



**CITY OF DEFIANCE
DEFIANCE COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 1999



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**CITY OF DEFIANCE
TABLE OF CONTENTS**

TITLE	PAGE
Report of Independent Accountants	1
Combined Balance Sheet - All Fund Types and Account Groups	4
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – All Governmental Fund Types and Expendable Trust Fund	8
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual (Non-GAAP Budgetary Basis) – All Governmental Fund Types	10
Combined Statement of Revenues, Expenses, and Changes in Fund Equity – All Proprietary Fund Types and Nonexpendable Trust Fund	12
Combined Statement of Cash Flows – All Proprietary Fund Types and Nonexpendable Trust Fund	13
Notes to the General-Purpose Financial Statements	15
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	41

This page intentionally left blank.



STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

One Government Center
Room 1420
Toledo, Ohio 43604-2246
Telephone 419-245-2811
800-443-9276
Facsimile 419-245-2484
www.auditor.state.oh.us

REPORT OF INDEPENDENT ACCOUNTANTS

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

To the City Council:

We have audited the accompanying general-purpose financial statements of the City of Defiance, Defiance County, (the City) as of and for the year ended December 31, 1999, 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 generally accepted auditing standards 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, 1999, 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 generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2000, 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.

A handwritten signature in black ink, appearing to read "Jim Petro".

Jim Petro
Auditor of State

August 18, 2000

This page intentionally left blank.

This page intentionally left blank.

**CITY OF DEFIANCE
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 1999**

	<u>Governmental Fund Types</u>			
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
ASSETS AND OTHER DEBITS				
Assets:				
Equity in pooled cash and cash equivalents	\$1,535,613	\$1,417,981	\$482,188	\$302,748
Equity in pooled cash and cash equivalents - nonexpendable trust fund				
Cash with fiscal and escrow agents				
Investments	264,491			
Receivables (net of allowances):				
Income taxes	958,213	4,815		288,909
Real and other taxes	566,178	176,064		
Accounts	123,036	6,987		
Loans		1,063,779		
Special assessments			26,054	
Due from other governments	262,871	38,590		
Prepayments	49,068			
Materials and supplies inventory	41,619	37,500		
Fixed assets - net				
Other Debits:				
Amount available in debt service fund				
Amount to be provided for retirement of general long-term obligations				
Total assets and other debits	<u>\$3,801,089</u>	<u>\$2,745,716</u>	<u>\$508,242</u>	<u>\$591,657</u>

<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Types</u>	<u>Account Groups</u>		<u>Total (Memorandum Only)</u>
<u>Enterprise</u>	<u>Internal Service</u>	<u>Trust and Agency</u>	<u>General Fixed Assets</u>	<u>General Long-Term Obligations</u>	
\$8,333,420	\$321,722	\$106,092			\$12,499,764
		4,600			4,600
325,935		17,610			343,545
					264,491
					1,251,937
					742,242
155,956	12,609				298,588
					1,063,779
					26,054
272					301,733
					49,068
125,620					204,739
36,414,338			\$8,887,299		45,301,637
				\$508,242	508,242
				989,740	989,740
<u>\$45,355,541</u>	<u>\$334,331</u>	<u>\$128,302</u>	<u>\$8,887,299</u>	<u>\$1,497,982</u>	<u>\$63,850,159</u>

(Continued)

**CITY OF DEFIANCE
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 1999
(Continued)**

	<u>Governmental Fund Types</u>			
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
LIABILITIES, EQUITY AND OTHER CREDITS				
Liabilities:				
Accounts payable	\$52,420	\$16,859		\$34,619
Accrued wages and benefits	145,948	14,732		
Compensated absences payable	83,611	2,922		
Deferred revenue	566,178	141,000		
Retainage payable				
Contracts payable				
Due to other governments	95,683	25,606		
Claims payable				
Amount to be repaid to claimants				
Accrued interest payable				
Bond anticipation notes payable				
General obligation bonds payable				
Special assessment debt with government commitment				
Capital lease obligations payable				
OWDA loan payable				
OPWC loans payable				
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	943,840	201,119		34,619
Equity and other credits:				
Investment in general fixed assets				
Contributed capital				
Retained earnings - unreserved				
Fund balances:				
Reserved for noncurrent investments	264,491			
Reserved for encumbrances	475,759	71,928		496,850
Reserved for principal endowment				
Reserved for supplies inventory	41,619	37,500		
Reserved for loans		1,063,779		
Reserved for prepayments	49,068			
Reserved for debt service			\$508,242	
Unreserved-undesignated	2,026,312	1,371,390		60,188
	<hr/>	<hr/>	<hr/>	<hr/>
Total equity and other credits	2,857,249	2,544,597	508,242	557,038
Total liabilities, equity and other credits	<u>\$3,801,089</u>	<u>\$2,745,716</u>	<u>\$508,242</u>	<u>\$591,657</u>

