 | 2019 | 1,657 | 1,780 |
| (G)(2) Supporting Effective Instruction State Grant | 84.367 | 2018 | - | 13,935 |
| (G)(2) Supporting Effective Instruction State Grant | 84.367 | 2019 | - | 82,545 |
| Total Supporting Effective Instruction State Grant | | | - | 96,480 |
| Student Support and Academic Enrichment Program | 84.424 | 2019 | - | 1,644 |
| Total U.S. Department of Education | | | 21,847 | 1,473,707 |
| Total Federal Financial Assistance | | | \$ 21,847 | \$ 2,278,111 |

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

- (A) This schedule includes the federal award activity of the Defiance City School District under programs of the federal government for the fiscal year ended June 30, 2019 and is prepared in accordance with the cash basis of accounting. The information on this schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Defiance City School District, it is not intended to and does not present the financial position or changes in net position of the Defiance City School District.
- (B) CFR Section 200.414 of the Uniform Guidance allows a non-federal entity that has never received a negotiated indirect cost rate to charge a de minimis rate of 10% of modified total direct costs to indirect costs. The District has not elected to use the 10% de minimis indirect cost rate.
- (C) OAKS did not assign pass-through numbers for fiscal year 2019.
- (D) The District passes certain federal awards received from Ohio Department of Education to other governments or not-for-profit agencies (subrecipients). As a subrecipient, the District has certain compliance responsibilities, such as monitoring its subrecipients to help assure they use these subawards as authorized by laws, regulations, and the provisions of contracts or grant agreements, and that subrecipients achieve the award's performance goals.
- (E) The Food Donation program is a non-cash, in kind, federal grant. Commodities are reported at the entitlement value.
- (F) Commingled with state and local revenue from sales of lunches; assumed expenditures were made on a first-in, first-out basis.
- (G) Federal regulations require schools to obligate certain federal awards by June 30. However, with the Ohio Department of Education's consent, School District's can transfer unobligated amounts to the subsequent fiscal year or a similar program. During fiscal year 2019, the Defiance City School District, with the Ohio Department of Education's consent, made the following transfers:
- (1) 2018 Title I Grants to Local Educational Agencies (CFDA#84.010) transferred \$14,397 to 2019 Title I Grants to Local Educational Agencies (CFDA#84.010).
- (2) 2018 Supporting Effective Instruction State Grant (CFDA#84.367) transferred \$32 to 2019 Supporting Effective Instruction State Grant (CFDA#84.367).



Julian & Grube, Inc.
Serving Ohio Local Governments

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

Defiance City School District
Defiance County
801 South Clinton Street
Defiance, Ohio 43512

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the modified cash-basis financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Defiance City School District, Defiance County, Ohio as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Defiance City School District's basic financial statements and have issued our report thereon dated December 3, 2019, wherein we noted the Defiance City School District uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the Defiance City School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2019-001.

Defiance City School District's Response to Findings

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

Purpose of this Report

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



Julian & Grube, Inc.
December 3, 2019



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

Defiance City School District
Defiance County
801 South Clinton Street
Defiance, Ohio 43512

To the Board of Education:

Report on Compliance for each Major Federal Program

We have audited the Defiance City School District's compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect each of the Defiance City School District's major federal programs for the fiscal year ended June 30, 2019. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the Defiance City School District's major federal programs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Defiance City School District
Defiance County

Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Federal Program and on
Internal Control Over Compliance Required by the Uniform Guidance
Page 2

Opinion on each Major Federal Program

In our opinion, the Defiance City School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

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

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

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

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



Julian & Grube, Inc.
December 3, 2019

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

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2019**

| 1. SUMMARY OF AUDITOR'S RESULTS | | |
|--|---|--|
| <i>(d)(1)(i)</i> | <i>Type of Financial Statement Opinion</i> | Unmodified |
| <i>(d)(1)(ii)</i> | <i>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</i> | No |
| <i>(d)(1)(ii)</i> | <i>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</i> | No |
| <i>(d)(1)(iii)</i> | <i>Was there any reported material noncompliance at the financial statement level (GAGAS)?</i> | Yes |
| <i>(d)(1)(iv)</i> | <i>Were there any material internal control weaknesses reported for major federal programs?</i> | No |
| <i>(d)(1)(iv)</i> | <i>Were there any significant deficiencies in internal control reported for major federal programs?</i> | No |
| <i>(d)(1)(v)</i> | <i>Type of Major Programs' Compliance Opinion</i> | Unmodified |
| <i>(d)(1)(vi)</i> | <i>Are there any reportable findings under 2 CFR §200.516(a)?</i> | No |
| <i>(d)(1)(vii)</i> | <i>Major Programs (listed):</i> | Title I Grants to Local Educational Agencies, CFDA #84.010 Special Education Cluster (IDEA) |
| <i>(d)(1)(viii)</i> | <i>Dollar Threshold: Type A/B Programs</i> | Type A: >\$750,000 Type B: all others |
| <i>(d)(1)(ix)</i> | <i>Low Risk Auditee under 2CFR § 200.520?</i> | No |

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

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2019**

| 2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS | |
|---|----------|
| Finding Number | 2019-001 |

Noncompliance

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

The District prepares its financial statements in accordance with the modified cash basis of accounting in a report format similar to the requirements of Governmental Accounting Standards Board Statement 34, *Basic Financial Statements – and Management’s Discussion and Analysis - for State and Local Governments*. This presentation differs from (GAAP). There would be variances on the financial statements between this accounting practice and GAAP that, while presumably material, cannot be reasonably determined at this time.

Failure to prepare proper GAAP financial statements may result in the District being fined or other administrative remedies.

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

| |
|--|
| 3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS |
|--|

None

DEFIANCE CITY SCHOOLS

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BOARD OF EDUCATION

Mr. Garry Rodenberger
 President
Mrs. Cathy Davis
 Vice President
Mrs. Cheryl Swisher
 CFO/Treasurer

Mr. Robert Morton
 Superintendent

BOARD OF EDUCATION

Mr. Wesley Moats
 Member
Mrs. Christine Oberlin
 Member
Mrs. Dodi Thompson
 Member

CORRECTIVE ACTION PLAN
2 CFR 200.511(c)
JUNE 30, 2019

| <u>Finding Number</u> | <u>Planned Corrective Action</u> | <u>Anticipated Completion Date</u> | <u>Responsible Contact Person</u> |
|------------------------------|---|---|--|
| 2019-001 | Management believes reporting on a basis of accounting other than generally accepted accounting principles (GAAP) is more cost efficient. | N/A | Cheryl Swisher, CFO/Treasurer |

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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
2 CFR 200.511(b)
JUNE 30, 2019**

| Finding Number | Year Initially Occurred | Finding Summary | Status | Additional Information |
|-----------------------|--------------------------------|---|---------------|-------------------------------|
| 2018-001 | 2007 | <u>Noncompliance</u> - Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(B) required the District to prepare its annual financial report in accordance with GAAP, however, the District prepared its annual financial report with the modified cash basis of accounting in a report format similar to the requirements in GASB Statement No. 34. | Not Corrected | Repeated as finding 2019-001 |
| 2018-002 | 2018 | <u>Material Weakness - Financial Statement Presentation</u> - The presentation of materially correct financial statements and the related footnotes is the responsibility of management and is an important part of the District's overall purpose. Financial reporting requires internal controls to help ensure the accuracy of the activity reported. Certain adjustments were posted to the audited financial statements to make them materially correct. | Corrected | N/A |

OHIO AUDITOR OF STATE KEITH FABER



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
FEBRUARY 18, 2020**