



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**CITY OF DEFIANCE
DEFIANCE COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

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

To the 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, 2000, 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, 2000, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2001 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.

We performed our audit to form an opinion on the general-purpose financial statements of the City, taken as a whole. The accompanying schedule of federal awards expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

Jim Petro
Auditor of State

September 12, 2001

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**CITY OF DEFIANCE
DEFIANCE COUNTY**

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 2000**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
ASSETS AND OTHER DEBITS				
Assets:				
Equity in pooled cash and cash equivalents	\$2,420,542	\$1,435,720	\$504,011	\$425,473
Equity in pooled cash and cash equivalents - nonexpendable trust fund				
Cash with fiscal and escrow agents				
Investments	238,211			
Receivables (net of allowances):				
Income taxes	922,160	4,634		278,038
Real and other taxes	602,315	181,845		
Accounts	104,071	53,084		
Loans		1,123,068		
Special assessments			27,836	
Due from other governments	138,497	42,035		30,068
Prepayments	59,684			
Materials and supplies inventory	37,780	33,889		
Fixed assets - net				
Other Debits:				
Amount available in debt service fund				
Amount to be provided for retirement of general long-term obligations				
Total assets and other debits	\$4,523,260	\$2,874,275	\$531,847	\$733,579

<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Types</u>	<u>Account Groups</u>		<u>Total (Memorandum Only)</u>
<u>Enterprise</u>	<u>Internal Service</u>	<u>Trust and Agency</u>	<u>General Fixed Assets</u>	<u>General Long-Term Obligations</u>	
\$8,115,091	\$260,880	\$9,317			\$13,171,034
		4,600			4,600
123,758		29,346			153,104
					238,211
					1,204,832
					784,160
162,085	15,360				334,600
					1,123,068
					27,836
					210,600
132,959					59,684
41,163,053			\$10,141,684		204,628
					51,304,737
				\$531,847	531,847
				1,698,271	1,698,271
<u>\$49,696,946</u>	<u>\$276,240</u>	<u>\$43,263</u>	<u>\$10,141,684</u>	<u>\$2,230,118</u>	<u>\$71,051,212</u>

(Continued)

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 2000
(Continued)**

	<u>Governmental Fund Types</u>			
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
LIABILITIES, EQUITY AND OTHER CREDITS				
Liabilities:				
Accounts payable	\$103,972	\$49,976		\$36,688
Accrued wages and benefits	157,316	23,827		
Compensated absences payable	13,111	2,841		
Deferred revenue	602,315	146,000		
Retainage payable				
Contracts payable				
Due to other governments	145,684	29,693		
Claims payable				
Amount to be repaid to claimants				
Accrued interest payable				
Bond anticipation notes payable				
General obligation bonds payable				
Special assessment debt with government commitment				
Capital lease obligations payable				
OWDA loan payable				
OPWC loans payable				
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	1,022,398	252,337		36,688
Equity and other credits:				
Investment in general fixed assets				
Contributed capital				
Retained earnings - unreserved				
Fund balances:				
Reserved for noncurrent investments	238,211			
Reserved for encumbrances	386,688	50,419		453,832
Reserved for principal endowment				
Reserved for supplies inventory	37,780	33,889		
Reserved for loans		1,123,068		
Reserved for prepayments	59,684			
Reserved for debt service			\$531,847	
Unreserved-undesignated	2,778,499	1,414,562		243,059
	<hr/>	<hr/>	<hr/>	<hr/>
Total equity and other credits	3,500,862	2,621,938	531,847	696,891
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities, equity and other credits	\$4,523,260	\$2,874,275	\$531,847	\$733,579

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	
\$151,714					\$342,350
60,373					241,516
170,452				\$281,063	467,467
					748,315
123,758					123,758
102,976					102,976
43,576		\$29,346			248,299
	\$210				210
		26,514			26,514
62,996					62,996
2,412,750				760,000	3,172,750
13,440,000				365,000	13,805,000
				824,055	824,055
847					847
14,820,840					14,820,840
1,253,558					1,253,558
<u>32,643,840</u>	<u>210</u>	<u>55,860</u>		<u>2,230,118</u>	<u>36,241,451</u>
			\$10,141,684		10,141,684
1,944,582					1,944,582
15,108,524	276,030				15,384,554
					238,211
		5,040			895,979
		4,600			4,600
					71,669
					1,123,068
					59,684
					531,847
		(22,237)			4,413,883
<u>17,053,106</u>	<u>276,030</u>	<u>(12,597)</u>	<u>10,141,684</u>		<u>34,809,761</u>
<u>\$49,696,946</u>	<u>\$276,240</u>	<u>\$43,263</u>	<u>\$10,141,684</u>	<u>\$2,230,118</u>	<u>\$71,051,212</u>

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2000**

	<u>Governmental Fund Types</u>	
	<u>General</u>	<u>Special Revenue</u>
Revenues:		
Income taxes	\$4,262,443	\$16,785
Real and other taxes	484,824	303,493
Charges for services	119,020	
Licenses, permits and fees	139,569	106,655
Fines and forfeitures	688,325	97,784
Special assessments		
Intergovernmental	1,139,923	1,261,234
Investment income	295,472	84,667
Other	191,648	170,440
Total revenue	<u>7,321,224</u>	<u>2,041,058</u>
Expenditures:		
Current operations:		
General government	2,342,574	321,300
Security of persons and property	3,352,726	551,887
Public health and welfare	192,555	
Transportation		720,042
Community environment	474,311	178
Leisure time activity	564,297	
Economic development		22,550
Capital outlay		760,046
Debt service:		
Principal retirement		
Interest and fiscal charges		
Total expenditures	<u>6,926,463</u>	<u>2,376,003</u>
Excess of revenues over/(under) expenditures	<u>394,761</u>	<u>(334,945)</u>
Other financing sources/(uses):		
Proceeds from the sale of notes	760,000	
Other financing sources		52,022
Operating transfers in		507,309
Other financing uses		(143,434)
Operating transfers out	(507,309)	
Total other financing sources/(uses)	<u>252,691</u>	<u>415,897</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	647,452	80,952
Fund balance at beginning of year - restated	2,857,249	2,544,597
Increase (decrease) in reserve for inventory	(3,839)	(3,611)
Fund balance at end of year	<u>\$3,500,862</u>	<u>\$2,621,938</u>

