



**Auditor of State
Betty Montgomery**

**CITY OF DEFIANCE
DEFIANCE COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

City of Defiance
Defiance County
324 Perry Street, Suite D
Defiance, Ohio 43512-2193

To City Council:

We have audited the accompanying general-purpose financial statements of the City of Defiance (the City) as of and for the year ended December 31, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Defiance, Defiance County as of December 31, 2002, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 19 to the accompanying general-purpose financial statements, during the year ended December 31, 2002, the City changed the fund type classification for a certain fund.

City of Defiance
Defiance County
Report of Independent Accountants
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In accordance with *Government Auditing Standards*, we have also issued our report dated August 7, 2003 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Betty Montgomery
Auditor of State

August 7, 2003

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**CITY OF DEFIANCE
DEFIANCE COUNTY**

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 2002

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
ASSETS AND OTHER DEBITS				
Assets:				
Equity in pooled cash and cash equivalents	\$28,229	\$1,069,448	\$569,123	\$592,384
Equity in pooled cash and cash equivalents - nonexpendable trust fund				
Cash with fiscal and escrow agents				
Investments	336,487			
Receivables (net of allowance for uncollectibles):				
Income taxes	936,518	4,706		282,367
Real and other taxes	613,500	200,282		
Accounts	149,805	35,923		
Loans		872,660		
Special assessments			829,451	
Due from other governments	490,674	287,343		72,858
Prepayments	77,084			
Materials and supplies inventory	18,238	27,362		
Fixed assets (net of accumulated depreciation where applicable)				
Other debits:				
Amount available in debt service fund				
Amount to be provided for retirement of general long-term obligations				
Total assets and other debits	\$2,650,535	\$2,497,724	\$1,398,574	\$947,609

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
\$5,142,593	\$1	\$26,810			\$7,428,588
		4,600			4,600
		28,956			28,956
					336,487
					1,223,591
320,951	17,519				813,782
					524,198
					872,660
98,908					829,451
					949,783
126,582					77,084
					172,182
44,573,819			\$11,263,591		55,837,410
				\$569,123	569,123
				1,705,305	1,705,305
\$50,262,853	\$17,520	\$60,366	\$11,263,591	\$2,274,428	\$71,373,200

(Continued)

**CITY OF DEFIANCE
DEFIANCE COUNTY**

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 2002
(Continued)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
LIABILITIES, EQUITY AND OTHER CREDITS				
Liabilities:				
Accounts payable	\$144,403	\$86,633		\$10,000
Contracts payable				
Accrued wages and benefits	207,933	22,327		
Compensated absences payable	22,950	3,324		
Deferred revenue	745,583	366,746	\$829,451	8,116
Due to other governments	210,270	37,154		
Amount to be repaid to claimants				
Accrued interest payable				
General obligation bonds payable				
Claims payable				
Special assessment bonds payable				
Notes payable				
OWDA loan payable				
OPWC loan payable				
Total liabilities	<u>1,331,139</u>	<u>516,184</u>	<u>829,451</u>	<u>18,116</u>
Equity and Other Credits:				
Investment in general fixed assets				
Contributed capital				
Retained earnings:				
Unreserved				
Fund Balances:				
Reserved for encumbrances	176,966	209,560		469,095
Reserved for materials and supplies inventory	18,238	27,362		
Reserved for loans		872,660		
Reserved for prepayments	77,084			
Reserved for debt service			569,123	
Reserved for principal endowment				
Reserved for noncurrent investments	336,487			
Unreserved - undesignated	710,621	871,958		460,398
Total equity and other credits	<u>1,319,396</u>	<u>1,981,540</u>	<u>569,123</u>	<u>929,493</u>
Total liabilities, equity and other credits	<u>\$2,650,535</u>	<u>\$2,497,724</u>	<u>\$1,398,574</u>	<u>\$947,609</u>

The notes to the general-purpose financial statements are an integral part of this statement.

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
\$106,640					\$347,676
40,779					40,779
84,892					315,152
266,801				\$506,919	799,994
1,177					1,951,073
62,747		\$28,956			339,127
		26,810			26,810
89,525					89,525
12,495,000				315,000	12,810,000
	\$21,124				21,124
139,523				690,121	829,644
2,281,140				762,388	3,043,528
13,560,900					13,560,900
1,123,263					1,123,263
<u>30,252,387</u>	<u>21,124</u>	<u>55,766</u>		<u>2,274,428</u>	<u>35,298,595</u>
			\$11,263,591		11,263,591
1,944,582					1,944,582
18,065,884	(3,604)				18,062,280
					855,621
					45,600
					872,660
					77,084
					569,123
		4,600			4,600
					336,487
					2,042,977
<u>20,010,466</u>	<u>(3,604)</u>	<u>4,600</u>	<u>11,263,591</u>		<u>36,074,605</u>
<u>\$50,262,853</u>	<u>\$17,520</u>	<u>\$60,366</u>	<u>\$11,263,591</u>	<u>\$2,274,428</u>	<u>\$71,373,200</u>

**CITY OF DEFIANCE
DEFIANCE COUNTY**

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

	<u>Governmental Fund Types</u>	
	<u>General</u>	<u>Special Revenue</u>
Revenues:		
Income taxes	\$4,267,049	\$16,081
Real and other taxes	503,097	301,398
Charges for services	375,319	71
Licenses, permits and fees	124,412	114,588
Fines and forfeitures	689,628	107,164
Special assessments		
Intergovernmental	1,015,660	881,041
Investment income	71,709	53,529
Other	137,521	198,026
Total revenues	<u>7,184,395</u>	<u>1,671,898</u>
Expenditures:		
Current operations:		
General government	2,273,024	211,234
Security of persons and property	4,038,360	778,105
Public health and welfare	212,237	
Transportation		717,482
Community environment	545,343	21,834
Leisure time activity	569,347	
Economic development	48,934	14,356
Capital outlay		651,970
Bad debt expense		257,461
Debt service:		
Principal retirement	762,000	
Interest and fiscal charges	21,234	
Total expenditures	<u>8,470,479</u>	<u>2,652,442</u>
Excess of revenues over (under) expenditures	<u>(1,286,084)</u>	<u>(980,544)</u>
Other financing sources (uses):		
Proceeds of notes	762,388	
Operating transfers in	286,015	632,034
Operating transfers out	(632,034)	(286,015)
Other financing sources		
Other financing (uses)		
Total other financing sources (uses)	<u>416,369</u>	<u>346,019</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>(869,715)</u>	<u>(634,525)</u>
Fund balances, January 1	2,207,882	2,621,476
Decrease in reserve for inventory	(18,771)	(5,411)
Fund balances, December 31	<u>\$1,319,396</u>	<u>\$1,981,540</u>

The notes to the general-purpose financial statements are an integral part of this statement.

Governmental Fund Types		
Debt Service	Capital Projects	Total (Memorandum Only)
	\$1,281,904	\$5,565,034
		804,495
		375,390
		239,000
		796,792
\$152,945		152,945
	72,858	1,969,559
		125,238
51,442	106,074	493,063
204,387	1,460,836	10,521,516
		2,484,258
		4,816,465
		212,237
		717,482
		567,177
		569,347
		63,290
	1,372,204	2,024,174
		257,461
91,967		853,967
72,198		93,432
164,165	1,372,204	12,659,290
40,222	88,632	(2,137,774)
		762,388
		918,049
		(918,049)
		762,388
40,222	88,632	(1,375,386)
528,901	847,244	6,205,503
	(6,383)	(30,565)
\$569,123	\$929,493	\$4,799,552

**CITY OF DEFIANCE
DEFIANCE COUNTY**

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

	General		Variance: Favorable (Unfavorable)
	Revised Budget	Actual	
Revenues:			
Income taxes	\$4,252,726	\$4,222,635	(\$30,091)
Property and other taxes	507,043	503,097	(3,946)
Charges for services	366,527	364,186	(2,341)
Licenses, permits and fees	125,279	124,412	(867)
Fines and forfeitures	692,422	687,187	(5,235)
Special assessments			
Intergovernmental	839,710	834,029	(5,681)
Investment income	72,797	71,750	(1,047)
Other	66,872	66,197	(675)
Total revenues	6,923,376	6,873,493	(49,883)
Expenditures:			
Current:			
General government	2,482,946	2,594,269	(111,323)
Security of persons and property	4,097,665	4,021,330	76,335
Public health and welfare	232,561	217,154	15,407
Transportation			
Community environment	816,025	748,542	67,483
Leisure time activity	623,581	577,649	45,932
Economic development	40,000	49,454	(9,454)
Capital outlay			
Debt service:			
Principal retirement	217,924	760,000	(542,076)
Interest and fiscal charges	6,664	23,234	(16,570)
Total expenditures	8,517,366	8,991,632	(474,266)
Excess of revenues over (under) expenditures	(1,593,990)	(2,118,139)	(524,149)
Other financing sources (uses):			
Proceeds of notes	767,759	762,388	(5,371)
Operating transfers in	287,804	286,015	(1,789)
Operating transfers out	(636,600)	(632,034)	4,566
Other financing sources	485,881	482,664	(3,217)
Total other financing sources (uses)	904,844	899,033	(5,811)
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(689,146)	(1,219,106)	(529,960)
Fund balance, January 1	985,083	985,083	
Prior year encumbrances appropriated	374,667	374,667	
Fund balance, December 31	\$670,604	\$140,644	(\$529,960)

