



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, Suite D
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, 2001, 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, 2001, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3 to the accompanying general-purpose financial statements during the year ended June 30, 2001, the County adopted Governmental Accounting Standards Board (GASB) Statements No. 33 and 36. Also, as described in Note 3, the December 31, 2000, compensated absences payable liability in the general long-term obligations account group has been restated to adhere to the requirements of GASB Statement 16.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 22, 2002 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.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, sweeping initial "J" and a long horizontal stroke extending to the right.

Jim Petro
Auditor of State

August 22, 2002

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**CITY OF DEFIANCE
DEFIANCE COUNTY**

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 2001**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
ASSETS AND OTHER DEBITS				
Assets:				
Equity in pooled cash and cash equivalents	\$945,971	\$1,483,344	\$528,901	\$580,961
Equity in pooled cash and cash equivalents- nonexpendable trust fund				
Cash with fiscal and escrow agents				
Investments	358,824			
Receivables (net of allowances):				
Income taxes	919,850	4,425		265,503
Real and other taxes	593,230	184,412		
Accounts	139,471	7,007		
Loans		1,080,195		
Interfund loans	54,955			
Special assessments			757,088	
Due from other governments	290,251	315,645		
Prepayments	53,086			
Materials and supplies inventory	37,009	32,773		6,383
Fixed assets (net of accumulated depreciation where applicable)				
Other debits:				
Amount available in debt service fund				
Amount to be provided for retirement of general long-term obligations				
Total assets and other debits	\$3,392,647	\$3,107,801	\$1,285,989	\$852,847

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
\$6,984,057	\$126,890	\$26,654			\$10,676,778
		4,600			4,600
		31,340			31,340
					358,824
					1,189,778
326,515	17,001				777,642
					489,994
					1,080,195
					54,955
					757,088
					605,896
147,956					53,086
					224,121
42,881,687			\$10,989,734		53,871,421
				\$528,901	528,901
				1,766,306	1,766,306
\$50,340,215	\$143,891	\$62,594	\$10,989,734	\$2,295,207	\$72,470,925

(Continued)

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 2001
(Continued)**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
LIABILITIES, EQUITY AND OTHER CREDITS				
Liabilities:				
Accounts payable	\$59,401	\$24,447		\$5,603
Contracts payable				
Accrued wages and benefits	164,378	16,381		
Compensated absences payable	12,166	930		
Interfund loans payable		42,466		
Deferred revenue	734,267	355,162	\$757,088	
Due to other governments	214,553	34,450		
Amount to be repaid to claimants				
Accrued interest payable				
General obligation bonds payable				
Claims payable				
Special assessment bonds payable				
Notes payable				
OWDA loan payable				
OPWC loans payable				
Total liabilities	1,184,765	473,836	757,088	5,603
Equity and other credits:				
Investment in general fixed assets				
Contributed capital				
Retained earnings - unreserved				
Fund balances:				
Reserved for encumbrances	344,887	48,946		346,521
Reserved for materials and supplies inventory	37,009	32,773		6,383
Reserved for prepayments	53,086			
Reserved for loans		1,080,195		
Reserved for debt service			528,901	
Reserved for principal endowment				
Reserved for noncurrent investments	358,824			
Unreserved-undesignated (deficit)	1,414,076	1,472,051		494,340
Total equity and other credits	2,207,882	2,633,965	528,901	847,244
Total liabilities, equity and other credits	\$3,392,647	\$3,107,801	\$1,285,989	\$852,847

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	
\$139,741					\$229,192
157,213					157,213
74,059					254,818
337,688				\$436,119	786,903
		\$12,489			54,955
					1,846,517
66,688		31,340			347,031
		26,654			26,654
93,398					93,398
12,975,000				340,000	13,315,000
	\$35,671				35,671
143,894				757,088	900,982
2,434,407				762,000	3,196,407
14,209,132					14,209,132
1,188,997					1,188,997
<u>31,820,217</u>	<u>35,671</u>	<u>70,483</u>		<u>2,295,207</u>	<u>36,642,870</u>
			\$10,989,734		10,989,734
1,944,582					1,944,582
16,575,416	108,220				16,683,636
					740,354
					76,165
					53,086
					1,080,195
					528,901
		4,600			4,600
					358,824
		(12,489)			3,367,978
<u>18,519,998</u>	<u>108,220</u>	<u>(7,889)</u>	<u>10,989,734</u>		<u>35,828,055</u>
<u>\$50,340,215</u>	<u>\$143,891</u>	<u>\$62,594</u>	<u>\$10,989,734</u>	<u>\$2,295,207</u>	<u>\$72,470,925</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, 2001**

	<u>Governmental Fund Types</u>	
	<u>General</u>	<u>Special Revenue</u>
Revenues:		
Income taxes	\$4,030,007	\$24,963
Real and other taxes	507,869	286,439
Charges for services	360,509	
Licenses, permits and fees	133,638	102,827
Fines and forfeitures	654,412	96,662
Special assessments		
Intergovernmental	735,672	1,078,788
Investment income	259,205	68,219
Other	166,696	37,935
	<u>6,848,008</u>	<u>1,695,833</u>
Total revenue		
Expenditures:		
Current operations:		
General government	2,651,976	294,598
Security of persons and property	3,678,417	603,968
Public health and welfare	192,113	3,635
Transportation		681,711
Community environment	587,162	
Leisure time activity	572,260	
Economic development	38,938	53,783
Capital outlay		690,695
Debt service:		
Principal retirement	760,000	
Interest and fiscal charges	39,889	
	<u>8,520,755</u>	<u>2,328,390</u>
Total expenditures		
Excess of revenues over (under) expenditures	<u>(1,672,747)</u>	<u>(632,557)</u>
Other financing sources (uses):		
Proceeds of notes	762,000	
Operating transfers in		451,704
Operating transfers out	(451,704)	
	<u>310,296</u>	<u>451,704</u>
Total other financing sources (uses)		
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(1,362,451)	(180,853)
Fund balances, January 1 (restated)	3,571,104	2,815,934
Increase (decrease) in reserve for inventory	(771)	(1,116)
	<u>3,570,333</u>	<u>2,814,818</u>
Fund balances, December 31	<u><u>\$2,207,882</u></u>	<u><u>\$2,633,965</u></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>	
	\$1,219,721		\$5,274,691
			794,308
			360,509
		\$4,700	241,165
			751,074
\$109,124			109,124
	202,097		2,016,557
			327,424
59,632	29,614	8	293,885
<u>168,756</u>	<u>1,451,432</u>	<u>4,708</u>	<u>10,168,737</u>
			2,946,574
			4,282,385
			195,748
			681,711
			587,162
			572,260
			92,721
	1,307,462		1,998,157
91,967			851,967
79,735			119,624
<u>171,702</u>	<u>1,307,462</u>		<u>12,328,309</u>
<u>(2,946)</u>	<u>143,970</u>	<u>4,708</u>	<u>(2,159,572)</u>
			762,000
			451,704
			(451,704)
			762,000
(2,946)	143,970	4,708	(1,397,572)
531,847	696,891	(17,197)	7,598,579
	6,383		4,496
<u>\$528,901</u>	<u>\$847,244</u>	<u>(\$12,489)</u>	<u>\$6,205,503</u>