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

<u>Governmental Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
<u>Debt Service</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	
	\$1,285,158		\$5,564,386
			788,317
			119,020
		\$800	247,024
			786,109
\$136,829			136,829
	147,700		2,548,857
			380,139
	120,394		482,482
<u>136,829</u>	<u>1,553,252</u>	<u>800</u>	<u>11,053,163</u>
			2,663,874
			3,904,613
			192,555
			720,042
			474,489
		92,645	656,942
			22,550
	1,413,399		2,173,445
89,967			89,967
82,278			82,278
<u>172,245</u>	<u>1,413,399</u>	<u>92,645</u>	<u>10,980,755</u>
<u>(35,416)</u>	<u>139,853</u>	<u>(91,845)</u>	<u>72,408</u>
			760,000
59,021		8	111,051
			507,309
			(143,434)
			(507,309)
<u>59,021</u>	<u></u>	<u>8</u>	<u>727,617</u>
23,605	139,853	(91,837)	800,025
508,242	557,038	74,640	6,541,766
			(7,450)
<u>\$531,847</u>	<u>\$696,891</u>	<u>(\$17,197)</u>	<u>\$7,334,341</u>

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2000**

	General			Special Revenue		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:						
Income taxes	\$4,230,974	\$4,298,496	\$67,522	\$21,989	\$21,600	(\$389)
Property and other taxes	1,599,225	1,624,747	25,522	251,805	303,103	51,298
Charges for services	187,985	190,985	3,000			
Licenses, permits and fees	135,432	137,593	2,161	103,066	106,655	3,589
Fines and forfeitures	679,945	690,796	10,851	96,656	97,889	1,233
Intergovernmental	113,363	115,172	1,809	1,087,364	1,254,064	166,700
Special assessments						
Investment income	290,831	295,472	4,641	50,097	51,367	1,270
Other	63,615	64,630	1,015	83,524	123,329	39,805
Total revenues	7,301,370	7,417,891	116,521	1,694,501	1,958,007	263,506
Expenditures:						
Current:						
General government	2,862,691	2,742,412	120,279	332,160	353,676	(21,516)
Security of persons and property	3,688,350	3,533,381	154,969	639,598	555,128	84,470
Public health and welfare	202,192	193,697	8,495			
Transportation				734,824	707,279	27,545
Community environment	617,339	591,401	25,938	1,000	178	822
Leisure time activity	588,299	563,581	24,718			
Capital outlay				629,268	771,204	(141,936)
Economic development and assistance				476,000	475,014	986
Debt service:						
Principal retirement						
Interest and fiscal charges						
Total expenditures	7,958,871	7,624,472	334,399	2,812,850	2,862,479	(49,629)
Excess of expenditures over revenues	(657,501)	(206,581)	450,920	(1,118,349)	(904,472)	213,877
Other financing sources/(uses):						
Proceeds of notes	748,062	760,000	11,938			
Operating transfers in				477,626	507,309	29,683
Operating transfers (out)	(529,559)	(507,309)	22,250			
Other financing sources	380,928	387,007	6,079	293,621	336,883	43,262
Total other financing sources/(uses)	599,431	639,698	40,267	771,247	844,192	72,945
Excess of revenues and other financing financing sources over/(under) expenditures and other financing uses	(58,070)	433,117	491,187	(347,102)	(60,280)	286,822
Fund balance at January 1	1,291,553	1,291,583	30	1,339,108	1,339,108	
Prior year encumbrances appropriated	508,521	508,521		78,873	78,873	
Fund balance at December 31	\$1,742,004	\$2,233,221	\$491,217	\$1,070,879	\$1,357,701	\$286,822

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

Debt Service			Capital Projects			Total (Memorandum Only)		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
			\$1,478,468	\$1,296,029	(\$182,439)	\$5,731,431	\$5,616,125	(\$115,306)
						1,851,030	1,927,850	76,820
						187,985	190,985	3,000
						238,498	244,248	5,750
						776,601	788,685	12,084
						1,200,727	1,369,236	168,509
\$300,000	\$135,047	(\$164,953)				300,000	135,047	(164,953)
						340,928	346,839	5,911
			271,532	238,026	(33,506)	418,671	425,985	7,314
300,000	135,047	(164,953)	1,750,000	1,534,055	(215,945)	11,045,871	11,045,000	(871)
						3,194,851	3,096,088	98,763
						4,327,948	4,088,509	239,439
						202,192	193,697	8,495
						734,824	707,279	27,545
						618,339	591,579	26,760
						588,299	563,581	24,718
			2,229,560	1,901,850	327,710	2,858,828	2,673,054	185,774
						476,000	475,014	986
154,856	89,967	64,889				154,856	89,967	64,889
94,199	82,278	11,921				94,199	82,278	11,921
249,055	172,245	76,810	2,229,560	1,901,850	327,710	13,250,336	12,561,046	689,290
50,945	(37,198)	(88,143)	(479,560)	(367,795)	111,765	(2,204,465)	(1,516,046)	688,419
						748,062	760,000	11,938
						477,626	507,309	29,683
						(529,559)	(507,309)	22,250
50,000	59,021	9,021				724,549	782,911	58,362
50,000	59,021	9,021				1,420,678	1,542,911	122,233
100,945	21,823	(79,122)	(479,560)	(367,795)	111,765	(783,787)	26,865	810,652
482,188	482,188	0	(223,812)	(223,812)		2,889,037	2,889,067	(30)
			526,560	526,560		1,113,954	1,113,954	
\$583,133	\$504,011	(\$79,122)	(\$176,812)	(\$65,047)	\$111,765	\$3,219,204	\$4,029,886	\$810,622

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND EQUITY
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2000**

	<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>	
Operating revenues:				
Charges for services	\$7,626,617	\$969,184		\$8,595,801
Other operating revenues	160,727			160,727
Total operating revenues	<u>7,787,344</u>	<u>969,184</u>		<u>8,756,528</u>
Operating expenses:				
Personal services	2,015,714			2,015,714
Contract services	762,825			762,825
Materials and supplies	621,731			621,731
Claims expense		1,014,856		1,014,856
Administrative costs	346,571			346,571
Utilities	911,472			911,472
Depreciation	929,632			929,632
Other operating expenses	29,391			29,391
Total operating expenses	<u>5,617,336</u>	<u>1,014,856</u>		<u>6,632,192</u>
Operating income/(loss)	<u>2,170,008</u>	<u>(45,672)</u>		<u>2,124,336</u>
Nonoperating revenues/(expenses):				
Interest expense and fiscal charges	(1,341,666)			(1,341,666)
Loss on disposal of fixed assets	(29,244)			
Interest revenue	460,850	13,909		474,759
Intergovernmental	386,371			386,371
Other nonoperating revenues	35,895			35,895
Total nonoperating revenues/(expenses)	<u>(487,794)</u>	<u>13,909</u>		<u>(473,885)</u>
Net income/(loss)	1,682,214	(31,763)		1,650,451
Retained earnings/fund balance at January 1	13,426,310	307,793	\$4,600	13,738,703
Retained earnings/fund balance at December 31	15,108,524	276,030	4,600	15,389,154
Contributed Capital	1,944,582			1,944,582
Fund equity at December 31	<u>\$32,161,630</u>	<u>\$552,060</u>	<u>\$9,200</u>	<u>\$32,722,890</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 AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2000**