Special Revenue			Debt Service		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
\$18,216	\$15,935	(\$2,281)			
231,511	298,463	66,952			
110,000	114,588	4,588			
92,382	106,437	14,055			
			\$178,569	\$152,945	(\$25,624)
906,363	910,792	4,429			
32,554	15,586	(16,968)			
74,274	152,867	78,593			
<u>1,465,300</u>	<u>1,614,668</u>	<u>149,368</u>	<u>178,569</u>	<u>152,945</u>	<u>(25,624)</u>
296,127	216,162	79,965			
781,660	808,495	(26,835)			
768,877	736,074	32,803			
1,000	21,834	(20,834)			
380,000	384,000	(4,000)			
878,791	778,734	100,057			
			270,000	96,337	173,663
			153,630	67,828	85,802
<u>3,106,455</u>	<u>2,945,299</u>	<u>161,156</u>	<u>423,630</u>	<u>164,165</u>	<u>259,465</u>
<u>(1,641,155)</u>	<u>(1,330,631)</u>	<u>310,524</u>	<u>(245,061)</u>	<u>(11,220)</u>	<u>233,841</u>
664,242	632,034	(32,208)			
(286,100)	(286,015)	85			
297,244	374,702	77,458	242,090	51,442	(190,648)
<u>675,386</u>	<u>720,721</u>	<u>45,335</u>	<u>242,090</u>	<u>51,442</u>	<u>(190,648)</u>
(965,769)	(609,910)	355,859	(2,971)	40,222	43,193
1,363,741	1,351,252	(12,489)	528,901	528,901	
64,964	64,964				
<u>\$462,936</u>	<u>\$806,306</u>	<u>\$343,370</u>	<u>\$525,930</u>	<u>\$569,123</u>	<u>\$43,193</u>

(Continued)

**CITY OF DEFIANCE
DEFIANCE COUNTY**

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
(Continued)

	Capital Projects		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:			
Income taxes	\$1,496,345	\$1,273,156	(\$223,189)
Property and other taxes			
Charges for services			
Licenses, permits and fees			
Fines and forfeitures			
Special assessments			
Intergovernmental			
Investment income			
Other	124,655	106,074	(18,581)
Total revenues	<u>1,621,000</u>	<u>1,379,230</u>	<u>(241,770)</u>
Expenditures:			
Current:			
General government			
Security of persons and property			
Public health and welfare			
Transportation			
Community environment			
Leisure time activity			
Economic development			
Capital outlay	1,989,624	1,846,902	142,722
Debt service:			
Principal retirement			
Interest and fiscal charges			
Total expenditures	<u>1,989,624</u>	<u>1,846,902</u>	<u>142,722</u>
Excess of revenues over (under) expenditures	<u>(368,624)</u>	<u>(467,672)</u>	<u>(99,048)</u>
Other financing sources (uses):			
Proceeds of notes			
Operating transfers in			
Operating transfers out			
Other financing sources			
Total other financing sources (uses)			
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>(368,624)</u>	<u>(467,672)</u>	<u>(99,048)</u>
Fund balance, January 1	228,837	228,837	
Prior year encumbrances appropriated	<u>352,124</u>	<u>352,124</u>	
Fund balance, December 31	<u>\$212,337</u>	<u>\$113,289</u>	<u>(\$99,048)</u>

The notes to the general-purpose financial statements are an integral part of this statement.

Total (Memorandum Only)

Revised Budget	Actual	Variance: Favorable (Unfavorable)
\$5,767,287	\$5,511,726	(\$255,561)
738,554	801,560	63,006
366,527	364,186	(2,341)
235,279	239,000	3,721
784,804	793,624	8,820
178,569	152,945	(25,624)
1,746,073	1,744,821	(1,252)
105,351	87,336	(18,015)
265,801	325,138	59,337
10,188,245	10,020,336	(167,909)
2,779,073	2,810,431	(31,358)
4,879,325	4,829,825	49,500
232,561	217,154	15,407
768,877	736,074	32,803
817,025	770,376	46,649
623,581	577,649	45,932
420,000	433,454	(13,454)
2,868,415	2,625,636	242,779
487,924	856,337	(368,413)
160,294	91,062	69,232
14,037,075	13,947,998	89,077
(3,848,830)	(3,927,662)	(78,832)
767,759	762,388	(5,371)
952,046	918,049	(33,997)
(922,700)	(918,049)	4,651
1,025,215	908,808	(116,407)
1,822,320	1,671,196	(151,124)
(2,026,510)	(2,256,466)	(229,956)
3,106,562	3,094,073	(12,489)
791,755	791,755	
\$1,871,807	\$1,629,362	(\$242,445)

**CITY OF DEFIANCE
DEFIANCE COUNTY**

COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	Total (Memorandum Only)
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Nonexpendable Trust</u>	
Operating revenues:				
Charges for services	\$8,026,396	\$1,345,100		\$9,371,496
Other	7,000			7,000
Total operating revenues	<u>8,033,396</u>	<u>1,345,100</u>		<u>9,378,496</u>
Operating expenses:				
Personal services	2,137,953			2,137,953
Contract services	366,388			366,388
Materials and supplies	678,432			678,432
Depreciation	1,169,086			1,169,086
Claims expense		1,457,565		1,457,565
Administrative costs	457,836			457,836
Utilities	1,089,075			1,089,075
Other	154,516			154,516
Total operating expenses	<u>6,053,286</u>	<u>1,457,565</u>		<u>7,510,851</u>
Operating income (loss)	<u>1,980,110</u>	<u>(112,465)</u>		<u>1,867,645</u>
Nonoperating revenues (expenses):				
Interest expense and fiscal charges	(1,606,642)			(1,606,642)
Interest revenue	93,720	641		94,361
Intergovernmental	433,638			433,638
Other nonoperating revenues	201,781			201,781
Total nonoperating revenues (expenses)	<u>(877,503)</u>	<u>641</u>		<u>(876,862)</u>
Net income (loss) before contributions	1,102,607	(111,824)		990,783
Capital contributions	387,861			387,861
Net income (loss)	1,490,468	(111,824)		1,378,644
Retained earnings/fund balance January 1	<u>16,575,416</u>	<u>108,220</u>	<u>\$4,600</u>	<u>16,688,236</u>
Retained earnings/fund balance December 31	18,065,884	(3,604)	4,600	18,066,880
Contributed capital, December 31	<u>1,944,582</u>			<u>1,944,582</u>
Total fund equity, December 31	<u>\$20,010,466</u>	<u>(\$3,604)</u>	<u>\$4,600</u>	<u>\$20,011,462</u>

The notes to the general-purpose financial statements are an integral part of this statement.

**CITY OF DEFIANCE
DEFIANCE COUNTY**

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
(Continued)

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Nonexpendable Trust</u>	
Cash flows from operating activities:				
Cash received from customers	\$8,031,410	\$1,344,582		\$9,375,992
Cash received from other operations	7,550			7,550
Cash payments for personal services	(2,201,958)			(2,201,958)
Cash payments for contract services	(417,409)			(417,409)
Cash payments for administrative costs	(457,909)			(457,909)
Cash payments for materials and supplies	(648,775)			(648,775)
Cash payments for utilities	(1,093,612)			(1,093,612)
Cash payments for claims expense		(1,472,112)		(1,472,112)
Cash payments for other expenses	(153,170)			(153,170)
Net cash provided (used) by operating activities	<u>3,066,127</u>	<u>(127,530)</u>		<u>2,938,597</u>
Cash flows from noncapital financing activities:				
Cash received from nonoperating activities	201,781			201,781
Cash received from operating grants	335,907			335,907
Net cash provided by noncapital financing activities	<u>537,688</u>			<u>537,688</u>
Cash flows from capital and related financing				
Acquisition of capital assets	(2,964,716)			(2,964,716)
Capital contributions	387,861			387,861
Proceeds of debt issues	2,281,140			2,281,140
Principal retirement	(3,623,277)			(3,623,277)
Interest and fiscal charges	(1,620,007)			(1,620,007)
Net cash used in capital and related financing activities	<u>(5,538,999)</u>			<u>(5,538,999)</u>
Cash flows from investing activities:				
Interest received	93,720	641		94,361
Net cash provided by investing activities	<u>93,720</u>	<u>641</u>		<u>94,361</u>
Decrease in cash and cash equivalents	(1,841,464)	(126,889)		(1,968,353)
Cash and cash equivalents at January 1	<u>6,984,057</u>	<u>126,890</u>	<u>\$4,600</u>	<u>7,115,547</u>
Cash and cash equivalents at December 31	<u>\$5,142,593</u>	<u>\$1</u>	<u>\$4,600</u>	<u>\$5,147,194</u>

(Continued)

**CITY OF DEFIANCE
DEFIANCE COUNTY**

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
(Continued)

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	Total (Memorandum Only)
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Nonexpendable Trust</u>	
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$1,980,110	(\$112,465)		\$1,867,645
Adjustments to reconcile income (loss) to net cash provided (used) by operating activities:				
Depreciation	1,169,086			1,169,086
Changes in assets and liabilities:				
Decrease in materials and supplies inventory	21,374			21,374
(Increase) decrease in accounts receivable	5,564	(518)		5,046
Decrease in accounts payable	(47,183)			(47,183)
Increase in accrued wages and benefits	10,833			10,833
Increase in contracts payable	1,171			1,171
Decrease in compensated absences payable	(70,887)			(70,887)
Decrease in claims payable		(14,547)		(14,547)
Decrease in due to other governments	(3,941)			(3,941)
Net cash provided (used) by operating activities	<u>\$3,066,127</u>	<u>(\$127,530)</u>		<u>\$2,938,597</u>

The notes to the general-purpose financial statements are an integral part of this statement.