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001**

	General		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:			
Income taxes	\$4,200,692	\$4,086,981	(\$113,711)
Property and other taxes	521,999	507,869	(14,130)
Charges for services	290,917	283,042	(7,875)
Licenses, permits and fees	139,387	135,614	(3,773)
Fines and forfeitures	663,250	645,296	(17,954)
Intergovernmental	751,343	731,004	(20,339)
Special assessments			
Investment income	266,325	259,116	(7,209)
Other	47,272	45,992	(1,280)
Total revenues	6,881,185	6,694,914	(186,271)
Expenditures:			
Current:			
General government	3,007,213	3,060,146	(52,933)
Security of persons and property	3,806,848	3,798,420	8,428
Public health and welfare	218,613	191,120	27,493
Transportation			
Community environment	696,806	691,309	5,497
Leisure time activity	606,898	586,592	20,306
Economic development	39,400	49,363	(9,963)
Capital outlay			
Debt service:			
Principal retirement	760,000	760,000	
Interest and fiscal charges	40,000	39,889	
Total expenditures	9,175,778	9,176,839	(1,172)
Excess of revenues over (under) expenditures	(2,294,593)	(2,481,925)	(187,332)
Other financing sources (uses):			
Proceeds of notes	783,201	762,000	(21,201)
Operating transfers in			
Operating transfers out	(513,825)	(451,704)	62,121
Other financing sources	511,814	497,959	(13,855)
Total other financing sources (uses)	781,190	808,255	27,065
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(1,513,403)	(1,673,670)	(160,267)
Fund balances, January 1	2,233,221	2,233,221	
Prior year encumbrances appropriated	425,532	425,532	
Fund balances, December 31	\$1,145,350	\$985,083	(\$160,267)

Special Revenue			Debt Service		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
\$24,095	\$20,538	(\$3,557)			
333,100	287,155	(45,945)			
90,000	102,827	12,827			
98,833	97,196	(1,637)			
1,309,224	1,218,552	(90,672)			
			\$150,000	\$136,959	(\$13,041)
22,164	27,265	5,101			
25,480	73,898	48,418			
<u>1,902,896</u>	<u>1,827,431</u>	<u>(75,465)</u>	<u>150,000</u>	<u>136,959</u>	<u>(13,041)</u>
378,518	359,550	18,968			
627,007	571,902	55,105			
739,854	697,149	42,705			
1,000	1,000	1,000			
163,000	167,000	(4,000)			
1,000,800	801,057	199,743			
			125,000	91,967	33,033
			120,655	79,734	40,921
<u>2,910,179</u>	<u>2,596,658</u>	<u>313,521</u>	<u>245,655</u>	<u>171,701</u>	<u>73,954</u>
<u>(1,007,283)</u>	<u>(769,227)</u>	<u>238,056</u>	<u>(95,655)</u>	<u>(34,742)</u>	<u>60,913</u>
570,163	451,704	(118,459)			
194,041	245,544	51,503	50,000	59,632	9,632
764,204	697,248	(66,956)	50,000	59,632	9,632
(243,079)	(71,979)	171,100	(45,655)	24,890	70,545
1,357,701	1,357,701		504,011	504,011	
78,019	78,019				
<u>\$1,192,641</u>	<u>\$1,363,741</u>	<u>\$171,100</u>	<u>\$458,356</u>	<u>\$528,901</u>	<u>\$70,545</u>

(Continued)

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

	Capital Projects		Variance: Favorable (Unfavorable)
	Revised Budget	Actual	
Revenues:			
Income taxes	\$1,154,698	\$1,232,256	\$77,558
Property and other taxes			
Charges for services			
Licenses, permits and fees			
Fines and forfeitures			
Intergovernmental	217,552	232,165	14,613
Special assessments			
Investment income			
Other	27,750	29,614	1,864
Total revenues	1,400,000	1,494,035	94,035
Expenditures:			
Current:			
General government			
Security of persons and property			
Public health and welfare			
Transportation			
Community environment			
Leisure time activity			
Economic development			
Capital outlay	2,202,520	1,690,671	511,849
Debt service:			
Principal retirement			
Interest and fiscal charges			
Total expenditures	2,202,520	1,690,671	511,849
Excess of revenues over (under) expenditures	(802,520)	(196,636)	605,884
Other financing sources (uses):			
Proceeds of notes			
Operating transfers in			
Operating transfers out			
Other financing sources			
Total other financing sources (uses)			
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(802,520)	(196,636)	605,884
Fund balances, January 1	(65,047)	(65,047)	
Prior year encumbrances appropriated	490,520	490,520	
Fund balances, December 31	(\$377,047)	\$228,837	\$605,884

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

(Memorandum Only)

<u>Revised Budget</u>	<u>Actual</u>	<u>Variance: Favorable (Unfavorable)</u>
\$5,379,485	\$5,339,775	(\$39,710)
855,099	795,024	(60,075)
290,917	283,042	(7,875)
229,387	238,441	9,054
762,083	742,492	(19,591)
2,278,119	2,181,721	(96,398)
150,000	136,959	(13,041)
288,489	286,381	(2,108)
100,502	149,504	49,002
<u>10,334,081</u>	<u>10,153,339</u>	<u>(180,742)</u>
3,385,731	3,419,696	(33,965)
4,433,855	4,370,322	63,533
218,613	191,120	27,493
739,854	697,149	42,705
697,806	691,309	6,497
606,898	586,592	20,306
202,400	216,363	(13,963)
3,203,320	2,491,728	711,592
885,000	851,967	33,033
160,655	119,623	40,921
<u>14,534,132</u>	<u>13,635,869</u>	<u>898,152</u>
<u>(4,200,051)</u>	<u>(3,482,530)</u>	<u>717,521</u>
783,201	762,000	(21,201)
570,163	451,704	(118,459)
(513,825)	(451,704)	62,121
755,855	803,135	47,280
<u>1,595,394</u>	<u>1,565,135</u>	<u>(30,259)</u>
(2,604,657)	(1,917,395)	687,262
4,029,886	4,029,886	
994,071	994,071	
<u>\$2,419,300</u>	<u>\$3,106,562</u>	<u>\$687,262</u>