	<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	\$7,637,747	\$966,433		\$8,604,180
Cash received from other operations	143,740			143,740
Cash payments for personal services	(1,944,409)			(1,944,409)
Cash payments for contract services	(721,725)			(721,725)
Cash payments for administrative costs	(346,571)			(346,571)
Cash payments supplies and materials	(628,944)			(628,944)
Cash payments for utilities	(904,636)			(904,636)
Cash payments for claims expense		(1,041,184)		(1,041,184)
Cash payments for other expenses	(29,391)			(29,391)
Net cash provided (used) by operating activities	<u>3,205,811</u>	<u>(74,751)</u>		<u>3,131,060</u>
Cash flows from noncapital financing activities:				
Cash received from nonoperating activities	35,895			35,895
Cash received from operating grants	722,839			722,839
Net cash provided by noncapital financing activities	<u>758,734</u>			<u>758,734</u>
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(4,544,922)			(4,544,922)
Proceeds of debt issues	2,412,750			2,412,750
Principal retirement	(1,168,822)			(1,168,822)
Interest and fiscal charges	(1,342,730)			(1,342,730)
Net cash used for capital and related financing activities	<u>(4,643,724)</u>			<u>(4,643,724)</u>
Cash flows from investing activities:				
Interest received	460,850	13,909		474,759
Net cash provided by investing activities	<u>460,850</u>	<u>13,909</u>		<u>474,759</u>
Net decrease in cash and cash equivalents	(218,329)	(60,842)		(279,171)
Cash and cash equivalents at January 1	8,333,420	321,722	\$4,600	8,659,742
Cash and cash equivalents at December 31	<u>\$8,115,091</u>	<u>\$260,880</u>	<u>\$4,600</u>	<u>\$8,380,571</u>

(Continued)

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2000
(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>	
Operating income/(loss)	\$2,170,008	(\$45,672)		\$2,124,336
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	929,632			929,632
Changes in assets and liabilities:				
Increase in materials and supplies inventory	(7,339)			(7,339)
Increase in accounts receivable	(6,129)	(2,751)		(8,880)
Decrease in due from other governments	272			272
Decrease in accrued wages and benefits	(580)			(580)
Increase in compensated absences payable	65,954			65,954
Increase in accounts payable	49,208			49,208
Decrease in claims payable		(26,328)		(26,328)
Decrease in capital lease obligation	(1,596)			(1,596)
Increase in due to other governments	6,381			6,381
Net cash provided (used) by operating activities	<u>\$3,205,811</u>	<u>(\$74,751)</u>		<u>\$3,131,060</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, 2000**

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general-purpose financial statements (GPFS) of the City have been prepared in conformity with generally accepted accounting principles (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, 2000
(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 2000, the City paid administrative fees of \$37,341 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. This 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 \$57,545 to the MANTF in 2000. 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 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 2000. The City's degree of control over the Board is limited to its representation on the Board.

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000
(Continued)**

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.

1. 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.

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.

2. 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.

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000
(Continued)**

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.

3. 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 expendable trust funds, a nonexpendable trust fund and an agency fund. Expendable trust funds are accounted for in essentially the same manner as governmental funds. 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.

4. 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.

C. Measurement Focus and Basis of Accounting

The modified accrual basis of accounting is followed for the governmental funds, expendable trust funds, and agency funds. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. Available means collectible within the sixty days after year-end to be used to pay liabilities of the current year.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: reimbursements from other governments, amounts receivable from city income tax withholdings, charges for services, interest on investments and state-levied, locally-shared taxes (including motor vehicle license fees, gasoline taxes, and local government assistance). The City reports deferred revenues on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

**CITY OF DEFIANCE
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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000
(Continued)**

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. Principal and interest on general and special assessment long-term debt are recorded as fund liabilities when due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

The accrual basis of accounting is utilized for reporting purposes by the proprietary fund and the nonexpendable trust fund. Revenues are recognized when they are earned and become measurable and expenses are recognized when they are incurred, if measurable.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and expendable trust funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are 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 the nonexpendable trust fund are accounted for on a capital maintenance 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.

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.

1. 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.

2. 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.

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

**CITY OF DEFIANCE
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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000
(Continued)**

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, 2000 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 2000.

3. 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.

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.

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

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000
(Continued)**

F. 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 2000, investments were limited to STAR Ohio, mutual funds and City-owned 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 2000. 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, 2000.

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 2000:

	Interest Actually Received	Interest Based upon Share of Cash Fund Balance	Interest Assigned by Other Funds
General Fund	\$295,472	\$136,165	\$159,307
Special Revenue Funds:			
State Highway Improvement Fund	8,210	1,826	6,384
Cable TV Contract Fund	8,210	3,484	4,726
Termination Benefits Fund	8,210	6,819	1,391
Street Construction Maintenance and Repair Fund	4,708	314	4,394

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 maturities of three months or less at the time they are purchased by the City are considered to be cash

**CITY OF DEFIANCE
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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000
(Continued)**

equivalents. Investments with an initial maturity of more than three months are reported as investments.

G. Health Care

The Comprehensive Omnibus Budget Reconciliation Act (COBRA) of 1986 required the City to offer and provide terminated or retired employees continued participation in the City's employee health care benefits program, provided that the employees pay the rate established by the plan administrator. In 2000, the City incurred expenditures of \$3,813 in providing these services, and recognized revenues of \$3,470 for premiums received from these former employees.

H. 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.

I. 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

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000
(Continued)**

debt issued to construct enterprise fund fixed assets is capitalized, net of interest earned on the proceeds of such debt.

J. 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.

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 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.

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000
(Continued)**

K. Intergovernmental Revenues

Unrestricted intergovernmental revenues received on the basis of entitlement are recorded as receivables and revenues when the entitlement occurs (to the extent they are intended to finance the current fiscal year). Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred.