**CITY OF DEFIANCE
DEFIANCE COUNTY**

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

NOTE 1 - DESCRIPTION

The City of Defiance (the City), located in Defiance County, is a politic and corporate body established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio and its charter. The City operates under a Council/Mayor form of government and provides the following services to its residents: public safety, highways and streets, water sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general purpose financial statements (GPFS) of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The most significant of the City's accounting policies are described below.

A. Reporting Entity

The City includes in its reporting entity all funds, account groups, agencies and departments that the City's executive or legislative branches (the Mayor or Council, respectively) exercise primary oversight responsibility. The City's reporting entity has been defined according to GASB Statement No. 14, "The Financial Reporting Entity". Based on application of the criteria set forth in GASB Statement No. 14, the City evaluated potential component units (PCU) for inclusion based on financial accountability, the nature and significance of their relationship to the City, and whether exclusion would cause the general purpose financial statements to be misleading or incomplete. Among the factors considered were whether the City holds the PCU's corporate power, appoints a voting majority of the PCU's board, is able to impose its will on the PCU, or whether a financial benefit/burden relationship exists between the City and the PCU. To provide necessary services to its citizens, the City of Defiance is divided into various departments including police, fire fighting and prevention, emergency medical services, street maintenance, parks and recreation, public service and planning, and zoning. The operation of each of these departments is directly controlled by the City through the budgetary process and therefore is included as a part of the reporting entity.

The City has no component units. The following organizations are described due to their relationship to the City.

JOINTLY GOVERNED ORGANIZATION

Maumee Valley Planning Organization (MVPO) - The City is a member of MVPO, which is a jointly governed organization between Defiance, Fulton, Henry, Paulding, and Williams Counties and the respective townships and municipalities in each of those counties. The purpose of MVPO is to act as a joint regional planning commission to write and administer Community Development Block Grants (CDBG) and help with housing rehabilitation in the area.

**CITY OF DEFIANCE
DEFIANCE COUNTY**

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

MVPO is governed by a Board consisting of fifteen members. The Board is made up of one County Commissioner from each member County as well as one township representative and one municipal representative for each of the five member counties. The main sources of revenue are fees charged by MVPO to administer CDBG grants and a per capita amount from each City. In 2002, the City paid administrative fees of \$36,650 and no per capita charges to MVPO.

Noble Township - City of Defiance Joint Economic Development District - The City and Noble Township agreed to create a joint economic development district, (the District). The District is wholly situated within Noble Township, Defiance County. The purpose of the District is to facilitate economic development to create and preserve employment opportunities within the District.

The District is governed by a board of directors consisting of five members. The board is made up of one representative appointed by the City, Noble Township, the District business owners' association, the District employee's association and one "at-large member". The main source of revenue is a tax levied upon the income earned by persons working in the District and the net profits of businesses located in the District. The tax is at rates equal to those levied upon earned income and profits by the City.

JOINT VENTURE WITHOUT EQUITY INTEREST

Multi-Area Narcotics Task Force (MANTF) - The City is a member of the MANTF, which is a joint venture between Defiance, Paulding and Putnam Counties and the Cities of Defiance and Bryan. The purpose of the drug task force is to act as a joint task force in the fight against narcotics. The MANTF is jointly controlled by the chief law enforcement officer of each respective entity.

The main source of revenue for the MANTF is from federal grants and local matching shares by the entities. The City has no ongoing financial responsibility to the MANTF. The City has indirect access to the net resources of the MANTF since the City is able to influence the MANTF to use its surplus resources to undertake projects of interest to the City's residents. This access to the net resources of the Board has not been explicitly defined, nor is it currently measurable. The City contributed \$6,641 to the MANTF in 2002. Complete financial statements for the MANTF can be obtained through the Defiance City Sheriff's Office located at 113 Biede Street, Defiance, Ohio.

Community Improvement Corporation of Defiance County (Corporation) - The Corporation shall be exercised, conducted, and controlled by the Board of Trustees, which Board shall number a minimum of nine (9) and a maximum of fifteen (15) trustees with forty percent (40%) of the Trustees to be elected officials. Further each shall be a Member of the Corporation and all of whom shall be citizens of the United States. Defiance County, City of Defiance, Village of Hicksville, and Defiance County Townships participate in the operation of the Corporation. The Corporation duties are to advance, encourage and promote the industrial, economic, commercial and civic development.

The *Defiance County Economic Development Employment Agreement* between the Board of Trustees of the Corporation and the Defiance County Director of Economic Development states that the county's Director of Economic Development may serve as executive director of the Corporation, such corporation having agreed to furnish the county with the funds needed to

**CITY OF DEFIANCE
DEFIANCE COUNTY**

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

pay his salary. The City of Defiance partially funds the Corporation to pay the salary of the Director of the Defiance County Economic Development. The City made no payments to the Corporation in 2002. The City's degree of control over the Board is limited to its representation on the Board.

RELATED ORGANIZATION

Defiance Public Library - The Defiance Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by City Council. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel, and does not depend on the District for operational subsidies. Although the City does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Defiance Public Library, Mary Kay Reineke, Clerk/Treasurer, at 320 Fort Street, Defiance, Ohio 43512.

B. Basis of Presentation - Fund Accounting

The accounts of the City are organized on the basis of fund or account groups, each of which is considered a separate account entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures/expenses, as appropriate. The various funds are summarized by type in the GPFS.

A fund is defined as a fiscal and accounting entity with a self balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

GOVERNMENTAL FUND TYPES

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the City's governmental fund types:

General Fund - This fund accounts for the general operating revenues and expenditures of the City not recorded elsewhere.

Special Revenue Funds - These funds are used to account for specific governmental revenues (other than for major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

**CITY OF DEFIANCE
DEFIANCE COUNTY**

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

Debt Service Funds - These funds are used to account for revenues received and used to pay principal and interest on debt reported to the City's general long-term obligations account group.

Capital Projects Funds - These funds are used to account for the acquisition or construction of major capital assets other than those financed by proprietary funds.

PROPRIETARY FUND TYPES

The proprietary funds are used to account for the City's ongoing activities which are similar to those found in the private sector. The following are the City's proprietary fund types:

Enterprise Funds - These funds are established to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Internal Service Fund - This fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governmental units, on a cost-reimbursement basis.

FIDUCIARY FUND TYPES

These funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. The following is the City's fiduciary fund types:

Trust and Agency Funds - These funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and other funds. These include a nonexpendable trust fund and an agency fund. Nonexpendable trust funds are accounted for in essentially the same manner as proprietary funds. The City's agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

ACCOUNT GROUPS

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - This account group is used to present the general fixed assets of the City utilized in its general operations, exclusive of those accounted for in the enterprise funds. General fixed assets include land, buildings, building improvements, furniture and equipment owned by the City.

General Long-Term Obligations Account Group - This account group is used to account for all long-term obligations of the City, except that accounted for in the proprietary funds.

**CITY OF DEFIANCE
DEFIANCE COUNTY**

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

C. Measurement Focus and Basis of Accounting

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds and nonexpendable trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Governmental and agency funds use the modified accrual basis of accounting. Proprietary and nonexpendable trust funds use the accrual basis of accounting. Differences between the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the reporting of expenses and expenditures.

REVENUES - EXCHANGE AND NON-EXCHANGE TRANSACTIONS

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned (See Note 7). Revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income taxes, state-levied locally shared taxes (including gasoline taxes and motor vehicle license fees), federal and state grants and

**CITY OF DEFIANCE
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NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

subsidies, charges for services, licenses and permits and fees, fines and forfeitures, and interest.

DEFERRED REVENUE

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Delinquent property taxes and property taxes for which there is an enforceable legal claim as of December 31, 2002, but which were levied to finance year 2003 operations, have been recorded as deferred revenues. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On the modified accrual basis of accounting, receivables that will not be collected within the available period have also been reported as deferred revenue.

EXPENDITURES

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

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

D. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code (ORC) and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The 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. All funds, other than agency funds, legally are required to be budgeted and appropriated.