**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, 2001**

	<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	\$7,801,297	\$992,106		\$8,793,403
Other operating revenues	160,723			160,723
Total operating revenues	7,962,020	992,106		8,954,126
Operating expenses:				
Personal services	2,193,135			2,193,135
Contract services	332,061			332,061
Materials and supplies	772,254			772,254
Claims expense		1,167,337		1,167,337
Administrative costs	362,212			362,212
Utilities	1,015,450			1,015,450
Depreciation	1,112,585			1,112,585
Other operating expenses	134,093			134,093
Total operating expenses	5,921,790	1,167,337		7,089,127
Operating income (loss)	2,040,230	(175,231)		1,864,999
Nonoperating revenues (expenses):				
Interest expense and fiscal charges	(1,753,689)			(1,753,689)
Loss on disposal of fixed asset	(38,793)			(38,793)
Interest revenue	267,362	7,421		274,783
Intergovernmental	24,908			24,908
Other nonoperating revenues	269,314			269,314
Total nonoperating revenues (expenses)	(1,230,898)	7,421		(1,223,477)
Net income (loss) before contributions	809,332	(167,810)		641,522
Capital contributions	456,973			456,973
Net income (loss)	1,266,305	(167,810)		1,098,495
Retained earnings/fund balance at January 1 (restated)	15,309,111	276,030	\$4,600	15,589,741
Retained earnings/fund balance at December 31	16,575,416	108,220	4,600	16,688,236
Contributed capital at December 31	1,944,582			1,944,582
Fund equity at December 31	\$18,519,998	\$108,220	\$4,600	\$18,632,818

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, 2001**

	<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	\$7,827,936	\$990,465		\$8,818,401
Cash received from other operations	170,241			170,241
Cash payments for personal services	(1,983,901)			(1,983,901)
Cash payments for contract services	(345,604)			(345,604)
Cash payments for administrative costs	(361,682)			(361,682)
Cash payments for materials and supplies	(795,685)			(795,685)
Cash payments for utilities	(1,012,048)			(1,012,048)
Cash payments for claims expense		(1,131,876)		(1,131,876)
Cash payments for other expenses	(134,093)			(134,093)
	<u>3,365,164</u>	<u>(141,411)</u>		<u>3,223,753</u>
Net cash provided by (used in) operating activities				
	<u>3,365,164</u>	<u>(141,411)</u>		<u>3,223,753</u>
Cash flows from noncapital financing activities:				
Cash received from nonoperating activities	269,314			269,314
Cash received from operating grants	24,908			24,908
	<u>294,222</u>			<u>294,222</u>
Net cash provided by noncapital financing activities				
	<u>294,222</u>			<u>294,222</u>
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(2,358,802)			(2,358,802)
Proceeds of debt issues	2,579,842			2,579,842
Principal retirement	(3,595,499)			(3,595,499)
Interest and fiscal charges	(1,683,323)			(1,683,323)
	<u>(5,057,782)</u>			<u>(5,057,782)</u>
Net cash used in capital and related financing activities				
	<u>(5,057,782)</u>			<u>(5,057,782)</u>
Cash flows from investing activities:				
Interest received	267,362	7,421		274,783
	<u>267,362</u>	<u>7,421</u>		<u>274,783</u>
Net cash provided by investing activities				
	<u>267,362</u>	<u>7,421</u>		<u>274,783</u>
Net decrease in cash and cash equivalents	(1,131,034)	(133,990)		(1,265,024)
Cash and cash equivalents, January 1	8,115,091	260,880	\$4,600	8,380,571
	<u>8,115,091</u>	<u>260,880</u>	<u>\$4,600</u>	<u>8,380,571</u>
Cash and cash equivalents, December 31	<u><u>\$6,984,057</u></u>	<u><u>\$126,890</u></u>	<u><u>\$4,600</u></u>	<u><u>\$7,115,547</u></u>

(Continued)

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Nonexpendable Trust</u>	
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$2,040,230	(\$175,231)		\$1,864,999
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	1,112,585			1,112,585
Changes in assets and liabilities:				
Decrease in materials and supplies inventory	12,362			12,362
Decrease (increase) in accounts receivable	8,798	(1,641)		7,157
Increase in accrued wages and benefits	13,686			13,686
Increase in compensated absences payable	167,236			167,236
Decrease in accounts payable	(11,973)			(11,973)
Decrease in capital lease obligation	(872)			(872)
Increase in claims payable		35,461		35,461
Increase in due to other governments	23,112			23,112
Net cash provided by (used in) operating activities	<u>\$3,365,164</u>	<u>(\$141,411)</u>		<u>\$3,223,753</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, 2001**

NOTE 1 - DESCRIPTION

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general purpose financial statements (GPFS) of the City have been prepared in conformity with 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 ORGANIZATIONS

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, 2001
(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 2001, the City paid administrative fees of \$145,259 and no per capita charges to MVPO.

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

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

JOINT VENTURES 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 \$64,138 to the MANTF in 2001. Complete financial statements for the MANTF can be obtained through the Defiance County 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

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

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 2001. The City's degree of control over the Board is limited to its representation on the Board.

RELATED ORGANIZATION

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

B. Basis of Presentation - Fund Accounting

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

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

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.

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

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

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

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.

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.

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

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

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

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

Revenues - Exchange and Non-exchange Transactions

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

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

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income taxes, state-levied locally shared taxes (including gasoline taxes and motor vehicle license fees), federal and state grants and subsidies, charges for services, licenses and permits and fees, fines and forfeitures, and interest.

Deferred Revenue

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

Delinquent property taxes and property taxes for which there is an enforceable legal claim as of December 31, 2001, but which were levied to finance year 2002 operations, have been recorded as deferred revenues. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenditures

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

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

D. Budgetary Data

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

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.

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

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 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, 2001 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 2001.

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.

4. Lapsing of Appropriations

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the following fiscal year as authority for expenditure.

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

5. 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.

E. Cash and Investments

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

During fiscal year 2001, 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 2001. 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, 2001.