L. 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 judgements 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.

M. 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". The City had no short-term interfund loans receivable or payable at December 31, 2000.
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, 2000.

An analysis of interfund transactions is presented in Note 5.

N. 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.

**CITY OF DEFIANCE
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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000
(Continued)**

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.

O. Bond Discounts, Premiums and Issuance Costs

When the proceeds from general obligation bonded debt are placed in a governmental fund type, any bond issuance costs are shown as capital outlay expenditures. Any premium or discount is included in "Other Financing Sources - Bond Proceeds" on the Statement of Revenues, Expenditures and Changes in Fund Balance. The long-term debt that appears in the general long-term obligations account group is reported at the bond's face value.

When the proceeds from general obligation bonded debt are placed in a proprietary fund type, and the debt will be serviced from revenues generated by that fund, then any material issuance costs will be reported as a deferred charge and amortized over the life of the bond using the interest method. Any material discounts or premiums are shown as additions to or deductions from the amount of the bond liability, are amortized using the interest method, and are reflected as interest income or expense in the Statement of Revenues, Expenses, and Changes in Retained Earnings.

P. 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 benefitting from the advance payment. At period end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset.

Q. 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.

R. 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.

3. ACCOUNTABILITY AND COMPLIANCE

Deficit Fund Balances

The following funds had a deficit fund balance as of December 31, 2000:

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000
(Continued)**

	<u>Deficit Fund Balance</u>
<u>Special Revenue Funds:</u>	
Permissive Tax	\$(15,265)
<u>Expendable Trust Fund</u>	
Park and Recreation Trust	(17,197)

At December 31, 2000, the Permissive Tax special revenue fund had negative cash fund balance of \$(2,015). The deficit fund balance on a GAAP basis is due to the negative cash fund balance and the application of GAAP namely in the reporting of liabilities for accounts due at December 31, 2000 but not paid until 2001. This deficit balance will be eliminated through the collection of tax revenues and through intergovernmental grants and subsidies not recognized at December 31.

At December 31, 2000, the Park and Recreation expendable trust fund had negative cash fund balance of \$(17,197). The deficit fund balance on a GAAP basis is due to the negative cash fund balance. This deficit balance will be eliminated through the collection of fees not recognized at December 31.

Expenditures Exceeding Appropriations

Contrary to Ohio law, expenditures exceeded appropriations in the Permissive Tax, Community Development, Cable T.V., CDBG - Economic Development Grant, Fire Pension, Water Pollution Control and Sewer Capital Improvement Funds by \$33,410, \$1,766, \$81,600, \$100,365, \$9,505, \$1,251,924, and \$1,430,653 respectively.

Certification of Expenditures

Certain expenditures were not properly certified according to the requirements of Ohio Revised Code § 5705.41(D).

Certification of available revenue

Contrary to Ohio law, revenues collected in the permanent improvement fund, a capital project fund type, were \$215,945 less than the amount in the official certificate. Appropriations exceeded the available resources by \$919,317. As result, actual expenditures plus year-end encumbrances have caused a \$65,047 deficit of unencumbered cash at December 31, 2000 on the budget to actual statements.

Debt Covenant/Agreement Violations

The City did not file the required annual financial information and operating data or the audited financial statements with the Nationally Recognized Municipal Security Information Repositories or the State Information Depository.

The City did not file annual reports of the operation and income of the Utility with the Ohio Public Works Commission or Ohio Water Development Authority.

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000
(Continued)**

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;
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.

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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 Balance Sheet of the City as part of "Equity in Pooled Cash and Cash Equivalents."

Deposits: At December 31, 2000, the carrying amount of the City's deposits, including cash with fiscal and escrow agents, was \$710,168 and the bank balance, including cash with fiscal and escrow agents, was \$1,244,056. Of the bank balance:

1. \$546,430 was covered by federal deposit insurance; and
2. \$697,626 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, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

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.

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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
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The following is a listing of investments, by category, as of December 31, 2000:

	Category 1	Uncategorized	Reported Value	Fair Value
City of Defiance Bonds	\$238,211		\$238,211	\$238,211
Mutual Funds		1,962,866	1,962,866	1,962,866
STAR Ohio		10,653,454	10,653,454	10,653,454
Total Investments	\$238,211	\$12,616,320	\$12,854,531	\$12,854,531

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:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$13,328,738	\$238,211
Cash on Hand	(2,250)	
Investments of the Cash Management Pool:		
STAR Ohio	(10,653,454)	10,653,454
Mutual Funds	(1,962,866)	1,962,866
GASB Statement No. 3	\$710,168	\$12,854,531

5. INTERFUND TRANSACTIONS

The following is a summarized breakdown of the City's operating transfers for 2000:

	Transfers In	Transfers Out
General Fund		\$507,309
Special Revenue Funds:		
Street Construction, Maintenance and Repair	\$182,000	
Police Pension	158,920	
Fire Pension	166,389	
Total	\$507,309	\$507,309

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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.

The full tax rate applied to real property for the fiscal year ended December 31, 2000 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 are reimbursed to the City by the State of Ohio.

Owners of tangible personal property are required to file a list of such property including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for the fiscal year ended December 31, 2000 was \$3.00/2.10 per \$1,000 of assessed valuation. The assessed valuation upon which 2000 taxes were collected is as follows:

Residential/Agricultural Real Property	\$126,163,130
Commercial/Industrial/Public Utility Real Property	29,067,940
Tangible/Public Utility Personal Property	41,079,546
Total Assessed Value	<u>\$196,310,616</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, 2000. 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 2000 operations. Accordingly, the receivable is offset by a credit to "Deferred Revenue."

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

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(Continued)**

measurable and available to finance current operations at December 31. Income tax revenue for 2000 was \$5,564,386.

8. RECEIVABLES

Receivables at December 31, 2000, 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. Receivables have been recorded to the extent that they are both measurable and available at December 31, 2000, as well as intended to finance fiscal 2000 operations.