Tax Budget

By July 15, the Mayor submits an annual tax budget for the following fiscal year to City Council for consideration and passage. The adopted budget is submitted to the County Budget Commission by July 20 of each year, for the period January 1 to December 31 of the following year.

Estimated Resources

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenues.

**CITY OF DEFIANCE
DEFIANCE COUNTY**

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

The County Budget Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources which states the projected revenue of each fund. On or about January 1, this certificate is amended to include any unencumbered balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budgeted receipts as shown in the accompanying financial statements do not include January 1, 2002 unencumbered fund balances. However, those fund balances are available for appropriations.

The amounts set forth as "revised budget" revenues and other financing sources in the combined statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis) - All Governmental Fund Types represent estimated revenues from the final amended official Certificate issued during 2002.

Appropriations

A temporary appropriation measure to control cash disbursements may be passed on or about January 1 of each year for the period January 1 to March 31.

An annual appropriation measure must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance establishes spending controls at the fund, department and object level. The appropriation ordinance may be amended during the year as additional information becomes available, provided that total fund appropriations do not exceed the current estimated resources as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year by an ordinance of City Council. Administrative control is maintained through the establishment of more detailed line-item budgets.

Amounts shown as "revised budget" expenditures and other financing uses in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis) - All Governmental Fund Types represent the original appropriated budget and all supplemental appropriations.

Lapsing of Appropriations

At the close of each 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 following fiscal year as authority for expenditure.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control in the appropriated governmental and proprietary funds. Encumbrances outstanding at year-end are reported as reservations of fund balance for subsequent year expenditures on the modified accrual basis of

**CITY OF DEFIANCE
DEFIANCE COUNTY**

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

accounting, compared to encumbrances outstanding at year-end reported as expenditures on the budget basis of accounting.

E. Cash and Investments

To improve cash management, cash received by the City is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the City's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" and "Investments" on the combined balance sheet.

During fiscal year 2002, investments were limited to STAR Ohio, mutual funds, and the City's own bonds.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts are reported at cost.

The City has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2002. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2002.

Following Ohio statutes, the Council has, by resolution, specified the funds to receive an allocation of interest earnings. The following funds were credited with more interest revenue than would have been received based upon their share of the City's cash fund balance during 2002:

	Interest Actually Received	Interest Based Upon Share of Cash Fund Balance	Interest Assigned by Other Funds
General Fund	\$71,709	\$20,133	\$51,576
Special Revenue Funds:			
State Highway Improvement Fund	1,744	496	1,248
Street Construction, Maintenance, and Repair Fund	5,285	(134)	5,419
Cable TV Contract Fund	1,744	557	1,187
Termination Benefits Fund	1,744	1,452	292

The City has segregated bank accounts for monies held separate from the City's central bank account. These interest bearing depository accounts are presented on the combined balance sheet as "Cash with Fiscal and Escrow Agents" since they are not required to be deposited into the City treasury.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with original

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NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

maturities of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. Inventories of Materials and Supplies

Inventories are valued at cost using the first in, first out method. The costs of inventory items are recognized as expenditures in governmental funds when purchased and as expenses in the proprietary funds when used. The total of inventories at year end is reported as a reservation of fund balance in the governmental funds because it does not represent available, spendable resources.

G. Property, Plant, Equipment, and Depreciation

1. General Fixed Assets Account Group

General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and disposals during the year in the general fixed assets account group. The City follows a policy of not capitalizing infrastructure, which is defined as assets that are immovable and of value only to the City, (i.e., roads, bridges, etc.). No depreciation is recognized for assets in the account group. Interest on debt issued to construct general fixed assets is not capitalized in the account group.

2. Enterprise Funds

Property, plant, and equipment reflected in the enterprise funds are stated at cost (or estimated historical cost) and updated for the cost of additions and disposals during the year. Contributed fixed assets are recorded at their fair market value as of the date donated. Depreciation and amortization have been provided on a straight-line basis over the following estimated useful lives:

<u>Description</u>	<u>Estimated Life</u>
Autos and trucks	5
Machinery, equipment, furniture and fixtures	10-20
Building improvements	15
Sewer and water treatment plants and buildings	20
Other buildings	25-50
Sewer and water mains	70

The City also capitalizes the cost of major renovations which extend the useful life of an asset or which enable it to perform new or more valuable services. Interest on tax exempt debt issued to construct enterprise fund fixed assets is capitalized, net of interest earned on the proceeds of such debt.

H. Compensated Absences

Compensated absences of the City consist of vacation leave and sick leave to the extent that payment to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the City and the employee.

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DEFIANCE COUNTY**

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for sick leave is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age fifty (50) or greater with at least ten (10) years of service and all employees with at least twenty (20) years of service at any age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus applicable additional salary related payments.

Accumulated vacation and sick leave of governmental fund type employees meeting the above requirements have been recorded in the appropriate governmental fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The balance of the liability is recorded in the general long-term obligations account group. Vacation and sick leave benefits for employees meeting the above requirements who are paid from proprietary funds are recorded as an expense when earned.

American Federation of State, County and Municipal Employees (AFSCME) and non-bargaining employees with a minimum of ten years of service are paid one day for every two days sick leave for the first 120 days of accumulated sick time and one day for every seven days for accumulated sick time in excess of 120 days upon retirement. International Union of Police Associations (IUPA) bargaining unit individuals employed for ten years or more as of December 31, 1991, shall be eligible for sick leave conversion upon retirement at one day for each two days accumulation without limit. Beginning January 1, 1992, an IUPA bargaining unit individual with twenty-two or more years of service, who resigns shall be eligible for payment for one day's pay for every two days of accumulated but unused sick leave, not to exceed 120 days. International Association of Firefighters (IAFF) bargaining unit individuals with ten or more years of service, shall upon retirement under provisions of the Police & Firefighters Pension Fund be eligible for payment of one-half of the employee's accrued, but unused sick leave earned up to a maximum payment for 50 twenty-four hour days. An IAFF bargaining unit individual with twenty two or more years of service, who retires or resigns from the City shall be eligible for payment for one-half of accrued, but unused sick leave up to a maximum payment for 50 twenty-four hour days.

I. Long-Term Obligations

Long-term obligations for general obligation bonds, special assessment bonds, OWDA loans, OPWC loans, vested sick and vacation leave, and any claims or judgment that are expected to be paid from the governmental funds are shown in the general long-term obligations account group, while those expected to be paid from proprietary funds are shown as a liability of those funds.

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DEFIANCE COUNTY**

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

J. Contributions of Capital

Contributions of capital in proprietary funds arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction. In accordance with GASB Statement No. 33, capital contributions received in 2002 are recorded as revenue and a component of retained earnings at year-end. There was \$387,861 in capital contributions received by the enterprise funds in 2002. Contributed capital in the enterprise funds at December 31, 2002 is \$1,944,582.

K. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not show transfers of resources as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund.
3. Short-term interfund loans and accrued interfund reimbursements and accrued operating transfers are reflected as "interfund loans receivable or payable".
4. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources. The City had no long-term advances receivable or payable at December 31, 2002.

An analysis of interfund transactions is presented in Note 5.

L. Fund Balance Reserves

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or use. The unreserved portions of fund equity reflected in the governmental funds are available for use within the specific purposes of the funds.

The City reports amounts representing noncurrent investments, material and supply inventories, available debt service equity, prepayments, encumbrances outstanding, principal endowment and loans receivable as reservations of fund balance in the governmental funds.

M. Prepayments

Prepayments for governmental funds represent cash disbursements which have occurred and are therefore not current expendable resources. These items are reported as fund assets on the balance sheet using the allocation method, which amortizes their cost over the periods benefiting from the advance payment. At year-end, because prepayments are not available to

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NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset.

N. Estimates

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

O. Total Columns on General Purpose Financial Statements

Total columns on the GPFS are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with GAAP. Neither is such data comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Compliance

1. Contrary to Ohio law, appropriations exceeded estimated resources in the following funds:

Fund	Estimated Resources	Appropriations	Variance
Housing Rehabilitation	\$57,483	\$338,400	(\$280,917)
Police Pension	273,881	280,000	(6,119)
Park and Recreation	(11,489)	5,000	(16,489)
Law Enforcement Trust		64,000	(64,000)
Utility Billing Fund	349,363	478,141	(128,778)
Water Pollution Control	5,401,593	6,889,834	(1,488,241)
Water Plant Construction		6,650,000	(6,650,000)
Health Care Trust	1,126,890	1,482,000	(355,110)
Fire Damage Removal	16,100	28,000	(11,900)

2. Contrary to Ohio law, expenditures exceeded appropriations in the following funds:

Fund	Appropriations	Actual Expenditures	Variance
General	\$9,528,633	\$9,623,666	(\$95,033)
Nature Work Grant Fund		21,484	(21,484)
Community Development	77,000	81,327	(4,327)
Revolving Loan	380,000	384,000	(4,000)
Fire and Rescue Trust	33,635	98,656	(65,021)

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B. Deficit Fund Balances

The following fund had deficit fund balance as of December 31, 2002:

Internal Service Funds:	<u>Deficit</u>
Health Care Trust Fund	<u>Fund Balance</u>
	<u>\$3,604</u>

The deficit in the Internal Service fund was caused by the application of generally accepted accounting principles. This fund complied with Ohio state law, which does not permit a cash basis deficit at year-end. These GAAP deficits will be funded by anticipated future revenues or other subsidies not recognized and recorded at December 31.