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 2001:

	Interest Actually Received	Interest Based upon Share of Cash Fund Balance	Interest Assigned to Other Funds
General Fund	\$259,205	\$98,960	\$160,245
<u>Special Revenue Funds:</u>			
State Highway Improvement Fund	4,982	1,050	3,932
Street Construction, Maintenance and Repair Fund	4,778	(612)	5,390
Cable TV Contract Fund	4,982	2,044	2,938

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

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

F. Inventories of Materials and Supplies

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

G. Property, Plant, Equipment, and Depreciation

1. *General Fixed Assets Account Group*

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

2. *Enterprise Funds*

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

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

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

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

H. Compensated Absences

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

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 also, age sixty (60) or greater with at least five (5) years of service and all employees with at least twenty (20) years of service at any age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

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

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

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

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

I. Long-Term Obligations

Long-term obligations for general obligation bonds, special assessment bonds, OWDA loans, OPWC loans, vested sick and vacation leave, and any claims or judgments 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.

J. Interfund Transactions

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

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not show transfers of resources as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund.
3. Short-term interfund loans and accrued interfund reimbursements and accrued operating transfers are reflected as "interfund loans receivable or payable".
4. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources. The City had no long-term advances receivable or payable at December 31, 2001.

An analysis of interfund transactions is presented in Note 5.

K. Fund Balance Reserves

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

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

L. Prepayments

Prepayments for governmental funds represent cash disbursements which have occurred and are therefore not current expendable resources. These items are reported as fund assets on the balance sheet using the allocation method, which amortizes their cost over the periods benefiting from the advance payment. At year-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset.

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

M. 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.

N. Total Columns on General Purpose Financial Statements

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principle

GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions", and GASB Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues", were implemented during fiscal 2001. These statements pertain to the financial reporting of certain types of revenue received by the City for which no value is given in return, including derived tax revenues, imposed nonexchange transactions, government-mandated nonexchange transactions, and voluntary nonexchange transactions. The adoption of this statement had the following effect on fund balances as previously reported by the City at December 31, 2000:

	General	Special Revenue
Fund balances as previously reported at December 31, 2000	\$3,500,862	\$2,621,938
GASB Statements No. 33 and No. #36 implementation	70,242	193,996
Restated fund balances at January 1, 2001	\$3,571,104	\$2,815,934

B. Prior Period Adjustments

- i. The City has presented a restatement of retained earnings for the enterprise funds to properly state accounts receivable in the Sewer, Water, and Refuse enterprise funds at December 31, 2000, since the City determined uncollectible receivables were overstated by \$200,587. The effect of this restatement on retained earnings/net income as previously reported is as follows:

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	Retained Earnings	Net Income
Amounts as previously reported as of and for the year ended December 31, 2000	\$15,108,524	\$1,682,214
Restatement of accounts receivable	200,587	200,587
Restated amounts as of January 1, 2001 and for the year ended December 31, 2000	\$15,309,111	\$1,882,801

- ii. The City has presented a restatement of the general long-term obligations account group (GLTOAG) to present the compensated absences payable liability in accordance with Governmental Accounting Standards Board (GASB) Statement 16 at December 31, 2000. The effect of this restatement on the account group balance is as follows:

	GLTOAG
Account group balance as previously reported at December 31, 2000	\$2,230,118
Restatement of compensated absences payable	153,554
Restated account group balance at January 1, 2001	\$2,383,672

C. Compliance

Contrary to Ohio Revised Code § 5705.10, the following funds had negative cash fund balances at December 31, 2001:

	Negative Cash Fund Balances
<u>Special Revenue Funds</u>	
Permissive Tax	\$7,934
Street Construction, Maintenance and Repair	34,532
Community Development	5,673
<u>Expendable Trust Funds</u>	
Park and Recreation Trust	12,489
<u>Enterprise Funds</u>	
Utility Billing Fund	12,523

At December 31, 2001, an interfund loan has been reported in the general fund to cover these negative cash balances on a GAAP basis.

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D. Certification of Expenditures

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

E. Appropriations in excess of Estimated Revenue.

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

Fund	Estimated Resources	Appropriations	Variance
Permissive Tax Fund	\$48,474	\$56,000	(\$7,526)
State Highway Fund	65,760	75,000	(9,240)
CDBG Economic Development Grant Fund	55,000	200,000	(145,000)
Community Development Fund	88,700	92,800	(4,100)
Bond Retirement Fund	150,000	195,400	(45,400)
Capital Improvement Fund	1,067,454	1,712,000	(644,546)
Utility Billing Fund	363,367	445,700	(82,333)
Park and Recreation Trust Fund	(12,237)	10,000	(22,237)

F. 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.

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

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

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

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

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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.

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.

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

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

Deposits: At December 31, 2001, the carrying amount of the City's deposits, including cash with fiscal and escrow agents, was \$1,216,408 and the bank balance, including cash with fiscal and escrow agents, was \$1,691,710. Of the bank balance:

1. \$402,253 was covered by federal deposit insurance; and
2. \$1,289,457 was uninsured and uncollateralized as defined by GASB even though it was covered by collateral held by third party trustees pursuant to Section 135.81, Ohio Revised Code, in single institution collateral pools securing all public funds on deposit with specific depository institutions. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

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

The following is a listing of investments, by category, as of December 31, 2001:

	Category 1	Uncategorized	Reported Amount	Fair Value
City of Defiance Bonds	\$358,824		\$358,824	\$358,824
Mutual Funds		420,947	420,947	420,947
STAR Ohio		9,073,113	9,073,113	9,073,113
Total Investments	<u>\$358,824</u>	<u>\$9,494,060</u>	<u>\$9,852,884</u>	<u>\$9,852,884</u>

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".