A summary of the principal items of receivables follows:

<u>Fund/Description</u>	<u>Amount</u>
<u>General Fund</u>	
Income taxes	\$922,160
Real and other taxes	602,315
Accounts	104,071
Intergovernmental	138,497
<u>Special Revenue Funds</u>	
Income taxes	4,634
Real and other taxes	181,845
Accounts	53,084
Loans	1,123,068
Intergovernmental	42,035
<u>Debt Service Funds</u>	
Special assessments	27,836
<u>Capital Projects Funds</u>	
Income taxes	278,038
<u>Enterprise Funds</u>	
Accounts	162,085
<u>Internal Service Funds</u>	
Accounts	15,360

9. FIXED ASSETS

A. Enterprise Fixed Assets

A summary of the enterprise fund's fixed assets at December 31, 2000, follows:

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(Continued)**

Land	\$269,221
Land improvement	355,773
Infrastructure	18,831,472
Buildings and improvements	19,285,696
Furniture and equipment	5,316,985
Construction in progress	12,205,777
Accumulated depreciation	<u>(15,101,871)</u>
Total net assets	<u>\$ 41,163,053</u>

B. General Fixed Assets

A summary of the changes in general fixed assets during 2000 follows:

	Balance at 1/1/00	Additions	Deletions	Balance at 12/31/00
Land and improvements	\$1,306,194	\$792,304		\$2,098,498
Buildings and improvements	3,852,719	6,774		3,859,493
Furniture and equipment	3,728,386	511,885	181,997	4,058,274
Construction in progress		125,419		125,419
Total fixed assets	<u>\$8,887,299</u>	<u>\$1,436,382</u>	<u>\$181,997</u>	<u>\$10,141,684</u>

The construction in progress at year-end represents costs incurred as of December 31 to renovate the Riverside Shelter house. The project is estimated to be completed in 2001 at a cost of approximately \$170,000.

10. CONTRIBUTED CAPITAL

During 2000, the following changes to contributed capital reported by the City:

	Water
Balance at January 1, 2000	\$1,944,582
Current Contributions	
Balance at December 31, 2000	<u>\$1,944,582</u>

11. 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, 2000, vested benefits for vacation leave for governmental fund type employees, net of amounts paid using current expendable available resources, totaled \$196,799 and vested benefits for sick leave, net of amounts paid using

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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
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(Continued)**

current expendable available resources, totaled \$84,264. For proprietary fund types, vested benefits for vacation leave totaled \$80,556 and vested benefits for sick leave totaled \$89,896 at December 31, 2000. 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.

12. LONG-TERM OBLIGATIONS

A. General Long-Term Obligations

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

	Interest Rates	Balance Outstanding 12/31/99	Additions	Reductions	Balance Outstanding 12/31/00
General Obligation Bonds:					
Street Improvement Issues	5.9-6.955%	\$390,000		\$25,000	\$365,000
Special Assessment Bonds with A Governmental Commitment:					
Special Assessment Bonds	5.0-9.75%	889,022		64,967	824,055
Notes Payable:					
Municipal Building	5.18%		\$760,000		760,000
Other Long-term Obligations:					
Compensated Absences Payable		218,960	62,103		281,063
Total General Long-term Obligations		<u>\$1,497,982</u>	<u>\$822,103</u>	<u>\$89,967</u>	<u>\$2,230,118</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.

The City issued bond anticipation notes on July 13, 2000 to pay cost of acquiring, remodeling, renovation and improving a building with the purpose of renovating a building to house municipal functions and improving the site.

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

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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
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(Continued)**

Year Ended	General Obligation Bonds			Special Assessment Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2001	\$ 25,000	\$ 25,255	\$ 50,255	\$ 66,967	\$ 56,505	\$ 123,472
2002	25,000	23,630	48,630	66,967	51,534	118,501
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
2006-2010	190,000	54,566	244,566	366,405	105,608	472,013
2011-2014	40,000	2,388	42,388	106,815	11,771	118,586
Total	<u>\$365,000</u>	<u>\$165,957</u>	<u>\$530,957</u>	<u>\$824,055</u>	<u>\$351,365</u>	<u>\$1,175,420</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 Rates	Balance Outstanding 12/31/99	Additions	Reductions	Balance Outstanding 12/31/00
<u>General Obligation Bonds</u>					
Waterline Improvements	5.25%	\$ 540,000		\$ (135,000)	\$ 405,000
Waterline Improvements	5.375%	50,000		(50,000)	
Waterline Improvements	Various	5,530,000		(130,000)	5,400,000
Waterworks - Series 1998	Various	<u>7,820,000</u>		<u>(185,000)</u>	<u>7,635,000</u>
Total General Obligation Bonds		<u>\$13,940,000</u>		<u>\$ (500,000)</u>	<u>\$ 13,440,000</u>
<u>Other Long-Term Obligations</u>					
OWDA Loan	3.91%-7.65%	\$13,518,823	\$1,612,505	\$ (310,488)	\$ 14,820,840
OPWC Loan	0%-4.0%	<u>1,201,234</u>	<u>110,395</u>	<u>(58,071)</u>	<u>1,253,558</u>
Total Other Long-Term Obligations		<u>\$14,720,057</u>	<u>\$1,722,900</u>	<u>\$ (368,559)</u>	<u>\$ 16,074,398</u>
Total Enterprise Fund Obligations		<u>\$28,660,057</u>	<u>\$1,722,900</u>	<u>\$ 868,559</u>	<u>\$ 29,514,398</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 improvements and furnishings, together with all necessary and related improvements and the acquisition of any real estate or interest therein required. During 2000, the City retired \$185,000 of these bonds leaving an outstanding balance of \$7,635,000 at December 31, 2000.

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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
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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, 2000, the City had the following OWDA loans outstanding:

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance Outstanding 12/31/00</u>
OWDA Loan	7.65%	1/1/2013	\$ 6,602,725
OWDA Loan	3.91%	7/1/2020	<u>8,218,115</u>
Total			<u>\$14,820,840</u>

Improvements to the City's water treatment facilities were financed through expenditures by the Ohio Public Works Commission (OPWC). At December 31, 2000, the City has the following four loans outstanding to the OPWC:

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance Outstanding 12/31/00</u>
OPWC Loan	4.00%	7/1/2014	\$ 249,618
OPWC Loan	3.00%	7/1/2017	432,529
OPWC Loan	0.00%	1/1/2019	362,572
OPWC Loan	0.00%	7/1/2020	<u>208,839</u>
Total			<u>\$1,253,558</u>

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.