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

Moneys held by the City are classified by state statute into two categories. Active moneys are public moneys determined to be necessary to meet current demand upon the City treasury. Active moneys must be maintained either as cash in the City treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

Moneys held by the City which are not considered active are classified as inactive. Inactive moneys may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

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5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. High grade commercial paper for a period not to exceed 180 days in an amount not to exceed twenty-five percent of the City's interim monies available for investment; and
8. Bankers acceptances for a period not to exceed 180 days and in an amount not to exceed twenty-five percent of the City's interim monies available for investment.

The City may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this state, as to which there is no default of principal, interest or coupons; and
3. Obligations of the City.

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 City, 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.

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

Cash on Hand: At year-end, the City had \$2,250 in undeposited cash on hand which is included on the Combined Balance Sheet of the City as part of "Equity in Pooled Cash and Cash Equivalents."

Deposits: At December 31, 2002, the carrying amount of the City's deposits was \$840,659, and the bank balance, including cash with fiscal and escrow agents, was \$1,221,078. Of the bank balance:

1. \$402,253 was covered by federal deposit insurance; and
2. \$818,825 was uninsured and uncollateralized as defined by GASB even though it was covered by collateral held by third party trustees pursuant to Section 135.81, Ohio Revised Code, in single institution collateral pools securing all public funds on deposit with specific depository institutions. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

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Investments: The City's investments are required to be categorized to give an indication of the level of risk assumed by the City at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the City's name. STAR Ohio (an investment pool operated by the Ohio State Treasurer) and mutual funds are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

The following is a listing of investments, by category, as of December 31, 2002:

	Category 1	Uncategorized	Reported Amount	Fair Value
City of Defiance bonds	\$336,487		\$336,487	\$336,487
Mutual funds		\$859,219	859,219	859,219
Investment in STAR Ohio		5,760,016	5,760,016	5,760,016
Total investments	\$336,487	\$6,619,235	\$6,955,722	\$6,955,722

The classification of cash and cash equivalents on the combined balance sheet is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

A reconciliation between the classifications of pooled cash and cash equivalents and investments on the Combined Balance Sheet (per GASB Statement No. 9) and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Equivalents/ Deposits	Investments
GASB Statement No. 9	\$7,462,144	\$336,487
Cash on hand	(2,250)	
Investments of the cash management pool:		
Investment in Star Ohio	(5,760,016)	5,760,016
Mutual funds	(859,219)	859,219
GASB Statement No. 3	\$840,659	\$6,955,722

NOTE 5 - INTERFUND TRANSACTIONS

The following is a summarized breakdown of the City's operating transfers for 2002:

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	Transfers In	Transfers Out
General Fund	\$286,015	\$632,034
Special Revenue Funds:		
Street Construction, Maintenance, and Repair	226,776	
Police Pension	198,700	
Fire Pension	206,558	
Department of Justice Grant		286,015
Total	\$918,049	\$918,049

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible (used in business) personal property located in the City. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the City Auditor at 35 percent of appraised market value. The Defiance County Auditor reappraises real property every six years with a triennial update. The last update was completed in the tax year 1996. 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 later payment dates to be established.

Public utility real and tangible personal property taxes collected in one calendar year are levied on assessed values as of the prior January 1, the lien date. Public utility tangible personal property currently is assessed at 88 percent of true value for taxable transmission and distribution property and 25 percent of true value for all other taxable property. Public utility property taxes are payable on the same dates as real property taxes described previously.

Taxes collected on tangible personal property (other than public utility) in one calendar year are levied on the assessed values and at the close of the most recent fiscal year of the taxpayer (for businesses in operation more than one year) or December 31. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30, and if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. The first \$10,000 of taxable value is exempt from taxation for each business by state law.

Public utility property taxes are assessed on tangible personal property, as well as land and improvements.

The full tax rate applied to real property for the fiscal year ended December 31, 2002 was \$3.00/2.10 per \$1,000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$3.00/2.10 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$3.00/2.10 per \$1,000 of assessed valuation for all other real property. Real property owners' tax bills are further reduced by homestead and rollback reductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the City by the State of Ohio.

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The assessed valuation upon which 2002 taxes were collected is as follows:

Residential/agricultural real property	\$150,920,760
Commercial/industrial/public utility real property	65,636,950
Tangible/public utility personal property	<u>55,339,800</u>
Total assessed value	<u><u>\$271,897,510</u></u>

The Defiance County Treasurer collects property tax on behalf of all taxing districts within the City. The Defiance County Auditor periodically remits to the taxing districts their share of the taxes collected.

Accrued taxes receivable represent delinquent taxes outstanding and real, tangible personal, and public utility taxes which were measurable and unpaid as of December 31, 2002. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31 and are not intended to finance 2002 operations. Accordingly, the receivable is offset by a credit to "Deferred Revenue."

NOTE 7 - LOCAL INCOME TAX

This locally levied tax of 1.3 percent is applied to gross salaries, wages and other personal service compensation earned by residents both in and out of the City, and to earnings of nonresidents (except certain transients) earned in the City. It also applies to net income of for-profit organizations conducting business within the City. Income tax revenue is reported to the extent that it was measurable and available to finance current operations at December 31. Income tax revenue for 2002 was \$5,565,034.

NOTE 8 - RECEIVABLES

Receivables at December 31, 2002, consisted of income taxes, real estate and other taxes, loans, accounts (billings for user charged services), special assessments and intergovernmental receivables arising from grants, entitlements and shared revenue. All intergovernmental receivables have been classified as "Due from Other Governments" on the combined balance sheet. Intergovernmental receivables have been recorded to the extent that eligibility requirements have been met by year-end and the amounts are measurable.

A summary of the principal items of receivables follows:

Fund/Description	Amount
General Fund:	
Income taxes	\$936,518
Real and other taxes	613,500
Accounts	149,805
Intergovernmental	490,674
Special Revenue Funds:	
Real and other taxes	200,282
Accounts	35,923
Loans	872,660
Intergovernmental	287,343

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<u>Fund/Description</u>	<u>Amount</u>
Debt Service Funds:	
Special assessments	829,451
Capital Projects Fund:	
Income taxes	282,367
Intergovernmental	72,858
Enterprise Funds:	
Accounts	320,951
Intergovernmental	98,908
Internal Service Fund:	
Accounts	17,519

NOTE 9 - FIXED ASSETS

A. Enterprise Fixed Assets

A summary of the enterprise fund's fixed assets at December 31, 2002 follows:

Land and improvements	\$625,707
Buildings and improvements	29,963,498
Furniture and equipment	5,413,004
Infrastructure	22,899,921
Construction in progress	2,327,484
Accumulated depreciation	<u>(16,655,795)</u>
Total net assets	<u><u>\$44,573,819</u></u>

B. General Fixed Assets

A summary of the changes in general fixed assets during 2002 follows:

	<u>Balance at 01/01/02</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 12/31/02</u>
Land	\$2,240,208	\$97,355		\$2,337,563
Buildings and improvements	4,272,909	239,242		4,512,151
Furniture and equipment	4,223,673	280,994	(\$90,790)	4,413,877
Construction in progress	<u>252,944</u>		<u>(252,944)</u>	
Total fixed assets	<u><u>\$10,989,734</u></u>	<u><u>\$617,591</u></u>	<u><u>(\$343,734)</u></u>	<u><u>\$11,263,591</u></u>

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NOTE 10 - VACATION AND SICK LEAVE LIABILITY

Vacation and sick leave accumulated by governmental fund type employees has been recorded in the general long-term obligations account group. Vacation and sick leave earned by proprietary funds type employees is expensed when earned.

Upon termination of City service, a fully vested employee is entitled to a percentage of their accumulated sick leave based on their years of service. At December 31, 2002, vested benefits for vacation leave for governmental fund type employees, net of amounts paid using current expendable available resources, totaled \$213,933 and vested benefits for sick leave, net of amounts paid using current expendable available resources, totaled \$292,986. For proprietary fund types, vested benefits for vacation leave totaled \$95,545 and vested benefits for sick leave totaled \$171,256 at December 31, 2002. Included in the vested benefits for sick leave figures is an additional liability to accrue and record termination (severance) payments for employees expected to become eligible to retire in the future in accordance with GASB Statement No. 16.

NOTE 11 - LONG-TERM OBLIGATIONS

A. General Long-Term Obligations

The City's general long-term obligations at year-end consist of the following:

	Balance at 01/01/02	Additions	Deletions	Balance at 12/31/02
Compensated absences payable	\$436,119	\$70,800		\$506,919
General obligation bonds payable	340,000		(25,000)	315,000
Special assessment bonds payable	757,088		(66,967)	690,121
Bond anticipation notes payable	762,000	762,388	(762,000)	762,388
Total	<u>\$2,295,207</u>	<u>\$833,188</u>	<u>(\$853,967)</u>	<u>\$2,274,428</u>

Special assessment debt with governmental commitment and debt issued for governmental purposes of the City is retired from the debt service fund. General obligation bonds are secured by the City's ability to levy a voted or unvoted property tax within limitations of Ohio law.