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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	\$10,712,718	\$358,824
Cash on Hand	(2,250)	
Investments of the Cash Management Pool:		
STAR Ohio	(9,073,113)	9,073,113
Mutual Funds	(420,947)	420,947
GASB Statement No. 3	\$1,216,408	\$9,852,884

NOTE 5 - INTERFUND TRANSACTIONS

A. The following is a summarized breakdown of the City's operating transfers for 2001:

	Transfers In	Transfers Out
General Fund		(\$451,704)
<u>Special Revenue Funds</u>		
Street Construction, Maintenance and Repair	\$100,000	
Police Pension	191,716	
Fire Pension	159,988	
Total	\$451,704	(\$451,704)

B. The following is as summarized breakdown of the City's interfund loans at December 31, 2001:

	Interfund Loans Receivable	Interfund Loans Payable
General Fund	\$54,955	
<u>Special Revenue Funds</u>		
Permissive Tax		7,934
Street Construction, Maintenance and Repair		34,532
<u>Expendable Trust</u>		
Park and Recreation Trust		12,489
Total	\$54,955	\$54,955

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(Continued)**

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible (used in business) personal property located in the City. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. The Defiance County Auditor reappraises real property every six years with a triennial update. The last update was completed in the tax year 1996. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

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

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

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

The full tax rate applied to real property for the fiscal year ended December 31, 2001 was \$3.00/2.10 per \$1,000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$3.00/2.10 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$3.00/2.10 per \$1,000 of assessed valuation for all other real property. Real property owners' tax bills are further reduced by homestead and rollback reductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the City by the State of Ohio.

The assessed valuation upon which 2001 taxes were collected is as follows:

Residential/Agricultural Real Property	\$141,884,990
Commercial/Industrial/Public Utility Real Property	51,634,420
Tangible/Public Utility Personal Property	<u>56,677,970</u>
Total Assessed Value	<u><u>\$250,197,380</u></u>

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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, 2001. 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 2001 operations. Accordingly, the receivable is offset by a credit to "Deferred Revenue."

NOTE 7 - LOCAL INCOME TAX

This locally levied tax of 1.3 percent is applied to gross salaries, wages and other personal service compensation earned by residents both in and out of the City, and to earnings of nonresidents (except certain transients) earned in the City. It also applies to net income of for-profit organizations conducting business within the City. Income tax revenue is reported to the extent that it was measurable and available to finance current operations at December 31. Income tax revenue for 2001 was \$5,274,691.

NOTE 8 - RECEIVABLES

Receivables at December 31, 2001, consisted of income taxes, real estate and other taxes, loans, accounts (billings for user charged services), special assessments and intergovernmental receivables arising from grants, entitlements and shared revenue. All intergovernmental receivables have been classified as "Due from Other Governments" on the combined balance sheet. Intergovernmental receivables have been recorded to the extent that eligibility requirements have been met by year-end and the amounts are measurable.

A summary of the principal items of receivables follows:

<u>Fund/Description</u>	<u>Amount</u>
<u>General Fund</u>	
Income taxes	\$919,850
Real and other taxes	593,230
Accounts	139,471
Intergovernmental	290,251
 <u>Special Revenue Funds</u>	
Real and other taxes	184,412
Loans	1,080,195
Intergovernmental	315,645
 <u>Debt Service Funds</u>	
Special assessments	757,088

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(Continued)**

<u>Fund/Description</u>	<u>Amount</u>
<u>Capital Projects Fund</u>	
Income taxes	265,503
<u>Enterprise Funds</u>	
Accounts	326,515
<u>Internal Service Funds</u>	
Accounts	17,001

NOTE 9 - FIXED ASSETS

A. Enterprise Fixed Assets

A summary of the enterprise fund's fixed assets at December 31, 2001 follows:

Land and improvements	\$624,994
Buildings and improvements	19,020,984
Furniture and equipment	5,368,009
Infrastructure	20,295,676
Construction in progress	13,075,771
Accumulated depreciation	<u>(15,503,747)</u>
Total net assets	<u><u>\$42,881,687</u></u>

B. General Fixed Assets

A summary of the changes in general fixed assets during 2001 follows:

	<u>Balance at 1/1/2000</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 12/31/2001</u>
Land and improvements	\$2,098,498	\$141,710		\$2,240,208
Buildings and improvements	3,859,493	413,416		4,272,909
Furniture and Equipment	4,058,274	375,837	(210,438)	4,223,673
Construction in progress	125,419	555,287	(427,762)	252,944
Total fixed assets	<u>\$10,141,684</u>	<u>\$1,486,250</u>	<u>(\$638,200)</u>	<u>\$10,989,734</u>

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NOTE 10 - VACATION AND SICK LEAVE LIABILITY

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

Upon termination of City service, a fully vested employee is entitled to a percentage of their accumulated sick leave based on their years of service. At December 31, 2001, vested benefits for vacation leave for governmental fund type employees, net of amounts paid using current expendable available resources, totaled \$195,497 and vested benefits for sick leave, net of amounts paid using current expendable available resources, totaled \$240,622. For proprietary fund types, vested benefits for vacation leave totaled \$85,396 and vested benefits for sick leave totaled \$252,292 at December 31, 2001. Included in the vested benefits for sick leave figures is an additional liability to accrue and record termination (severance) payments for employees expected to become eligible to retire in the future in accordance with GASB Statement No. 16.

NOTE 11 - LONG-TERM OBLIGATIONS

A. General Long-Term Obligations

The balance of the general long-term obligations account group has been restated at December 31, 2000 (see Note 3.B). The City's general long-term obligations at year-end consist of the following:

	Restated Balance Outstanding 12/31/2000	Additions	Reductions	Balance Outstanding 12/31/2001
Compensated absences payable	\$434,617	\$1,502		\$436,119
General obligation bonds payable	365,000		(25,000)	340,000
Special assessment bonds payable	824,055		(66,967)	757,088
Bond anticipation notes payable	760,000	762,000	(760,000)	762,000
Total	<u>\$2,383,672</u>	<u>\$763,502</u>	<u>(\$851,967)</u>	<u>\$2,295,207</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.

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

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

Year Ended	General Obligation Bonds			Special Assessment Bonds		
	Principal	Interest	Total	Principal	Interest	Total
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	35,000	15,985	50,985	77,968	32,136	110,104
2007-2011	195,000	40,969	235,969	352,980	80,396	433,376
2012-2014				42,272	4,847	47,119
Total	<u>\$340,000</u>	<u>\$140,702</u>	<u>\$480,702</u>	<u>\$757,088</u>	<u>\$294,860</u>	<u>\$1,051,948</u>

B. Enterprise Fund Obligations

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

	Interest Rate	Balance Outstanding 12/31/2000	Additions	Reductions	Balance Outstanding 12/31/2001
<u>General Obligation Bonds</u>					
Waterline Improvements	5.25%	\$405,000		(\$135,000)	\$270,000
Waterline Improvements	6.10%	5,400,000		(140,000)	5,260,000
Waterworks - Series 1997	Various	7,635,000		(190,000)	7,445,000
Total General Obligation Bonds		<u>13,440,000</u>		<u>(465,000)</u>	<u>12,975,000</u>
<u>Special Assessment Bonds</u>					
Sewer Street Improvements - Series 2000	5.75%		145,435	(1,541)	143,894

(Continued)

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	Interest Rate	Balance Outstanding 12/31/2000	Additions	Reductions	Balance Outstanding 12/31/2001
<u>Other Long-Term Obligations</u>					
OWDA Loan	3.91-7.65%	14,820,840		(611,708)	14,209,132
OPWC Loan	0% - 4 %	1,253,558		(64,561)	1,188,997
Total Other Long-Term Obligations		<u>16,074,398</u>		<u>(676,269)</u>	<u>15,398,129</u>
Total Enterprise Fund Long-Term Obligations		<u>\$29,514,398</u>	<u>\$145,435</u>	<u>(\$1,142,810)</u>	<u>\$28,517,023</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 2001, the City retired \$190,000 of these bonds leaving an outstanding balance of \$7,445,000 at December 31, 2001.