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

<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Types</u>	<u>Account Groups</u>		<u>Total (Memorandum Only)</u>
<u>Enterprise</u>	<u>Internal Service</u>	<u>Trust and Agency</u>	<u>General Fixed Assets</u>	<u>General Long-Term Obligations</u>	
\$102,506		\$4,900			\$211,304
60,953					221,633
104,498				\$218,960	409,991
					707,178
325,935					325,935
326,591					326,591
37,195		17,610			176,094
	\$26,538				26,538
		26,552			26,552
64,471					64,471
300,000					300,000
13,940,000				390,000	14,330,000
				889,022	889,022
2,443					2,443
13,518,823					13,518,823
1,201,234					1,201,234
<u>29,984,649</u>	<u>26,538</u>	<u>49,062</u>		<u>1,497,982</u>	<u>32,737,809</u>
			\$8,887,299		8,887,299
1,944,582					1,944,582
13,426,310	307,793				13,734,103
					264,491
		97,685			1,142,222
		4,600			4,600
					79,119
					1,063,779
					49,068
					508,242
		(23,045)			3,434,845
<u>15,370,892</u>	<u>307,793</u>	<u>79,240</u>	<u>8,887,299</u>		<u>31,112,350</u>
<u>\$45,355,541</u>	<u>\$334,331</u>	<u>\$128,302</u>	<u>\$8,887,299</u>	<u>\$1,497,982</u>	<u>\$63,850,159</u>

**CITY OF DEFIANCE
 COMBINED STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
 FOR THE YEAR ENDED DECEMBER 31, 1999**

	<u>Governmental Fund Types</u>	
	<u>General</u>	<u>Special Revenue</u>
Revenues:		
Income taxes	\$4,037,170	\$20,288
Real and other taxes	446,899	279,392
Charges for services	257,588	
Licenses, permits and fees	88,010	98,843
Fines and forfeitures	688,884	108,596
Special assessments		
Intergovernmental	973,191	972,529
Investment income	220,980	79,417
Other	216,085	17,798
Total revenue	<u>6,928,807</u>	<u>1,576,863</u>
Expenditures:		
Current operations:		
General government	2,051,928	227,685
Security of persons and property	3,091,494	542,724
Public health and welfare	167,734	
Transportation		632,191
Community environment	470,221	137
Leisure time activity	441,760	
Economic development		93,764
Other		
Capital outlay		258,804
Debt service:		
Principal retirement		
Interest and fiscal charges		
Total expenditures	<u>6,223,137</u>	<u>1,755,305</u>
Excess of revenues over/(under) expenditures	<u>705,670</u>	<u>(178,442)</u>
Other financing sources/(uses):		
Other financing sources	28,341	42,000
Operating transfers in		374,187
Operating transfers out	<u>(374,187)</u>	
Total other financing sources/(uses)	<u>(345,846)</u>	<u>416,187</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	359,824	237,745
Fund balance at beginning of year - restated	2,504,097	2,281,694
Increase (decrease) in reserve for inventory	<u>(6,672)</u>	<u>25,158</u>
Fund balance at end of year	<u><u>\$2,857,249</u></u>	<u><u>\$2,544,597</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>	
	\$1,217,238		\$5,274,696
			726,291
			257,588
		1,200	188,053
			797,480
144,068			144,068
			1,945,720
			300,397
107,681	163,348	17	504,929
<u>251,749</u>	<u>1,380,586</u>	<u>1,217</u>	<u>10,139,222</u>
4,887			2,284,500
			3,634,218
			167,734
			632,191
			470,358
		423,745	865,505
			93,764
155,135			155,135
	1,212,863		1,471,667
79,967			79,967
81,513			81,513
<u>321,502</u>	<u>1,212,863</u>	<u>423,745</u>	<u>9,936,552</u>
<u>(69,753)</u>	<u>167,723</u>	<u>(422,528)</u>	<u>202,670</u>
			70,341
			374,187
			(374,187)
			70,341
(69,753)	167,723	(422,528)	273,011
577,995	389,315	497,168	6,250,269
			18,486
<u>\$508,242</u>	<u>\$557,038</u>	<u>\$74,640</u>	<u>\$6,541,766</u>

CITY OF DEFIANCE
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 1999

	General			Special Revenue		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:						
Income taxes	\$3,837,663	\$4,016,329	\$178,666	\$21,749	\$20,183	(\$1,566)
Property and other taxes	427,019	446,899	19,880	281,132	277,298	(3,834)
Charges for services	175,344	183,507	8,163			
Licenses, permits and fees	84,095	88,010	3,915	88,513	98,843	10,330
Fines and forfeitures	661,280	692,066	30,786	61,675	108,963	47,288
Intergovernmental	802,368	839,723	37,355	1,587,036	1,049,687	(537,349)
Special assessments						
Investment income	211,150	220,980	9,830	29,139	38,135	8,996
Other	58,548	61,274	2,726	3,644	3,903	259
Total revenues	6,257,467	6,548,788	291,321	2,072,888	1,597,012	(475,876)
Expenditures:						
Current:						
General government	2,756,596	2,604,338	152,258	318,687	233,435	85,252
Security of persons and property	3,386,767	3,224,971	161,796	705,173	561,990	143,183
Public health and welfare	194,580	174,790	19,790			
Transportation				685,288	647,957	37,331
Community environment	641,845	593,227	48,618	1,000	137	863
Leisure time activity	531,097	450,770	80,327			
Capital outlay				510,683	294,990	215,693
Economic development and assistance				165,300	108,764	56,536
Debt service:						
Principal retirement						
Interest and fiscal charges						
Total expenditures	7,510,885	7,048,096	462,789	2,386,131	1,847,273	538,858
Excess of expenditures over revenues	(1,253,418)	(499,308)	754,110	(313,243)	(250,261)	62,982
Other financing sources/(uses):						
Operating transfers in				407,777	374,187	(33,590)
Operating transfers (out)	(453,850)	(374,187)	79,663			
Other financing sources	472,320	494,309	21,989	306,526	277,741	(28,785)
Total other financing sources/(uses)	18,470	120,122	101,652	714,303	651,928	(62,375)
Excess of revenues and other financing financing sources over/(under) expenditures and other financing uses	(1,234,948)	(379,186)	855,762	401,060	401,667	607
Fund balance at January 1	1,434,861	1,434,861		855,311	855,311	
Prior year encumbrances appropriated	235,908	235,908		82,130	82,130	
Fund balance at December 31	\$435,821	\$1,291,583	\$855,762	\$1,338,501	\$1,339,108	\$607