<u>Year Ended</u>	<u>General Obligation Bonds</u>			<u>OWDA Loans Payable</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2001	\$ 465,000	\$ 754,130	\$ 1,219,130	\$ 611,708	\$ 823,750	\$ 1,435,458
2002	480,000	732,348	1,212,348	648,232	787,226	1,435,458
2003	495,000	709,764	1,204,764	687,144	748,314	1,435,458
2004	375,000	686,063	1,061,063	728,614	706,844	1,435,458
2005	410,000	650,525	1,060,525	772,816	662,642	1,435,458
2006-2010	2,395,000	2,918,333	5,313,333	4,637,055	2,540,234	7,177,289
2011-2015	3,140,000	2,154,550	5,294,550	4,051,710	969,677	5,021,387
2016-2020	4,125,000	1,121,840	5,246,840	2,683,561	296,984	2,980,545
2021-2023	<u>1,555,000</u>	<u>158,250</u>	<u>1,713,250</u>			
Total	<u>\$13,440,000</u>	<u>\$9,885,803</u>	<u>\$23,325,803</u>	<u>\$14,820,840</u>	<u>\$7,535,671</u>	<u>\$22,356,511</u>

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<u>Year Ended</u>	<u>OPWC Loans Payable</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2001	\$64,561	\$22,700	\$87,261
2002	65,734	21,527	87,261
2003	66,950	20,311	87,261
2004	68,208	19,053	87,261
2005	69,510	17,751	87,261
2006-2010	368,734	67,572	436,306
2011-2015	384,396	27,667	412,063
2016-2020	<u>165,465</u>	<u>1,467</u>	<u>166,932</u>
Total	<u>\$1,253,558</u>	<u>\$198,048</u>	<u>\$1,451,606</u>

13. NOTES PAYABLE

The City had the following bond anticipation note activity during fiscal year 2000 in the Water enterprise fund and Sewer enterprise fund. Bond anticipation notes are fund liabilities of the fund which received the proceeds.

	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance Outstanding 12/31/99</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding 12/31/00</u>
<u>Sewer Enterprise Fund</u>						
Sewer Improvements - 5.18%	7/13/00	7/12/01		\$2,100,000		\$2,100,000
Sewer Line Construction - 5.25%	5/12/00	5/11/01		156,375		156,375
Sewer Improvements - 6.00%	3/01/99	3/01/00	<u>\$162,500</u>		<u>\$(162,500)</u>	
Total			<u>\$162,500</u>	<u>\$2,256,375</u>	<u>\$(162,500)</u>	<u>\$2,256,375</u>
<u>Water Enterprise Fund</u>						
Water Line Construction - 5.25%	5/12/00	5/11/01		\$ 156,375		\$ 156,375
Water Improvements - 6.00%	3/01/99	3/01/00	<u>\$137,500</u>		<u>\$(137,500)</u>	
Total			<u>\$137,500</u>	<u>\$ 156,375</u>	<u>\$(137,500)</u>	<u>\$ 156,375</u>

14. 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, utility services, and waste disposal services. Segment information for the year ended December 31, 2000 is as follows:

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Utility Refuse Fund</u>	<u>Deposit Fund</u>	<u>Total</u>
Operating revenues	\$ 3,292,268	\$ 3,951,962	\$523,563	\$ 19,551	\$ 7,787,344
Operating expenses before depreciation	1,700,602	2,492,212	489,608	5,282	4,687,704

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Depreciation expense	573,961	355,671			929,632
Operating income	1,017,705	1,104,079	33,955	14,269	2,170,008
Net income	681,096	952,894	33,955	14,269	1,682,214
Additions to property, plant and equipment	2,783,368	2,661,645			5,445,013
Net working capital	1,899,329	3,180,239	150,940	173,943	5,404,451
Total assets	24,654,833	24,717,230	150,940	173,943	49,696,946
Bonds and other long term liabilities payable from operating revenues	15,029,679	14,484,719			29,514,398
Total liabilities	17,584,051	15,059,789			32,643,840
Contributed capital	5,477	1,939,105			1,944,582
Total equity	7,070,782	9,657,441	150,940	173,943	17,053,106
Encumbrances outstanding	1,313,211	371,905			1,685,116

15. 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 coverages.

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: 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, 2000 the pool had cash reserves of \$737,804, 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 pools includes the following municipalities: Archbold, Bowling Green, Carey, Defiance, Fayette, Harrison, Huron, Napoleon,

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Sandusky and Willard. As of December 31, 2000 the pool had cash reserves of \$497,184 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 \$518 for family coverage, \$401 for two party coverage, and \$191 for single party coverage. Life insurance monthly premiums are \$6 for family and two party coverage and \$3 for single party coverage. During 2000 the City paid \$1,041,183 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 proved 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.

16. DEFINED BENEFIT PENSION PLANS

A. Public Employees Retirement System

All City full-time employees, other than uniformed employees, participate in the Public Employees Retirement System of Ohio (PERS), a cost sharing multiple-employer public employee retirement system created by the State of Ohio. The PERS 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. The PERS issues a stand-alone financial report which may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate for 2000 was 8.5 % for employees other than law enforcement. Law enforcement employees contribute 9.0 % of covered salary. The PERS Retirement Board instituted a temporary employees contribution rate rollback for calendar year 2000. The rate rollback was 20% for local government divisions and 6% for law enforcement divisions. The employer contribution rate for employees other than law enforcement was 10.84 % of covered payroll; 6.54 % was the portion used to fund pension obligations for 2000. The employer contribution rate for law enforcement employees was 15.70 % of covered payroll; 11.40 % was the portion used to fund pension obligations for 2000. The City's contributions for pension obligations to the PERS for the years ended December 31, 2000, 1999, and 1998 were \$404,211, \$487,573, and \$461,889, respectively; 90 % has been contributed for 2000 and 100 % for 1999

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000
(Continued)**

and 1998. \$39,267, representing the unpaid contribution for 2000, 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 % of their annual covered salary, while the City is required to contribute 19.50 % and 24.0 % for police officers and firefighters, respectively. The City's contributions for pension obligations to the OP&F for the years ended December 31, 2000, 1999, and 1998 were \$485,795, \$417,297 and \$421,739, respectively; 89% has been contributed for 2000 and 100 % for the years 1999 and 1998. \$54,285, representing the unpaid contributions for 2000, is recorded as a liability within the respective funds.

17. POSTEMPLOYMENT BENEFITS

A. Public Employees Retirement System

PERS provides post-retirement health care coverage to age and service retirants with 10 or more years of qualifying Ohio service credit. Health care coverage for disability 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 PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The employer contribution rate was rolled back for the year 2000. The 2000 employer contribution rate for local government employers was 10.84% of covered payroll; 4.30% was the portion that was used to fund health care. The law enforcement employer rate for 2000 was 15.70% of covered payroll; 4.30% 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 PERS. The City's contribution actually made to fund postemployment benefits was \$164,147.

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.