On May 11, 2001, the City issued \$145,434 in special assessment bonds to finance the costs of sewer improvements to South Jefferson Street. These bonds bear an interest rate of 5.75% and mature December 1, 2020.

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 was also partially financed by OWDA. At December 31, 2001, the City had the following OWDA loans outstanding:

	Interest Rate	Maturity Date	Balance Outstanding 12/31/2001
OWDA Loan	7.65%	1/1/2013	\$6,268,484
OWDA Loan	3.91%	7/1/2020	7,940,648
			<u>\$14,209,132</u>

Improvements to the City's water treatment facilities were financed through expenditures by the Ohio Public Works Commission (OPWC). At December 31, 2001, the City has the following four loans outstanding to the OPWC:

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	Interest Rate	Maturity Date	Balance Outstanding 12/31/2001
OPWC Loan	4%	1/1/2014	\$235,970
OPWC Loan	3%	7/1/2017	411,924
OPWC Loan		7/1/2019	342,974
OPWC Loan		7/1/2020	198,129
			\$1,188,997

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:

Year Ended	General Obligation Bonds			Sewer Special Assessment Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2002	\$480,000	\$732,348	\$1,212,348	\$4,371	\$8,274	\$12,645
2003	495,000	709,764	1,204,764	4,622	8,023	12,645
2004	375,000	686,063	1,061,063	4,888	7,757	12,645
2005	410,000	650,525	1,060,525	5,169	7,476	12,645
2006	430,000	630,583	1,060,583	5,467	7,178	12,645
2007-2011	2,525,000	2,788,203	5,313,203	32,425	30,800	63,225
2012-2016	3,315,000	1,970,077	5,285,077	42,882	20,343	63,225
2017-2021	3,880,000	883,610	4,763,610	44,070	6,510	50,580
2022-2023	1,065,000	80,500	1,145,500			
Total	\$12,975,000	\$9,131,673	\$22,106,673	\$143,894	\$96,361	\$240,255

Year Ended	OWDA Loans Payable			OPWC Loans Payable		
	Principal	Interest	Total	Principal	Interest	Total
2002	\$648,232	\$787,226	\$1,435,458	\$65,734	\$21,572	\$87,306
2003	687,144	748,314	1,435,458	66,950	20,311	87,261
2004	728,614	706,844	1,435,458	68,208	19,053	87,261
2005	772,816	662,642	1,435,458	69,510	17,751	87,261
2006	819,944	615,514	1,435,458	70,857	16,404	87,261
2007-2011	4,924,341	2,252,947	7,177,288	376,216	60,090	436,306
2012-2016	3,440,463	741,576	4,182,039	368,572	19,965	388,537
2017-2020	2,187,578	196,858	2,384,436	102,950	247	103,197
Total	\$14,209,132	\$6,711,921	\$20,921,053	\$1,188,997	\$175,393	\$1,364,390

The City had the following bond anticipation note activity during fiscal year 2001 in the Water and Sewer enterprise funds:

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(Continued)**

	Interest Rate	Issue Date	Maturity Date	Balance Outstanding 12/31/2000	Additions	Reductions	Balance Outstanding 12/31/2001
<u>Sewer Fund</u>							
Sewer Improvements	5.18%	7/13/2001	7/12/2002	2,100,000	2,105,407	(2,100,000)	2,105,407
Sewer Line Construction	5.25%	5/12/2001	5/11/2002	156,375	164,500	(156,375)	164,500
Total Sewer				2,256,375	2,269,907	(2,256,375)	2,269,907
<u>Water Fund</u>							
Water Line Construction	5.25%	5/12/2001	5/11/2002	156,375	164,500	(156,375)	164,500
Total Bond Anticipation Notes				\$2,412,750	\$2,434,407	(\$2,412,750)	\$2,434,407

NOTE 12 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City maintains four enterprise funds which are intended to be self-supported through user fees charged for services provided to consumers for sewer operations, water operations, utility services, and waste disposal services. Segment information for the year ended December 31, 2001 is as follows:

	Sewer Fund	Water Fund	Refuse Fund	Utility Deposit Fund	Total
Operating revenues	\$3,655,917	\$3,766,968	\$519,585	\$19,550	\$7,962,020
Operating expenses before depreciation	2,149,076	2,170,454	484,931	4,744	4,809,205
Depreciation expense	584,260	528,325			1,112,585
Operating income	922,581	1,068,189	34,654	14,806	2,040,230
Net income	62,392	697,480	34,654	14,806	809,332
Additions to property, plant and equipment	2,253,163	1,691,095			3,944,258
Net working capital	855,620	2,894,770	216,195	188,749	4,155,334
Total assets	24,942,257	24,993,014	216,195	188,749	50,340,215
Bonds and other long term liabilities payable from operating revenues	14,551,155	13,965,868			28,517,023
Total liabilities	17,305,099	14,515,118			31,820,217
Contributed capital	5,477	1,939,105			1,944,582
Total Equity	7,637,158	10,477,896	216,195	188,749	18,519,998
Encumbrances outstanding	1,532,093	520,630			2,052,723

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

NOTE 13 - RISK MANAGEMENT

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

The first pool provides comprehensive automobile liability, automobile physical damage, comprehensive general liability, crime and property liability and public official's 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, 2001 the pool had cash reserves of \$669,919, which in the opinion of management is adequate for any claims against the pool. The amount of risk retained with the pool is \$300,000 per claim.