Special assessment bonds are secured by an unvoted property tax levy (special assessment), however, each appropriate bond indenture provides for principal and interest to be paid from use charges.

On July 13, 2000, the City issued \$760,000 in bond anticipation notes to pay costs of acquiring, remodeling, and renovating a building and site to house municipal functions. In 2001, the City issued a \$762,000 bond anticipation note to retire the previous note and provide funds to continue the construction process. In 2002, the City issued a \$762,388 bond anticipation note to retire the previous note and provide funds to continue the construction process. The proceeds of the 2002 issue and the retirement of the 2001 issue are reported in the general fund.

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The following is a summary of the City's future annual debt service requirements for long-term obligations:

Year Ended	General Obligation Bonds			Special Assessment Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2003	\$25,000	\$21,893	\$46,893	\$71,967	\$46,935	\$118,902
2004	30,000	20,155	50,155	71,967	41,986	113,953
2005	30,000	18,070	48,070	72,967	37,026	109,993
2006	35,000	15,985	50,985	77,968	32,136	110,104
2007	35,000	13,553	48,553	77,968	26,491	104,459
2008-2012	160,000	27,416	187,416	289,555	56,342	345,897
2013-2014				27,729	2,410	30,139
Total	<u>\$315,000</u>	<u>\$117,072</u>	<u>\$432,072</u>	<u>\$690,121</u>	<u>\$243,326</u>	<u>\$933,447</u>

B. Enterprise Fund Obligations

The City had the following general obligation bonds and long-term loans payable outstanding at year-end related to enterprise fund operations:

	Interest Rate	Balance at 01/01/02	Additions	Reductions	Balance at 12/31/02
General Obligation Bonds:					
Waterline improvements	5.25%	\$270,000		(\$135,000)	\$135,000
Waterline improvements	6.10%	5,260,000		(145,000)	5,115,000
Waterworks - Series 1997	Various	7,445,000		(200,000)	7,245,000
Total general obligation bonds		<u>12,975,000</u>		<u>(480,000)</u>	<u>12,495,000</u>
Special Assessment Bonds:					
Sewer street improvements - Series 2000	5.75%	143,894		(4,371)	139,523
Other Long-Term Obligations:					
OWDA loan	3.91-7.65%	14,209,132		(648,232)	13,560,900
OPWC loan	0-4.00%	1,188,997		(65,734)	1,123,263
Total other long-term obligations		<u>15,398,129</u>		<u>(713,966)</u>	<u>14,684,163</u>
Total enterprise fund obligations		<u>\$28,517,023</u>		<u>(\$1,198,337)</u>	<u>\$27,318,686</u>

General obligation bonds are expected to be retired with revenues of the enterprise funds. General obligation bonds are secured by the City's ability to levy a voted or unvoted property tax within limitations of Ohio law.

On February 3, 1998, the City issued \$8,000,000 in Waterworks System Improvements Bonds. The Bonds were issued for the purpose of improving and expanding the municipal waterworks system by acquiring, constructing, reconstructing and otherwise improving structures and facilities for raw water intake, treatment and storage, finished water storage and distribution and waterworks administration and service, including all necessary equipment, site

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improvements and furnishings, together with all necessary and related improvements and the acquisition of any real estate or interest therein required. During 2002, the City retired \$200,000 of these bonds, leaving an outstanding balance of \$7,245,000 at December 31, 2002.

On May 11, 2001, the City issued \$145,434 in special assessment bonds to finance the costs of sewer improvements to South Jefferson Street. These bonds bear an interest rate of 5.75 percent and mature December 1, 2020. During 2002, the City retired \$4,371 of these bonds, leaving an outstanding balance of \$139,523 at December 31, 2002.

The City constructed a waste water treatment facility in 1990. The Project was financed through expenditure by the Ohio Water Development Authority (OWDA). In 1999, the City began making major improvements to its wastewater treatment facility, which were also partially financed by OWDA. At December 31, 2002, the City had the following OWDA loans outstanding:

	Interest Rate	Maturity Date	Balance Outstanding 12/31/02
OWDA loan	7.65%	1/1/2013	\$5,908,674
OWDA loan	3.91%	7/1/2020	7,652,226
Total			\$13,560,900

Improvements to the City's water treatment facilities were financed through expenditures by the Ohio Public Works Commission (OPWC). At December 31, 2002, the City has the following four loans outstanding to the OPWC:

	Interest Rate	Maturity Date	Balance Outstanding 12/31/02
OPWC loan	4.00%	1/1/2014	\$221,771
OPWC loan	3.00%	7/1/2017	390,697
OPWC loan		7/1/2019	323,376
OPWC loan		7/1/2020	187,419
Total			\$1,123,263

The loans are payable in semi-annual installments of principal and interest (if applicable).

The following is a summary of the City's future annual debt service principal and interest requirements for enterprise fund obligations:

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Year Ended	General Obligation Bonds			Sewer Special Assessment Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2003	\$495,000	\$709,764	\$1,204,764	\$4,622	\$8,023	\$12,645
2004	375,000	686,063	1,061,063	4,888	7,757	12,645
2005	410,000	650,525	1,060,525	5,169	7,476	12,645
2006	430,000	630,583	1,060,583	5,467	7,178	12,645
2007	455,000	609,108	1,064,108	5,781	6,864	12,645
2008-2012	2,660,000	2,646,715	5,306,715	34,289	28,936	63,225
2013-2017	3,505,000	1,774,957	5,279,957	45,348	17,877	63,225
2018-2022	3,620,000	664,360	4,284,360	33,959	3,976	37,935
2023	545,000	27,250	572,250			
Total	\$12,495,000	\$8,399,325	\$20,894,325	\$139,523	\$88,087	\$227,610

Year Ended	OWDA Loans Payable			OPWC Loans Payable		
	Principal	Interest	Total	Principal	Interest	Total
2003	\$687,144	\$748,314	\$1,435,458	\$66,950	\$20,311	\$87,261
2004	728,614	706,844	1,435,458	68,208	19,053	87,261
2005	772,816	662,642	1,435,458	69,510	17,751	87,261
2006	819,944	615,514	1,435,458	70,857	16,404	87,261
2007	870,205	565,253	1,435,458	72,252	15,009	87,261
2008-2012	5,230,943	1,888,815	7,119,758	383,962	52,345	436,307
2013-2017	2,779,222	620,998	3,400,220	335,349	12,948	348,297
2018-2020	1,672,012	116,315	1,788,327	56,175		56,175
Total	\$13,560,900	\$5,924,695	\$19,485,595	\$1,123,263	\$153,821	\$1,277,084

The City had the following bond anticipation note activity during fiscal year 2002 in the Water and Sewer enterprise funds:

	Interest Rate	Issue Date	Maturity Date	Balance at 01/01/02	Additions	Reductions	Balance at 12/31/02
Sewer Fund:							
Sewer improvements	5.18%	7/13/02	7/12/03	\$2,105,407	\$1,936,140	(\$2,105,407)	\$1,936,140
Sewer line construction	5.25%	5/12/02	5/11/03	164,500	172,500	(164,500)	172,500
Total sewer				\$2,269,907	\$2,108,640	(\$2,269,907)	\$2,108,640
Water Fund:							
Water line construction	5.25%	5/12/02	5/11/03	\$164,500	\$172,500	(\$164,500)	\$172,500

NOTE 12 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City maintains four enterprise funds which are intended to be self-supported through user fees charged for services provided to consumers for sewer operations, water operations, waste disposal services and utility services. Segment information for the year ended December 31, 2002 is as follows:

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	Sewer Fund	Water Fund	Refuse Fund	Utility Deposit Fund	Total
Operating revenues	\$3,701,723	\$3,744,541	\$567,515	\$19,617	\$8,033,396
Operating expenses before depreciation	1,953,792	2,344,299	552,931	33,178	4,884,200
Depreciation expense	618,515	550,571			1,169,086
Operating income/(loss)	1,129,416	849,671	14,584	(13,561)	1,980,110
Net income/(loss)	1,046,931	442,514	14,584	(13,561)	1,490,468
Additions to property, plant and equipment	1,203,799	1,657,419			2,861,218
Net working capital	2,762,594	1,855,739	230,779	175,188	5,024,300
Total assets	24,968,319	24,888,567	230,779	175,188	50,262,853
Bonds and other long-term liabilities payable from operating revenues	15,856,959	13,603,344			29,460,303
Total liabilities	16,284,230	13,968,157			30,252,387
Contributed capital	5,477	1,939,105			1,944,582
Total equity	8,684,089	10,920,410	230,779	175,188	20,010,466
Encumbrances at 12/31/02	1,732,406	428,056	30,018		2,190,480

NOTE 13 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City participates with other cities in the Buckeye Ohio Risk Management Agency, Inc. (BORMA, Inc.), in jointly funded risk financing programs administered by Arthur J. Gallagher & Co. BORMA, Inc. includes two separate pools which provide separate and distinct coverage's.