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

Debt Service			Capital Projects			Total (Memorandum Only)		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
			\$1,614,852	\$1,210,954	(\$403,898)	\$5,474,264	\$5,247,466	(\$226,798)
						708,151	724,197	16,046
						175,344	183,507	8,163
						172,608	186,853	14,245
						722,955	801,029	78,074
						2,389,404	1,889,410	(499,994)
\$150,000	\$136,758	(\$13,242)				150,000	136,758	(13,242)
						240,289	259,115	18,826
	107,681	107,681	314,148	163,348	(150,800)	376,340	336,206	(40,134)
150,000	244,439	94,439	1,929,000	1,374,302	(554,698)	10,409,355	9,764,541	(644,814)
5,000	4,887	113				3,080,283	2,842,660	237,623
						4,091,940	3,786,961	304,979
						194,580	174,790	19,790
						685,288	647,957	37,331
						642,845	593,364	49,481
						531,097	450,770	80,327
			1,983,706	1,805,361	178,345	2,494,389	2,100,351	394,038
						165,300	108,764	56,536
255,259	240,415	14,844				255,259	240,415	14,844
93,056	76,200	16,856				93,056	76,200	16,856
353,315	321,502	31,813	1,983,706	1,805,361	178,345	12,234,037	11,022,232	1,211,805
(203,315)	(77,063)	126,252	(54,706)	(431,059)	(376,353)	(1,824,682)	(1,257,691)	566,991
						407,777	374,187	(33,590)
						(453,850)	(374,187)	79,663
						778,846	772,050	(6,796)
						732,773	772,050	39,277
(203,315)	(77,063)	126,252	(54,706)	(431,059)	(376,353)	(1,091,909)	(485,641)	606,268
559,251	559,251		(33,459)	(33,459)		2,815,964	2,815,964	
			240,706	240,706		558,744	558,744	
\$355,936	\$482,188	\$126,252	\$152,541	(\$223,812)	(\$376,353)	\$2,282,799	\$2,889,067	\$606,268

**CITY OF DEFIANCE
 COMBINED STATEMENT OF REVENUES, EXPENSES,
 AND CHANGES IN FUND EQUITY
 ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
 FOR THE YEAR ENDED DECEMBER 31, 1999**

	<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	\$7,052,900	\$794,932		\$7,847,832
Total operating revenues	<u>7,052,900</u>	<u>794,932</u>		<u>7,847,832</u>
Operating expenses:				
Personal services	1,793,401			1,793,401
Contract services	1,019,977			1,019,977
Materials and supplies	429,634			429,634
Claims expense		819,448		819,448
Administrative costs	303,953			303,953
Utilities	407,768			407,768
Depreciation	829,798			829,798
Other operating expenses	48,140			48,140
Total operating expenses	<u>4,832,671</u>	<u>819,448</u>		<u>5,652,119</u>
Operating income/(loss)	<u>2,220,229</u>	<u>(24,516)</u>		<u>2,195,713</u>
Nonoperating revenues/(expenses):				
Interest expense and fiscal charges	(1,384,501)			(1,384,501)
Interest revenue	451,512	14,415		465,927
Intergovernmental	272			272
Other nonoperating revenues	159,716			159,716
Total nonoperating revenues/(expenses)	<u>(773,001)</u>	<u>14,415</u>		<u>(758,586)</u>
Net income/(loss)	1,447,228	(10,101)		1,437,127
Retained earnings/fund balance at January 1 - restated	11,979,082	317,894	\$4,600	12,301,576
Contributed Capital	<u>1,944,582</u>			<u>1,944,582</u>
Fund equity at December 31	<u>\$15,370,892</u>	<u>\$307,793</u>	<u>\$4,600</u>	<u>\$15,683,285</u>

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

**CITY OF DEFIANCE
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 1999**

	<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	\$7,205,357	\$782,323		\$7,987,680
Cash received from other operations	76,900			76,900
Cash payments for personal services	(1,816,810)			(1,816,810)
Cash payments for contract services	(1,314,466)			(1,314,466)
Cash payments for administrative costs	(303,953)			(303,953)
Cash payments supplies and materials	(567,739)			(567,739)
Cash payments for utilities	(390,548)			(390,548)
Cash payments for claims expense		(803,065)		(803,065)
Cash payments for other expenses	(48,140)			(48,140)
Net cash provided (used) by operating activities	<u>2,840,601</u>	<u>(20,742)</u>		<u>2,819,859</u>
Cash flows from noncapital financing activities:				
Cash received from nonoperating activities	272,828			272,828
Cash received from operating grants	1,519,435			1,519,435
Net cash provided by noncapital financing activities	<u>1,792,263</u>			<u>1,792,263</u>
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(4,691,964)			(4,691,964)
Proceeds of debt issues	300,000			300,000
Principal retirement	(830,296)			(830,296)
Interest and fiscal charges	(1,375,925)			(1,375,925)
Net cash used for capital and related financing activities	<u>(6,598,185)</u>			<u>(6,598,185)</u>
Cash flows from investing activities:				
Interest received	451,512	14,415		465,927
Net cash provided by investing activities	<u>451,512</u>	<u>14,415</u>		<u>465,927</u>
Net decrease in cash and cash equivalents	(1,513,809)	(6,327)		(1,520,136)
Cash and cash equivalents at January 1	9,847,229	328,049	\$4,600	10,179,878
Cash and cash equivalents at December 31	<u>\$8,333,420</u>	<u>\$321,722</u>	<u>\$4,600</u>	<u>\$8,659,742</u>