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

The second pool is for employee benefits and includes life insurance, accidental death and dismemberment insurance, health insurance and prescription drug insurance. Each member has an option on the coverage it has elected to provide for its employees. Defiance provides to its employees all available options offered by the pool. The employee benefits pool includes the following municipalities: Archbold, Bowling Green, Carey, Clyde, Defiance, Fayette, Hicksville, Napoleon, Oberlin, Sandusky, Upper Sandusky and Willard. As of December 31, 2001 the pool had cash reserves of \$1,798,957 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 \$458 for family coverage, \$368 for two party coverage, and \$181 for single party coverage. Life insurance monthly premiums are \$6 for family and two party coverage and \$3 for single party coverage. During 2001 the City paid \$1,131,876 into the pool for coverage. The cost of coverage is paid by the fund that pays the salary of the individual employees. The amount of the risk retained within the employee is \$75,000 per individual with excess claims coverage provided by the Lloyds Company.

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

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

There has been no significant reduction in insurance coverage from coverage 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.

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

NOTE 14 - 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 2001 was 8.5% for employees other than law enforcement. In January 2001, House Bill 416 divided the PERS law enforcement program into two separate divisions with separate employee contribution rates and benefits. The law enforcement classification consisted of sheriffs, deputy sheriffs, and township police with an employee contribution rate of 10.1%. All other members of the PERS law enforcement program were placed in a newly named public safety division and continued to contribute at 9%. The employer contribution rate for employees other than law enforcement was 13.55% of covered payroll; 9.25% was the portion used to fund pension obligations for 2001. The employer contribution rate for law enforcement and public safety divisions was 16.70% of covered payroll; 12.40% was the portion used to fund pension obligations for 2001. The City's contributions for pension obligations to the PERS for the years ended December 31, 2001, 2000, and 1999 were \$532,237, \$404,211, and \$487,573, respectively; 86.8% has been contributed for 2001 and 100% for 2000 and 1999. \$70,090, representing the unpaid contribution for 2001, 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, 2001, 2000, and 1999 were \$518,112, \$485,795 and \$417,297, respectively; 88.5% has been contributed for 2001 and 100% for the years 2000 and 1999. \$59,332, representing the unpaid contributions for 2001, is recorded as a liability within the respective funds.

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

NOTE 15 - POSTEMPLOYMENT BENEFITS

A. Public Employees Retirement System

The 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. Health care funding is on a pay-as-you-go basis. The Ohio Revised Code provides statutory authority for employer contributions. The PERS law enforcement program was separated into two divisions, law enforcement and public safety, with separate employee contribution rates and benefits. The 2001 employer contribution rate for local government employers was 13.55% of covered payroll; 4.30% was the portion that was used to fund health care for the year. The law enforcement employer rate for 2001 was 16.70% of covered payroll; 4.30% was the portion used to fund health care for the year.

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to the PERS. The City's contribution actually made to fund post employment benefits was \$168,902.

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, 2000 (the latest information available), the unaudited estimated net assets available for future OPEB payments were \$11,735.9 million. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$14,364.6 million and \$2,628.7 million, respectively, at December 31, 2000 (the latest information available). The number of benefit recipients eligible for OPEB at December 31, 2000 (the latest information available), was 411,076.

In January 2001, House Bill 416 divided the PERS law enforcement program into two separate divisions with separate employee contribution rates and benefits. The law enforcement classification consisted of sheriffs, deputy sheriffs, and township police with an employee contribution rate of 10.1%. All other members of the PERS law enforcement program were placed in a newly named public safety division and continue to contribute at 9.0%. The employer contribution rate for both the law enforcement and public safety divisions is 16.70%.

Law enforcement officer benefits permit age and service retirement at an earlier age with a different formula than that for PERS members not covered under this division.

Additional information on the PERS, including historical trend information showing the progress in accumulating sufficient assets to pay benefits when due is available in the PERS December 31, 2001, Comprehensive Annual Financial Report.

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

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 2000 and 2001, 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, 2000 (the latest information available), is 12,853 for police officers and 10,037 for firefighters. The amount of employer contributions used to pay post employment benefits for police officers and firefighters were \$102,023 and \$79,225, respectively. OP&F's total health care expenses for the year ending December 31, 2000 (the latest information available), was \$106.160 million which was net of member contributions of \$5.657 million.

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

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

EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER/(UNDER) EXPENDITURES AND OTHER USES				
	General	Special Revenue	Debt Service	Capital Projects
Budget Basis	(\$1,673,670)	(\$71,979)	\$24,890	(\$196,636)
Adjustments:				
Net Adjustments for Revenue Accruals	153,094	(131,598)	31,797	(42,603)
Net Adjustments for Expenditure Accruals	281,417	203,304	(1)	31,085
Net Adjustments for Other Financing Sources/(Uses) Accruals	(497,959)	(245,544)	(59,632)	
Encumbrances	374,667	64,964		352,124
GAAP Basis	(\$1,362,451)	(\$180,853)	(\$2,946)	\$143,970

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

NOTE 17 - CONTINGENCIES

A. Grants

The City receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material 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, 2001.

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.

NOTE 18 - LOANS RECEIVABLE

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

	Balance Outstanding 12/31/2000	Loans Issued	Principal Received	Balance Outstanding 12/31/2001
CDBG Loans	\$1,123,068	\$155,000	(\$197,873)	\$1,080,195

The CDBG Loans are reported in the special revenue funds. Fund balance has been reserved for the outstanding balance due at year-end.

NOTE 19 – CONTRACTUAL COMMITMENTS

The City had the following construction projects outstanding:

Wabash Avenue Rehabilitation Project	\$275,976
Knights of Columbus Ballfield Lighting Project	18,833
2001 Street Resurfacing Program	127,990
North Area Express Sewer Segment C Project	50,303
Biede/Sycamore/Koerber Streets Waterline Replacement	14,601
Total construction contracts	\$487,703

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

NOTE 20 – SUBSEQUENT EVENTS

On May 7, 2002, \$187,000 and \$158,000 in notes were issued to pay for improvements to the City's sewer and waterworks systems. On June 11, 2002, \$1,930,000 and \$760,000 in notes were issued to pay for improvements to the City's sewer system and the municipal annex building. The notes related to the municipal annex building are considered to be general long-term obligations. All other debt notes are related to enterprise operations.