The first pool provides comprehensive automobile liability, automobile physical damage, comprehensive general liability, crime and property liability, and public officials' liability coverage up to specific limits. The pool includes the following municipalities: Archbold, Bowling Green, Defiance, Huron, Napoleon, Sandusky, and Willard. Member contributions are calculated annually to produce a sufficient sum of money within the pool to fund administrative expenses and to create reserves for claims. As of December 31, 2002 the pool had cash reserves of \$731,235, which in the opinion of management is adequate for any claims against the pool. The amount of risk retained with the pool is \$300,000 per claim.

Claims in excess of the \$300,000 up to \$10,000,000 are covered by various insurance carries.

The second pool is for employee benefits and includes life insurance, accidental death and dismemberment insurance, health insurance and prescription drug insurance. Each member has an option on the coverage it has elected to provide for its employees. Defiance provides to its employees all available options offered by the pool. The employee benefits pool includes the following municipalities: Archbold, Bowling Green, Carey, Clyde, Defiance, Fayette, Hicksville, Napoleon, Oberlin, Sandusky,

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Upper Sandusky and Willard. As of December 31, 2002 the pool had cash reserves of \$3,440,794 which, in the opinion of management, is adequate for any claims against the pool.

Premiums are paid to the employee benefits pool at a cost of \$670.43 for family coverage, \$519.60 for two party coverage, and \$247.79 for single party coverage. Life insurance monthly premiums are \$4.72 for family and two party coverage and \$2.60 for single party coverage. During 2002, the City paid \$1,169,178 into the pool for coverage. The cost of coverage is paid by the fund that pays the salary of the individual employees. The amount of the risk retained within the employee is \$75,000 per individual with excess claims coverage provided by the Lloyds Company.

BORMA, Inc. has the ability to require the member cities to make supplemental payments in the event reserves are not adequate to cover claims. The probability of this occurring is considered remote due to the adequacy of the pool reserves and premium levels, therefore, no amount have been reserved in the financial statements. Audited financial statements are maintained separately by BORMA, Inc.

Workers' Compensation claims are covered through the City's participation in the State of Ohio's program. The City pays the State Workers' Compensation System a premium based upon a rate per \$100 of payroll plus administrative costs. The rate is determined based on accident history of the North Central Ohio Municipal Finance Officers Association, of which the City is a member. The City also pays unemployment claims to the State of Ohio as incurred.

There has been no significant reduction in insurance coverages from coverages in the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance converge in any of the past three fiscal years.

NOTE 14 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

All City full-time employees, other than uniformed employees, participate in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer public employee retirement system created by the State of Ohio. OPERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate for 2002 was 8.5 percent for employees other than law enforcement and public safety. The law enforcement classification consisted of sheriffs, deputy sheriffs, and township police with an employee contribution rate of 10.1 percent. Public safety division members contribute at 9 percent. The employer contribution rate for employees other than law enforcement and public safety division was 13.55 percent of covered payroll and 8.55 percent was the portion used to fund pension obligations for 2002. The employer contribution rate for law enforcement and public safety divisions was 16.70 percent of covered payroll and 11.70 percent was the portion used to fund pension obligations for 2002. Required employer contributions are equal to 100 percent of the dollar amount billed to each employer and must be extracted from the employer's records. The City's contributions to OPERS for the years ended December 31, 2002, 2001, and 2000 were \$568,818, \$532,237, and \$404,211,

**CITY OF DEFIANCE
DEFIANCE COUNTY**

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

respectively; 91 percent has been contributed for 2002 and 100 percent for 2001 and 2000. \$47,270, representing the unpaid contribution for 2002, is recorded as a liability within the respective funds.

B. Ohio Police and Fire Pension Fund

Full-time uniformed employees of the City participate in the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple employer defined benefit pension plan. The OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. The OP&F issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10.0 percent of their annual covered salary, while the City is required to contribute 19.50 percent and 24.0 percent for police officers and firefighters, respectively. The City's contributions to OP&F for the years ended December 31, 2002, 2001, and 2000 were \$536,630, \$518,112 and \$485,795, respectively; 92 percent has been contributed for 2002 and 100 percent for the years 2001 and 2000. \$39,480, representing the unpaid contributions for 2002, is recorded as a liability within the respective funds.

NOTE 15 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

OPERS provides postretirement health care coverage to age and service retirants with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The OPERS law enforcement program is separated into two divisions, law enforcement and public safety, with separate employee contribution rates and benefits. The 2002 employer contribution rate for local government employers was 13.55 percent of covered payroll and 5.00 percent was the portion that was used to fund health care. For both the public safety and law enforcement divisions the 2002 employer rate was 16.70 percent of covered payroll and 5.00 percent was the portion used to fund health care.

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS. The City's contribution actually made to fund postemployment benefits was \$209,896.

OPEB are financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely. OPEB's are advance funded on an actuarially determined basis.

**CITY OF DEFIANCE
DEFIANCE COUNTY**

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

As of December 31, 2001 (the latest information available), the actuarial value of the Retirement System's net assets available for future OPEB payments were \$11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$16.4 billion and \$4.8 billion, respectively, at December 31, 2001 (the latest information available). The number of benefit recipients eligible for OPEB at December 31, 2001 (the latest information available) was 402,041.

In December 2001, the OPERS Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of health care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

Additional information on the OPERS, including historical trend information showing the progress in accumulating sufficient assets to pay benefits when due is available in the OPERS December 31, 2002, Comprehensive Annual Financial Report.

B. Ohio Police and Fire Pension Fund

The OP&F provides postretirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits Other than Pension Benefits by State and Local Government Employers". The Ohio Revised Code provides that health care cost paid from the funds of the OP&F shall be included in the employer's contribution rate. The total police officer employer contribution rate is 19.5 percent of covered payroll and the total firefighter's employer contribution rate is 24.0 percent of covered payroll. The Ohio Revised Code provides the authority allowing OP&F's Board of Trustees to provide health care coverage to all eligible individuals. Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.50 percent and 7.75 percent of covered payroll in 2001 and 2002, respectively. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The number of participants eligible to receive health care benefits as of December 31, 2001 (the latest information available), is 13,174 for police officers and 10,239 for firefighters. The amount of employer contributions used to pay postemployment benefits for police officers and firefighters were \$107,933 and \$85,517, respectively. OP&F's total health care expense for the

**CITY OF DEFIANCE
DEFIANCE COUNTY**

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

year ending December 31, 2001 (the latest information available), was \$122.299 million, which was net of member contributions of \$6.875 million.

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

The City's budgetary process is based upon accounting for transactions on a cash basis. The differences between the cash basis (budget basis) and the modified accrual basis (GAAP basis) are that revenues are recorded when actually received (budget) as opposed to when susceptible to accrual (GAAP) and the expenditures are recorded when paid (budget) as opposed to when incurred (GAAP). Additionally, the City reflects outstanding encumbrances as expenditures on the budgetary basis of accounting. Adjustments necessary to convert the results of operations at the end of the year on the budget basis to the GAAP basis are as follows:

EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER/(UNDER) EXPENDITURES AND OTHER USES				
	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Budget basis	(\$1,219,106)	(\$609,910)	\$40,222	(\$467,672)
Adjustments:				
Net adjustment for revenue accruals	310,902	57,230	51,442	81,606
Net adjustment for expenditure accruals	297,081	29,715		(4,397)
Net adjustment for other financing sources/(uses) accruals	(482,664)	(374,702)	(51,442)	
Encumbrances	224,072	263,142		479,095
GAAP basis	(\$869,715)	(\$634,525)	\$40,222	\$88,632

NOTE 17 - CONTINGENCIES

A. Grants

The City receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2002.

B. Litigation

Several claims and lawsuits are pending against the City. In the opinion of the City Law Director, any potential liability would not have a material effect on the GPFS.

**CITY OF DEFIANCE
DEFIANCE COUNTY**

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

NOTE 18 - LOANS RECEIVABLE

Loans receivable represent low interest loans made by the City for development projects and small businesses under the Community Development Block Grant (CDBG) Program. A summary of the City's loan activity is as follows:

	Balance Outstanding 12/31/01	Loans Issued	Principal Received	Defaulted Loans	Balance Outstanding 12/31/02
CDBG loans	\$1,080,195	\$372,000	(\$322,074)	(\$257,461)	\$872,660

The CDBG loans are reported in the special revenue funds. Fund balance has been reserved for the outstanding balance due at year-end. During 2002, a \$257,461 loan defaulted and is deemed uncollectible. This loan is no longer included in the outstanding balance at year-end. It is shown as bad debt expense on the combined statement of revenues, expenditures and changes in fund balance.

NOTE 19 – PRIOR PERIOD ADJUSTMENT

A fund reclassification is required for the Parks and Recreation Expendable Trust Fund to properly reflect its intended purpose. The fund should be reported as a Special Revenue Fund.