As of December 31, 1999 (the latest information available), the unaudited estimated net assets available for future OPEB payments were \$10,805.5 million. The actuarially accrued liability and

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000
(Continued)**

the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$12,473.6 million and \$1,668.1 million, respectively, at December 31, 1999 (the latest information available). The number of benefit recipients eligible for OPEB at December 31, 1999 (the latest information available), was 401,339.

During 2000, the PERS Retirement Board enacted a temporary employer contribution rate rollback for calendar year 2000. The decision to rollback rates was based on the December 31, 1998 actuarial study, which indicated that actuarial assets exceeded actuarial liabilities. The temporary rate rollback was 20% for both the state and local government divisions and 6% for law enforcement divisions. The Board reallocated employer contributions from 4.20% to 4.30% at the beginning of the year to improve health care financing. The proportion of contributions dedicated to funding OPEB increased during the year for those reasons.

Additional information on PERS, including historical trend information, showing the progress in accumulating sufficient assets to pay benefits when due is available in the PERS December 31, 2000, Comprehensive Annual Financial Report.

B. Ohio Police and Fire Pension Fund

OP&F provides post-retirement 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% of covered payroll and the total firefighter's employer contribution rate is 24.0% 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 7.0 % and 7.25 % of covered payroll in 1999 and 2000, 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, 1999 (the latest information available), is 12,467 for police officers and 9,807 for firefighters. The amount of employer contributions used to pay postemployment benefits for police officers and firefighters were \$85,575 and \$72,373, respectively. OP&F's total health care expenses for the year ending December 31, 1999 (the latest information available), was \$95.005 million which was net of member contributions of \$5.518 million.

18. 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

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000
(Continued)**

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**

	General	Special Revenue	Debt Service	Capital Projects
Budget Basis	\$ 433,117	\$ (60,280)	\$21,823	\$(367,795)
Adjustments:				
Net Adjustment for Revenue Accruals	(96,667)	83,051	1,782	19,197
Net Adjustment for Expenditure Accruals	272,477	408,457		(2,069)
Net adjustment for Other Financing Sources/ (Uses) Accruals	(387,007)	(428,295)		
Encumbrances	<u>425,532</u>	<u>78,019</u>		<u>490,520</u>
GAAP Basis	<u>\$ 647,452</u>	<u>\$ 80,952</u>	<u>\$23,605</u>	<u>\$ 139,853</u>

19. 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, 2000.

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.

20. 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:

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000
(Continued)**

	<u>Balance Outstanding 12/31/99</u>	<u>Loans Issued</u>	<u>Principal Received</u>	<u>Balance Outstanding 12/31/00</u>
CDBG Loans	<u>\$1,063,779</u>	<u>\$541,607</u>	<u>\$(482,318)</u>	<u>\$1,123,068</u>

21. CONTRACTUAL COMMITMENTS

The City had the following construction projects outstanding:

Gray Street Area Rehabilitation project	\$ 100,417
Riverdale Drive Street Improvement projects	413,435
Auglaize River Waterline project	267,499
North Area Express Sewer Project Segment C	329,537
Perry Street Storm Separation Project - Phase II	<u>271,795</u>
Total construction contracts	<u>\$1,382,683</u>

22. SUBSEQUENT EVENTS

In May 2001 the City issued \$178,200 in notes to pay the cost of improving the municipal sanitary sewerage system by acquiring and constructing sewer lines. In May 2001 the City issued \$150,800 in notes to pay the cost of improving the municipal waterworks system by acquiring and constructing water lines. In June 2001 the City issued \$2,100,000 in notes to pay the cost of improving and expanding the municipal sanitary sewerage system. In July 2001 the City issued \$760,000 in notes to pay the costs of acquiring, remodeling, and renovating a building which will house municipal functions.

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2001**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Passed Through Ohio Department of Development:</i>			
Micro-enterprise grant	A-M-97-111-1	14.228	\$20,500
Economic development grant	A-E-99-111-1	14.228	85,000
Formula grant	A-F-99-111-1	14.228	79,641
Chip grant	A-C-99-111-1	14.228	19,826
<i>Received Direct from HUD</i>			204,967
Home grant	A-C-99-111-2	14.239	242,276
Total U.S. Department of Housing and Urban Development			447,243
U.S. DEPARTMENT OF JUSTICE			
<i>Passed Through Ohio Department of Justice:</i>			
Bryne Program Grant	99-LE-LEB-3102	16.579	2,377
Community Oriented Policing Services Grant	97-UMWX-1012	16.710	42,991
Total U.S. Department of Justice			45,368
Total Federal Awards Expenditures			\$492,611

The accompanying notes are an integral part of this schedule.

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FISCAL YEAR ENDED DECEMBER 31, 2000**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the City's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) REVOLVING LOAN PROGRAMS

The City has established a revolving loan program to provide low-interest loans to businesses to create jobs for persons from low-moderate income households and to eligible persons and to rehabilitate homes. The Federal Department of Housing and Urban Development (HUD) grants money for these loans to the City passed through the Ohio Department of Development. The initial loan of this money is recorded as a disbursement on the accompanying Schedule of Federal Awards Expenditures (the Schedule). Loans repaid, including interest, are used to make additional loans. Such subsequent loans are subject to certain compliance requirements imposed by HUD, but are not included as disbursements on the Schedule.

These loans are collateralized by mortgages on the property. At December 31, 2000, the gross amount of loans outstanding under this program were \$1,123,068.

NOTE C - MATCHING REQUIREMENTS

Certain Federal programs require that the City contribute non-Federal funds (matching funds) to support the Federally-funded programs. The City has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



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

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

To the City Council:

We have audited the financial statements of City of Defiance as of and for the year ended December 31, 2000, and have issued our report thereon dated September 12, 2001. 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 and questioned costs as items 2000-20120-001 through 2000-20120-006. We also noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated September 12, 2001.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated September 12, 2001.

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

Jim Petro
Auditor of State

September 12, 2001



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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

To the City Council:

Compliance

We have audited the compliance of City of Defiance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2000. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2000. We noted certain instances of noncompliance that do not require inclusion in this report that we have reported to the management of the City in a separate letter dated September 12, 2001.

Internal Control Over Compliance

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

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

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

Jim Petro
Auditor of State

September 12, 2001

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2000**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under §.510?	No
(d)(1)(vii)	Major Programs (list):	Community Development Block Grant Program - CFDA #14.228 Home Improvement Partnership Program - CFDA #14.239
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

Finding Number 2000-20120-001

Noncompliance Citation

Ohio Revised Code § 5705.41 (B) states no subdivision or taxing unit is to expend money unless it has been appropriated. Testing revealed that the Revolving Loan Industrial, Termination Benefit, and Health Care Trust Funds had expenditures exceed appropriations during the fiscal year. However, these were corrected by year end.