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**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>			
Community Development Block Grant Formula Grant	A-F-99-111-1	14.228	\$6,359
Formula Grant	A-F-00-111-1	14.228	73,500
Economic Development Grant	A-E-99-111-1	14.228	52,500
Community Housing Improvement Program Grant	A-C-99-111-1	14.228	<u>105,719</u>
Total Community Development Block Grant			238,078
<i>Received Direct from HUD:</i>			
Home Improvement Partnership Program Grant	A-C-99-111-2	14.239	<u>256,461</u>
Total Federal Awards Expenditures			<u><u>\$494,539</u></u>

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, 2001**

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 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, 2001, the gross amount of loans outstanding under this program was \$1,080,195.

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.



STATE OF OHIO
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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, Suite D
Defiance, Ohio 43512-2193

To the City Council:

We have audited the financial statements of the City of Defiance (the City) as of and for the year ended December 31, 2001, and have issued our report thereon dated August 22, 2002, which report noted the County adopted Governmental Accounting Standards Board (GASB) Statements No. 33 and 36. We also noted the December 31, 2000 compensated absences payable liability in the general long-term obligations account group has been restated to adhere to the requirements of GASB Statement 16. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2001-20120-001 through 2001-20120-006. We also noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated August 22, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2001-20120-007.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. However, we do not believe that the reportable condition described above is a material weakness. We also noted other matters involving the internal controls 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 August 22, 2002.

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.

A handwritten signature in black ink, appearing to read "Jim Petro", written in a cursive style.

Jim Petro
Auditor of State

August 22, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

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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, Suite D
Defiance, Ohio 43512-2193

To the City Council:

Compliance

We have audited the compliance of City of Defiance (the City) 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 its major federal program for the year ended December 31, 2001. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal program 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 its major federal program for the year ended December 31, 2001. We noted an instance of noncompliance that does not require inclusion in this report that we have reported to the management of the City in a separate letter dated August 22, 2002.

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. We noted a matter involving the internal control over federal compliance that does not require inclusion in this report, that we have reported to management of the City in a separate letter dated August 22, 2002.

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.

A handwritten signature in black ink, appearing to read "Jim Petro", with a stylized flourish at the end.

Jim Petro
Auditor of State

August 22, 2002

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
DECEMBER 31, 2001**

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)?	Yes
(d)(1)(iii)	Was there any reported material non-compliance 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):	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 2001-20120-001

Noncompliance Citation

Ohio Revised Code § 5705.10 states that money that is paid into a fund must be used only for the purposes for which such fund has been established. A negative fund balance indicates that money from one fund was used to cover the expenses of another fund. The following funds had negative funds at year end:

**FINDING NUMBER 2001-20120-001
 (Continued)**

<u>Fund</u>	<u>Year End Fund Balance</u>
Permissive Tax Fund	(\$7,934)
Street Construction, Maintenance and Repair Fund	(34,532)
Community Development Fund	(5,673)
Utility Billing Fund	(12,523)
Park and Recreation Trust Fund	(12,489)

As a result, the obligations of these funds were paid from another fund. We recommend management monitor these funds closely during the year and either subsidize these funds through a transfer from the general fund, restrict expenditures until a positive fund balance exists or temporarily loan monies to these funds through an advance from an appropriate fund.

We previously reported on this matter in our 2000 management letter.

FINDING NUMBER 2001-20120-002

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.
- 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.

**FINDING NUMBER 2001-20120-002
 (Continued)**

In addition to regular blanket certificates, a subdivision’s fiscal officer may also issue so-called “super blanket” certificates 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 23 percent of the transactions tested during the audit period. We recommend prior certification of all expenditures, but when prior certification is not possible “then and now” certificates should be utilized.

FINDING NUMBER 2001-20120-003

Noncompliance Citation

Ohio Revised Code § 5705.39 states the total appropriation from each fund should not exceed the total estimated revenue. No appropriation measure is to become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate. The following funds were found to have appropriations exceeding estimated revenue at December 31, 2001:

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
Permissive Tax Fund	\$48,474	\$56,000	(\$7,526)
State Highway Fund	65,760	75,000	(9,240)
CDBG Economic Development Grant Fund	55,000	200,000	(145,000)
Community Development Fund	88,700	92,800	(4,100)
Bond Retirement Fund	150,000	195,400	(45,400)
Capital Improvement Fund	1,067,454	1,712,000	(644,546)
Utility Billing Fund	363,367	445,700	(82,333)
Park and Recreation Trust Fund	(12,237)	10,000	(22,237)

The Police Pension and Fox Run Tax Increment Financing Funds had appropriations which exceeded total estimated revenue during the fiscal year. Corrections were made to these funds by year end.

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

FINDING NUMBER 2001-20120-004

Noncompliance Citation

17 Code of Federal Regulations (C.F.R.) § 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 2001-20120-004
(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 2000) or the fiscal year 2000 *audited financial statements* with the NRMSIRs or SID nor did they file a *timely notice of failure to provide required financial information* in 2001. We recommend the City review their Continuing Disclosure Agreement for the \$8,000,000 Water works System Improvement Bonds, Series 1998.

FINDING NUMBER 2001-20120-005

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 2001. 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 2001-20120-006

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 they filed such reports with the OWDA in 2001. This could influence future funding, if requested, from OWDA. We recommend the City file such reports with the OWDA on an annual basis.

FINDING NUMBER 2001-20120-007

Reportable Condition - Special Assessment Receivable

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

The City is only accruing special assessments levied in 2001 to be collected in 2002 and not the entire amount remaining to be collected on the original levy. This underestimated special assessment receivable in the Bond Retirement fund by \$717,725 and the Sewer fund by \$143,894.

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

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 §.315 (b)
DECEMBER 31, 2001**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2000-20120-001	Revised Code § 5705.41(B) expenditures in excess of appropriations.	No	Partially Corrected. Presented in the Management Letter.
2000-201200-002	Revised Code § 5705.41 (D) improper certification.	No	Not Corrected. Reissued as finding 2001-20120-002.
2000-20120-003	Revised Code § 5705.36 (A) (4) failure to certify deficiency of available resources.	Yes	
2000-20120-004	17 CFR 240.15c2.12 did provide required information to NRMSIRs or SID.	No	Not Corrected. Reissued as finding 2001-20120-004.
2000-20120-005	Article 2.2 (b) of CWRPI project loan agreements failure to file an annual report with OPWC.	No	Not Corrected. Reissued as finding 2001-20120-005.
2000-20120-006	Section 4.3 (B) WPCLF agreement failure to file an annual report with OWDA.	No	Not Corrected. Reissued as finding 2001-20120-006.



STATE OF OHIO
OFFICE OF THE AUDITOR

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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
SEPTEMBER 12, 2002**