The effects of the restatement are shown below:

	Special Revenue Funds	Expendable Trust Fund
Fund balance as previously report, December 31, 2001	\$2,633,965	(\$12,489)
Fund reclassification	(12,489)	12,489
Fund balance as restated at January 1, 2002	\$2,621,476	
Deficiency of Revenues over Expenditures as of December 31, 2001	(\$632,557)	\$4,708
Change in the Deficiency of Revenues over Expenditures as of December 31, 2001	4,708	(4,708)
Excess of Cash Receipts over Cash Disbursements as restated in the Special Revenue Funds as of December 31, 2001	(\$627,849)	



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

City of Defiance
Defiance County
324 Perry Street, Suite D
Defiance, Ohio 43512-2193

To City Council:

We have audited the financial statements of City of Defiance, Defiance County, (the City) as of and for the year ended December 31, 2002, and have issued our report thereon dated August 7, 2003, in which we indicated a fund type reclassification for a certain fund. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2002-001 through 2002-003. We also noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated August 7, 2003.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2002-004.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the City of Defiance, Defiance County in a separate letter dated August 7, 2003.

This report is intended for the information and use of the finance committee, management, City Council, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

August 7, 2003

**CITY OF DEFIANCE
DEFIANCE COUNTY**

SCHEDULE OF FINDINGS
DECEMBER 31, 2002

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

FINDING NUMBER 2002-001

Finding for Recovery Repaid Under Audit

The City of Defiance entered into an employment contract with Roger Reece, City Administrator, on January 16, 2001. Section 5 of the contract, entitled *Automobile Allowance*, outlines the City Administrator's permitted use of a city-owned automobile. This section of the contract, however, does not permit the personal use of a city-provided automobile.

In June 2001, the City leased a Ford Explorer for Roger Reece to use and allowed him to obtain gasoline from the City's gas pump located at the Defiance City garage. The following activities were noted on the gasoline usage reports for Mr. Reece's leased vehicle:

- Mr. Reece obtained 107.5 gallons of gasoline from the City while on a personal vacation from August 2, 2002 through August 9, 2002.
- On June 27, 2001, June 30, 2001, and August 26, 2001 Mr. Reece pumped 26.9, 29.8, and 27.6 gallons, respectively, which is more than the capacity of the vehicle's fuel tank. Per the manufacturer's specifications, however, the fuel capacity of a 2002 Ford Explorer is only 22.5 gallons.
- On twenty-one separate weekends during the period June 21, 2001 through April 30, 2003, Mr. Reece obtained gasoline for his vehicle two or more times during the weekend, with no indication that such gasoline was utilized in connection with the discharge of Mr. Reece's official duties.

These factors indicate that Mr. Reece was obtaining gasoline in excess of the capacity of his vehicle's fuel tank and/or for personal use. Accordingly, based on these factors, and the calculations below, Mr. Reece, illegally obtained \$479.38 worth of gasoline.

Gallons of Gasoline Obtained by Roger Reece per gas usage reports and credit card charges:

June 21, 2001 through December 31, 2001	941.2
January 1, 2002 through December 31, 2002	1,612.1
January 1, 2003 through April 30, 2003	343.9
Total Gallons of Gasoline Obtained by Roger Reece	2,897.2

Miles Driven:

April 30, 2002 Odometer reading	44,783
June 21, 2001 Odometer reading at start of lease	477
Miles Driven from June 21, 2001 through April 30, 2002	44,306

Gasoline obtained by Roger Reece 2,897.2

Gasoline that a Ford Explorer would use (18 miles per gallon) - Based on the average of the manufacturer's specifications of 15 miles per gallon for city driving and 21 miles per gallon for highway driving. Mr. Reece's travel log reported both city and highway driving.

Excess gallons of gasoline obtained	2,461.4
Average price per gallon that City paid for gasoline	435.8
Cost of excess gasoline obtained by Roger Reece	\$1.10
	\$479.38

**FINDING NUMBER 2002-001
 (Continued)**

In accordance with these facts and pursuant to Ohio Revised Code § 117.28, a finding for recovery for public property converted or misappropriated for personal use, is hereby issued against Roger Reece, City Administrator, and against Mr. Reece's bonding company, Buckeye Ohio Risk Management Agency, Inc. (BORMA, Inc.), jointly and severally, in favor of the City of Defiance General Fund in the total amount of \$479.38.

The finding for recovery in the amount of \$479.38 was repaid on August 6, 2003 into the City of Defiance General fund.

FINDING NUMBER 2002-002

Noncompliance Citation

Ohio Revised Code § 5705.39 states the total appropriation from each fund should not exceed the total estimated revenue. No appropriation measure is to become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate. The following funds were found to have appropriations exceeding estimated revenue at December 31, 2002:

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
Housing Rehabilitation	\$57,483	\$338,400	(\$280,917)
Police Pension	273,881	280,000	(6,119)
Park and Recreation	(11,489)	5,000	(16,489)
Law Enforcement Trust		64,000	(64,000)
Utility Billing Fund	349,363	478,141	(128,778)
Water Pollution Control	5,401,593	6,889,834	(1,488,241)
Water Plant Construction		6,650,000	(6,650,000)
Health Care Trust	1,126,890	1,482,000	(355,110)
Fire Damage Removal	16,100	28,000	(11,900)

The Street Construction, Maintenance, and Repair Fund; Court Computerization Fund; Community Development Fund; Department of Justice Grant Fund; Fire Pension Fund; and the Tax Redirection Fund exceeded total estimated revenue during the fiscal year. However, these were corrected by year end.

Appropriations exceeding estimated resources could result in deficit spending. We recommend that management monitor budgetary performance closely throughout the year to ensure that appropriations do not exceed estimated resources and receive a county auditor certificate for each appropriation measure filed with the county auditor.

FINDING NUMBER 2002-003

Noncompliance Citation

Ohio Revised Code § 5705.41(B) states that no subdivision or taxing unit shall make any expenditure of money unless it has been appropriated. Expenditures exceeded appropriations at the time the expenditures were made for twenty-four percent of the transactions tested during the audit period. Also the following Funds were found to have expenditures which exceeded appropriations by the amount indicated at December 31, 2002:

<u>Fund</u>	<u>Appropriations</u>	<u>Actual Expenditures</u>	<u>Variance</u>
General	\$9,528,633	\$9,623,666	(\$95,033)
Nature Work Grant Fund		21,484	(21,484)
Community Development	77,000	81,327	(4,327)
Revolving Loan	380,000	384,000	(4,000)
Fire and Rescue Trust	33,635	98,656	(65,021)

Expenditures being in excess of appropriations can result in deficit spending. We recommend the Finance Director compares expenditures to appropriations to determine if modifications are necessary. Modifications at the legal level of control (the level at which the appropriation measure is passed by council) should be prepared and submitted for approval by council.

FINDING NUMBER 2002-004

Reportable Condition - Special Assessment Receivable

Certain capital improvements or services provided by the City are intended primarily to benefit a particular property owner or group of property owner rather than the general citizenry. Special assessments are levied to recoup the costs related to such improvements or services. Governmental Accounting Standards Board Statement (GASBS) 6 paragraph 15 states that at the time of the levy, a special assessment receivable should be recognized. Further paragraph 23 of GASBS 6 states the provisions of paragraph 15 should be followed even when the capital improvements financed by special assessments provide capital assets to a government's enterprise fund, except that the cost of the improvement should be capitalized on the enterprise fund's balance sheet and should be offset by contributed capital.

The City only accrued delinquent special assessments at December 31, 2002 and not the entire amount remaining to be collected on the original levy. This under estimated the special assessment receivable in the Bond Retirement fund by \$740,386 and the Sewer fund by \$139,522.

We recommend the City accrue the remaining special assessments to be collected as a receivable in the related funds.

**CITY OF DEFIANCE
DEFIANCE COUNTY**

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2002

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2001-20120-001	Ohio Revised Code § 5705.10 Negative fund balances	No	Partially Corrected. This is reported in the Management Letter.
2001-20120-002	Ohio Revised Code § 5705.41(D) Improper certification of expenditures	Yes	
2001-20120-003	Ohio Revised Code § 5705.39 Appropriations exceeding estimated resources	No	Not Corrected. Reissued as finding 2002-002.
2001-20120-004	17 Code of Federal Regulations § 240.15c2-12 Did not provide required information to all Nationally Required Municipal Security Information Repositories (NRMSIRs) and to the State Information Depository (SID)	Yes	
2001-20120-005	Article 2.2(b) of Clear Well Replacement and Plant Improvement Project Loan Agreements Failure to file an annual report with Ohio Public Works Commission	Yes	
2001-20120-006	Section 4.3(B) of the Water Pollution Control Loan Fund Agreement Failure to file an annual report with Ohio Water Development Authority	Yes	
2001-20120-007	Reportable Condition on underestimating Special Assessments Receivable	No	Not Corrected. Reissued as finding 2002-004.



**Auditor of State
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

CITY OF DEFIANCE

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
SEPTEMBER 9, 2003**