**Finding Number 2000-20120-001
 (Continued)**

In addition, the following funds had expenditures which exceeded appropriations at year end:

	Expenditures	Appropriations	Difference
Permissive Tax Fund	\$77,490	\$44,080	\$33,410
Community Development Fund	160,600	79,000	81,600
Cable TV Franchise Fund	108,396	106,629	1,767
CDBG - Economic Development Grant Fund	100,365		100,365
Fire Pension Fund	238,305	228,800	9,505
Water Pollution Control Fund	5,437,993	4,186,069	1,251,924
Sewer Capital Improvement Fund	1,430,653		1,430,653

Ohio Revised code § 5705.40 allows a subdivision to amend its annual appropriation measure. The City did not pass a resolution amending its appropriations for \$1,386,431 in Ohio Water Development Authority (OWDA) and Ohio Public Works Commission (OPWC) loan expenditures in fiscal year 2000 nor did the City obtain an amended certificate of estimated resources for these loan monies. Failure to budget for these monies resulted in expenditures being made that have not been appropriated.

We recommend the City review Auditor of State Bulletins #2000-008 and #1997-012 and follow the procedures outlined for OWDA and OPWC loan monies. Also, management should monitor budgetary performance closely throughout the year and appropriately address the situations described above before expenditures exceed appropriations.

Finding Number 2000-20120-002

Noncompliance Citation

Ohio Revised Code § 5705.41(D) states that no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

Should this requirement not be met, the section provides two exceptions which could prevent the contract from being void:

- A. Concerning contracts where the amount in question is \$1,000 or greater, the fiscal officer should present to the taxing authority of the subdivision or taxing unit a certificate stating that, at both the time the contract was made and at the time of the issuance of said certificate, a sufficient sum had been appropriated and was in the treasury or in the process of being collected and that money was free from any encumbrances. Within thirty days from the receipt of the certificate, the legislative authority may authorize a warrant for the payment of the amount due.

**Finding Number 2000-20120-002
(Continued)**

- B. Concerning amounts less than \$1,000, the fiscal officer must issue a certificate stating the same as in the first exception. However, the fiscal officer does not need to seek the approval of the legislative authority in order to authorize the payment of the contract.

This code section states that fiscal officers may prepare so-called "regular blanket" certificates not exceeding \$5,000 against any specific line item account over a period not exceeding three months or running beyond the current fiscal year. The regular blanket certificates may, but need not, be limited to a specific vendor. Only one regular blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

In addition to regular blanket certificates, a subdivision's fiscal officer may also issue so-called "super blanket" certificates for amounts over \$5,000 for expenditures and contracts from a specific line-item appropriation account in a specified fund for most professional services, fuel, oil, food items and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the fiscal year. More than one super blanket certificate may be outstanding at one particular time for a particular line-item appropriation account.

The Finance Director did not make the proper certification of funds for 40 percent of the transactions tested during the audit period. We recommend that the Finance Director certify all expenditures at the point when the contract is entered into or orders for goods or services are placed by City officials. The certification can also be made through the use of "regular blankets," "then and now" or "super blanket" certificates.

Finding Number 2000-20120-003

Noncompliance Citation

Ohio Revised Code § 5705.36(A)(4) states that upon a determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be less than the amount included in an official certificate and the amount of the deficiency will reduce available resources below the level of current appropriations, the fiscal officer shall certify the amount of the deficiency to the budget commission.

Revenues collected in the permanent improvement fund, a capital project fund type, were \$215,945 less than the amount in the official certificate. Appropriations exceeded the available resources by \$919,317, contrary to Ohio Revised Code §5705.39. As result, actual expenditures plus year-end encumbrances have caused a \$65,047 deficit of unencumbered cash at December 31, 2000 on the budget to actual statements.

The amount included in the official certificate should have been reduced by revenues collected. In addition, appropriations should have reduced to the available resources. We recommend that the finance director monitor appropriations, current and estimated available resources to ensure future compliance.

Finding Number 2000-20120-004

Noncompliance Citation

17 Code of Federal Regulations (C.F.R.) Section 240.15c2-12 requires the issuer and/or obligated persons (i.e., entities directly or contingently responsible for repaying the securities) must agree in writing, to provide to all approved Nationally Recognized Municipal Security Information Repositories (NRMSIRs) and to the State Information Depository (SID):

**Finding Number 2000-20120-004
(Continued)**

- Annual financial information and operating data.
- Timely material event notices. Underwriters must also establish procedures to assure they receive these notices.
- Audited financial statements, when and if available.
- Timely notice of failure to provide required financial information.

The Continuing Disclosure Agreement for the \$8,000,000 Water works System Improvement Bonds, Series 1998 requires the City to file the *annual information and operating data* by September 30 following the end of each fiscal year. The City did not file the required *annual financial information and operation data* (covering fiscal year 1999) or the fiscal year 1999 *audited financial statements* with the NRMSIRs or SID nor did they file a *timely notice of failure to provide required financial information* in 2000. We recommend the City review their Continuing Disclosure Agreement for the \$8,000,000 Water works System Improvement Bonds, Series 1998.

Finding Number 2000-20120-005

Noncompliance Citation

Article 2.2(b) of Clear Well Replacement and Plant Improvements Project Loan Agreements between the State of Ohio, acting by and through the Director of the Ohio Public Works Commission, and the City of Defiance requires that the recipient shall furnish to the OPWC annual reports of the operation and income the Utility together with an annual report of the accounts and operations of the Utility.

The City could not provide evidence that they filed such reports with the OPWC in 2000. This could influence future funding, if requested, from OPWC. We recommend that the City file such reports with the OPWC on an annual basis.

Finding Number 2000-20120-006

Noncompliance Citation

Section 4.3 (B) of the Water Pollution Control Loan Fund Agreement between the Ohio Water Development Authority and the City of Defiance, states that the Borrower will furnish annually to the State reports of the operation and income of the Project Facilities and also an annual report of the accounts and operations of the Project Facilities. The City could not provide evidence that it complied with this provision.

The City could not provide evidence that they filed such reports with the OWDA in 2000. This could influence future funding, if requested, from OWDA. We recommend the City file such reports with the OWDA on an annual basis.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



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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
OCTOBER 2, 2001**