(Continued)

**CITY OF DEFIANCE
 COMBINED STATEMENT OF CASH FLOWS
 ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
 FOR THE YEAR ENDED DECEMBER 31, 1999
 (Continued)**

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	Total (Memorandum Only)
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Nonexpendable Trust</u>	
Operating income/(loss)	\$2,220,229	(\$24,516)		\$2,195,713
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	829,798			829,798
Changes in assets and liabilities:				
Increase in materials and supplies inventory	(7,536)			(7,536)
(Increase)/decrease in accounts receivable	229,357	(12,609)		216,748
Increase in accrued wages and benefits	10,961			10,961
Decrease in compensated absences payable	(16,571)			(16,571)
Decrease in retainage payable	(143,150)			(143,150)
Increase in accounts payable	8,732			8,732
Decrease in contracts payable	(272,070)			(272,070)
Increase in claims payable		16,383		16,383
Decrease in capital lease obligation	(1,474)			(1,474)
Decrease in due to other governments	(17,675)			(17,675)
Net cash provided (used) by operating activities	<u>\$2,840,601</u>	<u>(\$20,742)</u>		<u>\$2,819,859</u>

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

**CITY OF DEFIANCE
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999**

NOTE 1 - DESCRIPTION

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

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

Jointly Governed Organization

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

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

CITY OF DEFIANCE
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(Continued)

by MVPO to administer CDBG grants and a per capita amount from each City. In 1999, the City paid administrative fees of \$32,402 and no per capita charges to MVPO.

Joint Venture Without Equity Interest

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

The main source of revenue for the MANTF is from federal grants and local matching shares by the entities. The City has no ongoing financial responsibility to the MANTF. The City has indirect access to the net resources of the MANTF since the City is able to influence the MANTF to use its surplus resources to undertake projects of interest to the City's residents. This access to the net resources of the Board has not been explicitly defined, nor is it currently measurable. The City contributed \$45,585 to the MANTF in 1999. Complete financial statements for the MANTF can be obtained through the Defiance City Sheriff's Office located at 113 Biede Street, Defiance, Ohio.

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

The *Defiance County Economic Development Employment Agreement* between the Board of Trustees of the Corporation and the Defiance County Director of Economic Development states that the county's Director of Economic Development may serve as executive director of the Corporation, such corporation having agreed to furnish the county with the funds needed to pay his salary. The City of Defiance partially funds the Corporation to pay the salary of the Director of the Defiance County Economic Development. The City made no payments to the Corporation in 1999. The City's degree of control over the Board is limited to its representation on the Board.

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.

CITY OF DEFIANCE
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(Continued)

1. Governmental Fund Types

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

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

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

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

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

2. Proprietary Fund Types

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

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

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.

CITY OF DEFIANCE
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(Continued)

4. Account Groups

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

All proprietary funds and the nonexpendable trust fund are accounted for on a capital maintenance measurement focus. With this measurement focus, all assets and all liabilities associated with the

CITY OF DEFIANCE
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(Continued)

operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

D. Budgetary Data

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

A budget of estimated revenues and expenditures 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.

The 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. 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. 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. Budgeted receipts as shown in the accompanying financial statements do not include January 1, 1999, 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 from the final amended official Certificate issued during 1999.

Appropriation budgets are legally required for each organizational unit by major expenditure object. 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 measure may be amended or supplemented during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified and beginning-year fund balance.

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.

CITY OF DEFIANCE
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(Continued)

E. Encumbrances

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

F. Cash and Investments

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

During fiscal year 1999, 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 1999. 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, 1999.

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 1999:

	<u>Interest Actually Received</u>	<u>Interest Based Upon Share of Cash Fund Balance</u>	<u>Interest Assigned by Other Funds</u>
General	\$220,980	\$92,353	\$128,627
<u>Special Revenue Funds</u>			
State Highway Improvement Fund	7,244	1,766	5,478
Cable TV Contract Fund	7,244	3,180	4,064
Termination Benefits Fund	7,244	6,867	377
Street Construction Maintenance & Repair Fund	7,244	408	6,836
<u>Enterprise Fund</u>			
Sewer Fund	100,102	97,685	2,417

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.

CITY OF DEFIANCE
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(Continued)

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.

G. Health Care

The Comprehensive Omnibus Budget Reconciliation Act (COBRA) of 1986 required the City to offer and provide terminated or retired employees continued participation in the City's employee health care benefits program, provided that the employees pay the rate established by the plan administrator. In 1999, the City incurred expenditures of \$358 in providing these services, and recognized revenues of \$1,912 for premiums received from these former employees.

H. Inventories of Materials and Supplies

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

I. Property, Plant, Equipment, and Depreciation

1. General Fixed Assets Account Group

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

2. Enterprise Funds

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

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

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

CITY OF DEFIANCE
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(Continued)

J. Compensated Absences

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

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

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

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

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

K. Intergovernmental Revenues

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

CITY OF DEFIANCE
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(Continued)

L. Long-Term Obligations

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

M. Interfund Transactions

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

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not show transfers of resources as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund.
3. Short-term interfund loans and accrued interfund reimbursements and accrued operating transfers are reflected as "interfund loans receivable or payable". The City had no short-term interfund loans receivable or payable at December 31, 1999.
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, 1999.

An analysis of interfund transactions is presented in Note 5.

N. Fund Balance Reserves

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

The City reports amounts representing noncurrent investments, supplies inventories, debt service, prepayments, encumbrances, principal endowment, and loans as reservations of fund balance in the governmental funds.

O. Bond Discounts, Premiums and Issuance Costs

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

When the proceeds from general obligation bonded debt is placed in a proprietary fund type, and the debt will be serviced from revenues generated by that fund, then any material issuance costs will be

CITY OF DEFIANCE
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(Continued)

reported as a deferred charge and amortized over the life of the bond using the interest method. Any material discounts or premiums are shown as additions to or deductions from the amount of the bond liability, are amortized using the interest method, and are reflected as interest income or expense in the Statement of Revenues, Expenses, and Changes in Retained Earnings.

P. Prepayments

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

Q. Estimates

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

R. Total Columns on General-Purpose Financial Statements

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Prior Period Adjustments

Certain fixed assets in the General Fixed Asset Account Group were placed in service prior to 1999, but had not been recorded. This resulted in restating the beginning account balance from \$8,392,129 to \$8,784,417.

In 1998 certain individuals who were age 50 or older with at least 10 years of service were excluded from the compensated absences liability in the General Long-Term Obligation Account Group. In addition, vacation balances for several individuals were misstated. This resulted in restating the January 1, 1999 compensated absences payable in the General Long-Term Obligation Account Group from \$280,175 to \$274,811.

A restatement of beginning fund balances for the Special Revenue and Enterprise Funds is necessary due to the following prior period adjustments made to the financial statements:

- An Intergovernmental Receivable in the Enterprise Fund Type should have been accrued in the Special Revenue Fund Type in the amount of \$76,696.
- Certain fixed assets in the Enterprise Fund Type were placed in service prior to 1999, but had not been recorded in the amount of \$851,165.

CITY OF DEFIANCE
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(Continued)

- The City had not previously recorded "Cash with Fiscal and Escrow Agents" for amounts held in escrow and due to contractors in the amount of \$627,668.
- The City recorded grants as revenue rather than contributed capital in the water fund in the amount of \$175,375.

The net effect of these changes is as indicated below:

	Special Revenue	Enterprise
Fund Balance/Retained Earnings Originally Stated 12/31/98	\$2,204,998	\$10,752,320
Prior Period Adjustments	76,696	1,226,762
Restated Fund Balance/Retained Earnings 1/1/99	\$2,281,694	\$11,979,082
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses/Net Income Originally Stated - 1998	\$150,190	\$67,068
Prior Period Adjustments	76,696	(252,071)
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses/Net Loss Restated - 1998	\$226,886	(\$185,003)

B. Deficit Fund Balances

At December 31, 1999, the Permissive Tax special revenue fund had negative cash fund balance of \$19,519. The deficit fund balance on a GAAP basis is the result of this negative cash fund balance. This deficit balance will be eliminated through intergovernmental grants and subsidies not recognized at December 31.

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

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

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

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

CITY OF DEFIANCE
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(Continued)

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).

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;
3. Obligations of the City.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

Cash on Hand

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

CITY OF DEFIANCE
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(Continued)

Deposits

At December 31, 1999, the carrying amount of the City's deposits was \$367,166 and the bank balance was \$817,346. Of the bank balance:

1. \$272,650 was covered by federal deposit insurance; and
2. \$544,696 was uninsured and uncollateralized as defined by GASB even though it was covered by collateral held by third party trustees pursuant to Section 135.81, Ohio Revised Code, in single institution collateral pools securing all public funds on deposit with specific depository institutions. Although all state statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

Investments

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

The following is a listing of investments, by category, as of December 31, 1999:

	Category 1	Uncategorized	Reported Amount	Fair Value
City of Defiance Bonds	\$264,491		\$264,491	\$264,491
Mutual Funds		1,141,612	1,141,612	1,141,612
STAR Ohio		10,993,336	10,993,336	10,993,336
Total Investments	<u>\$264,491</u>	<u>\$12,134,948</u>	<u>\$12,399,439</u>	<u>\$12,399,439</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".

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

CITY OF DEFIANCE
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(Continued)

	Cash and Cash Equivalents/ Deposits	Investments
Per GASB Statement No. 9	\$12,847,909	\$264,491
Cash With Fiscal and Escrow Agents	(343,545)	
STAR Ohio	(10,993,336)	10,993,336
Mutual Funds	(1,141,612)	1,141,612
Cash on Hand	(2,250)	
Per GASB Statement No. 3	\$367,166	\$12,399,439

NOTE 5 - INTERFUND TRANSACTIONS

The following is a summarized breakdown of the City's operating transfers for 1999:

	Transfers-In	Transfers-Out
General Fund		(\$374,187)
Special Revenue Funds:		
Street Construction, Maintenance and Repair	93,000	
Police Pension	140,033	
Fire Pension	141,154	
Total Transfers	\$374,187	(\$374,187)

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.

The full tax rate applied to real property for the fiscal year ended December 31, 1999 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.

Owners of tangible personal property are required to file a list of such property including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for the fiscal year ended December 31, 1999 was \$3.00/2.10 per \$1,000 of assessed valuation. The assessed valuation upon which 1999 taxes were collected is as follows:

CITY OF DEFIANCE
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(Continued)

Residential/Agricultural Real Property	\$115,644,570
Commercial/Industrial/Public Utility Real Property	40,241,680
Tangible/Public Utility Personal Property	<u>51,744,578</u>
 Total Assessed Value	 <u>\$207,630,828</u>

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

Accrued taxes receivable represent delinquent taxes outstanding and real, tangible personal, and public utility taxes which were measurable and unpaid as of December 31, 1999. 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 1999 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 1999 was \$5,274,696.

NOTE 8 - RECEIVABLES

Receivables at December 31, 1999, consisted of income taxes, real estate and other taxes, loans, accounts (billings for user charged services), special assessments and intergovernmental receivables arising from grants, entitlements and shared revenue. All intergovernmental receivables have been classified as "Due From Other Governments" on the combined balance sheet. Receivables have been recorded to the extent that they are both measurable and available at December 31, 1999, as well as intended to finance fiscal 1999 operations.

A summary of the principal items of receivables follows:

Fund/Description	Amount
<u>General Fund</u>	
Income taxes	\$958,213
Real and other taxes	566,178
Accounts	123,036
Intergovernmental	262,871
<u>Special Revenue Funds</u>	
Income taxes	4,815
Real and other taxes	176,064
Accounts	6,987
Loans	1,063,779
Intergovernmental	38,590

CITY OF DEFIANCE
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(Continued)

<u>Debt Service Funds</u>	
Special assessments	26,054
<u>Capital Projects Funds</u>	
Income taxes	288,909
<u>Enterprise Funds</u>	
Accounts	155,956
Intergovernmental	272

NOTE 9 - FIXED ASSETS

A. Enterprise Fixed Assets

A summary of the enterprise fund's fixed assets at December 31, 1999, follows:

Land	\$ 269,221
Land improvement	353,961
Infrastructure	18,445,738
Buildings and improvements	6,644,618
Furniture and equipment	5,550,768
Construction in progress	19,550,901
Capital leases	4,704
Accumulated depreciation	<u>(14,405,573)</u>
Total net assets	<u>\$ 36,414,338</u>

B. General Fixed Assets

General fixed assets account group balances have been re-stated as of January 1, 1999 due to errors and omissions in the reporting of certain capital assets.

	Balance 12/31/98	Prior Period Adjustment	Restated Balance 1/1/99	Additions	Deductions	Balance 6/30/99
Land	\$1,302,295		\$1,302,295	\$3,899		\$1,306,194
Buildings and improvements	3,446,473	406,246	3,852,719			3,852,719
Furniture and equipment	3,643,361	(13,958)	3,629,403	404,687	(305,704)	3,728,386
Total	<u>\$8,392,129</u>	<u>\$392,288</u>	<u>\$8,784,417</u>	<u>\$408,586</u>	<u>(\$305,704)</u>	<u>\$8,887,299</u>

NOTE 10 - CONTRIBUTED CAPITAL

During 1999, the following changes to contributed capital were reported by the City:

	<u>Water</u>
Balance at 12/31/98	\$1,624,474
Prior period adjustment	<u>175,375</u>
Restated balance at 1/1/99	1,799,849
Current Contributions	<u>144,733</u>
Balance at December 31, 1999	<u>\$1,944,582</u>

CITY OF DEFIANCE
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(Continued)

NOTE 11 - VACATION AND SICK LEAVE LIABILITY

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

Upon termination of City service, a fully vested employee is entitled to a percentage of their accumulated sick leave based on their years of service. At December 31, 1999, vested benefits for vacation leave for governmental fund type employees, net of amounts paid using current expendable available resources, totaled \$151,425 and vested benefits for sick leave, net of amounts paid using current expendable available resources, totaled \$67,535. For proprietary fund types, vested benefits for vacation leave totaled \$75,326 and vested benefits for sick leave totaled \$29,172 at December 31, 1999. 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 12 - LONG-TERM OBLIGATIONS

A. General Long-Term Obligations

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

	Interest Rates	Balance Outstanding 12/31/98	Additions	Reductions	Balance Outstanding 12/31/99
<u>General Obligation Bonds</u>					
Street Improvement Issues	5.9-6.955%	\$410,000		(\$20,000)	\$390,000
<u>Special Assessment Bonds with A Governmental Commitment</u>					
Special Assessment Bonds	5.0-9.75%	948,989		(59,967)	889,022
<u>Other Long-Term Obligations</u>					
Compensated Absences Payable		274,811		(55,851)	218,960
Total General Long-Term Obligations		\$1,633,800		(\$135,818)	\$1,497,982

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

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

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

CITY OF DEFIANCE
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(Continued)

<u>Year Ended</u>	<u>General Obligation Bonds</u>			<u>Special Assessment Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2000	\$ 25,000	\$ 26,855	\$ 51,855	\$ 64,967	\$ 60,909	\$ 125,876
2001	25,000	25,255	50,255	66,967	56,505	123,472
2002	25,000	23,630	48,630	66,967	51,534	118,501
2003	25,000	21,893	46,893	71,967	46,935	118,902
2004	30,000	20,155	50,155	71,967	41,986	113,953
2005-2009	180,000	67,076	247,076	379,829	131,791	511,620
2010-2014	<u>80,000</u>	<u>7,948</u>	<u>87,948</u>	<u>166,358</u>	<u>22,614</u>	<u>188,972</u>
Total	<u>\$390,000</u>	<u>\$192,812</u>	<u>\$582,812</u>	<u>\$889,022</u>	<u>\$412,274</u>	<u>\$1,301,296</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:

	<u>Balance</u>		<u>Balance</u>
	<u>Interest Outstanding</u>	<u>Additions</u>	<u>Outstanding</u>
	<u>Rates 12/31/98</u>	<u>Reductions</u>	<u>12/31/99</u>
<u>General Obligation Bonds</u>			
Waterline Improvements	5.25% \$ 675,000	\$(135,000)	\$ 540,000
Waterline Improvements	5.375% 100,000	(50,000)	50,000
Waterline Improvements	Various 5,655,000	(125,000)	5,530,000
Waterworks - Series 1998	Various <u>8,000,000</u>	<u>(180,000)</u>	<u>7,820,000</u>
Total General Obligation Bonds	<u>\$14,430,000</u>	<u>\$(490,000)</u>	<u>\$13,940,000</u>
<u>Bond Anticipation Notes</u>			
Water Improvements		\$137,500	\$ 137,500
Sewer Improvements		<u>162,500</u>	<u>162,500</u>
Total Bond Anticipation Notes	<u>\$</u>	<u>\$300,000</u>	<u>\$ 300,000</u>
<u>Other Long-Term Obligations</u>			
OWDA Loan	7.65% \$ 7,201,636	\$6,605,610	\$ 13,518,823
OPWC Loan	0%-4.0% <u>1,117,350</u>	<u>125,705</u>	<u>1,201,234</u>
Total Other Long-Term Obligations	<u>\$ 8,318,986</u>	<u>\$6,731,315</u>	<u>\$ 14,720,057</u>
Total Enterprise Fund Obligations	<u>\$22,748,986</u>	<u>\$7,031,315</u>	<u>\$28,960,057</u>

CITY OF DEFIANCE
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(Continued)

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.

The City issued \$8,000,000 in Waterworks System Improvements Bonds on February 3, 1998. 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 1999, the City retired \$180,000 of these bonds leaving an outstanding balance of \$7,820,000 at December 31, 1999.

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

	Interest Rate	Maturity Date	Balance Outstanding 12/31/99
OWDA Loan	7.65%	1/1/2013	\$ 6,913,213
OWDA Loan	3.91%	Not final	<u>6,605,610</u>
Total			<u>\$13,518,823</u>

Improvements to the City's water treatment facilities were financed through expenditures by the Ohio Public Works Commission (OPWC). At December 31, 1999, the City has the following three loans outstanding to the OPWC:

	Interest Rate	Maturity Date	Balance Outstanding 12/31/99
OPWC Loan	0.00%	Not final	\$103,799
OPWC Loan	4.00%	1/1/2014	262,736
OPWC Loan	3.00%	7/1/2017	452,529
OPWC Loan	0.00%	7/1/2019	<u>382,170</u>
Total			<u>\$1,201,234</u>

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

On March 16, 1999, the City issued bond anticipation notes for the purpose of improving the sanitary sewer system and the waterworks system in the amounts of \$162,500 and \$137,500, respectively. The proceeds from the notes will be used to acquire and construct sewer and water lines. The notes bear an interest rate of 6% and mature upon issuance of the bonds, which is expected to be on March 1, 2000.

The following is a summary of the City's future annual debt service principal and interest requirements for enterprise fund obligations. This schedule excludes the OWDA and OPWC loans marked "not final" above because these loans are still open and no amortization schedule has yet been determined.

CITY OF DEFIANCE
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(Continued)

Year Ended	General Obligation Bonds			Loans Payable		
	Principal	Interest	Total	Principal	Interest	Total
2000	\$ 500,000	\$ 777,582	\$ 1,277,582	\$ 363,204	\$ 552,696	\$ 915,900
2001	465,000	754,130	1,219,130	388,092	527,808	915,900
2002	480,000	732,348	1,212,348	414,834	501,066	915,900
2003	495,000	709,764	1,204,764	443,575	472,325	915,900
2004	375,000	686,063	1,061,063	474,465	441,435	915,900
2005-2009	2,275,000	3,037,335	5,312,335	2,922,950	1,656,549	4,579,499
2009-2014	2,970,000	2,328,700	5,298,700	2,835,392	426,839	3,262,231
2015-2019	3,905,000	1,350,182	5,255,182	168,136	3,632	171,768
2020-2023	2,475,000	287,460	2,762,460			
Total	<u>\$13,940,000</u>	<u>\$10,663,564</u>	<u>\$24,603,564</u>	<u>\$8,010,648</u>	<u>\$4,582,350</u>	<u>\$12,592,998</u>

NOTE 13 - 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, 1999 is as follows:

	Sewer Fund	Water Fund	Utility Refuse Fund	Deposit Fund	Total
Operating revenues	\$ 3,017,024	\$ 3,495,030	\$463,946	\$ 76,900	\$ 7,052,900
Operating expenses before depreciation	1,527,203	2,002,078	469,247	4,345	4,002,873
Depreciation expense	588,779	241,019			829,798
Operating income (loss)	901,042	1,251,933	(5,301)	72,555	2,220,229
Net income (loss)	647,959	732,015	(5,301)	72,555	1,447,228
Additions to property, plant and equipment	5,896,612	3,678,796			9,575,408
Net working capital	2,194,191	5,145,761	116,985	159,674	7,616,611
Total assets	20,403,766	24,675,116	116,985	159,674	43,355,541
Bonds and other long term liabilities payable from operating revenues	13,622,622	15,037,435			28,660,057
Total liabilities	14,073,806	15,910,843			29,984,649
Contributed capital		1,944,582			1,944,582
Total equity	6,329,960	8,764,273	116,985	159,674	15,370,892
Encumbrances outstanding	1,287,689	2,762,253			4,049,942

NOTE 14 - 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

CITY OF DEFIANCE
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(Continued)

by Arthur J. Gallagher & Co. BORMA, Inc. includes two separate pools which provide separate and distinct coverages.

The first pool provides comprehensive automobile liability, automobile physical damage, comprehensive general liability, crime and property liability and public officials liability coverage up to specific limits. The pool includes the following municipalities: Bowling Green, Defiance, Huron, Napoleon, Sandusky and Willard. Member contributions are calculated annually to produce a sufficient sum of money within the pool to fund administrative expenses and to create reserves for claims. As of December 31, 1999 the pool had cash reserves of \$706,627, 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 carriers.

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, Defiance, Fayette, Harrison, Huron, Napoleon, Sandusky and Willard. As of December 31, 1999 the pool had cash reserves of \$1,018,242 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 1999 the City paid \$803,065 into the pool for coverage. The cost of coverage is paid by the fund that pays the salary of the individual employees. The amount of the risk retained within the employee is \$75,000 per individual with excess claims coverage proved by the Lloyds Company.

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

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

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

CITY OF DEFIANCE
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(Continued)

NOTE 15 - 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. 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. 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.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate for 1999 was 8.5 percent for employees other than law enforcement. Law enforcement employees contribute 9.0 percent of covered salary. The employer contribution rate for employees other than law enforcement was 13.55 percent of covered payroll. The employer contribution rate for law enforcement employees was 16.7 percent of covered payroll. The City's contributions for pension obligations to PERS for the years ended December 31, 1999, 1998, and 1997 were \$487,573, \$461,889, and \$437,682, respectively; 91 percent has been contributed for 1999 and 100 percent for 1998 and 1997. \$43,880 representing the unpaid contribution for 1999, 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. 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 by Ohio Revised Code Chapter 742. 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 the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10.0 percent of their annual covered salary, while the City is required to contribute 19.5 percent and 24.0 percent for police officers and firefighters, respectively. The City's contributions for pension obligations to OP&F for the years ended December 31, 1999, 1998, and 1997 were \$417,297, \$421,739 and \$379,734, respectively; 92 percent has been contributed for 1999 and 100 percent for the years 1998 and 1997. \$33,947, representing the unpaid contributions for 1999, is recorded as a liability within the respective funds.

NOTE 16 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

A. Public Employees Retirement System

PERS of Ohio provides postretirement health care coverage to age and service retirants with 10 or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. 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

CITY OF DEFIANCE
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(Continued)

by State and Local Government Employers." A portion of each employer's contribution to PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 1999 employer contribution rate for local employers was 13.55 % of covered payroll; 4.2% was the portion that was used to fund health care. The law enforcement employer rate for 1999 was 16.7 % of covered payroll; 4.2% was the portion used to fund health care.

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS. The City's contribution actually made to fund postemployment benefits was \$151,130.

OPEB are financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health and Medicare, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely.

Expenditures for OPEB during 1999 were \$523.599 million. As of December 31, 1999, the unaudited estimated net assets available for future OPEB payments were \$9.870 billion. The number of benefit recipients eligible for OPEB at December 31, 1999 was 118,062.

During 1997, the Retirement Board adopted a new calculation method for determining employer contributions applied to OPEB. Under the new method, effective January 1, 1998, employer contributions, equal to 4.2% of member covered payroll, are used to fund health care expenses. Under the prior method, accrued liabilities and normal cost rates were determined for retiree health care coverage.

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, 1999, Comprehensive Annual Financial Report.

B. Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund provides postretirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending 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 PFDPF 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 statutory 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 expense. The Board defined allocation was 6.5 percent and 7.0 percent of covered payroll in 1998 and 1999, respectively. The allocation rate will be 7.25 percent in 2000. In addition, since July 1, 1992, most retirees have been required to

CITY OF DEFIANCE
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(Continued)

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, 1998, the date of the last actuarial valuation available, is 11,424 for police officers and 9,186 for firefighters. The amount of employer contributions used to pay postemployment benefits for police officers and firefighters were \$76,058 and \$59,914, respectively. OP&F's total health care expenses for the year ending December 31, 1998, the date of the last actuarial valuation available, were \$78.597 million which was net of member contributions of \$5.332 million.

NOTE 17 - 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 FINANCING USES**

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
Budget Basis	\$(379,186)	\$ 401,667	\$(77,063)	\$(431,059)
Adjustments:				
Net Adjustment for Revenue Accruals	380,019	(20,149)	7,310	6,284
Net Adjustment for Expenditure Accruals	316,438	13,095		65,938
Net adjustment for Other Financing Sources/ (Uses) Accruals	(465,968)	(235,741)		
Encumbrances	<u>508,521</u>	<u>78,873</u>	<u> </u>	<u>526,560</u>
GAAP Basis	<u>\$ 359,824</u>	<u>\$ 237,745</u>	<u>\$(69,753)</u>	<u>\$ 167,723</u>

NOTE 18 - CONTINGENCIES

A. Grants

The City receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the

CITY OF DEFIANCE
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(Continued)

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, 1999.

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 general-purpose financial statements.

NOTE 19 - 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.

NOTE 20 - SUBSEQUENT EVENTS

In April 2000 the City issued \$760,000 in notes to pay the costs of acquiring, remodeling, and renovating a building which will house municipal functions. Also, in April 2000 the City issued \$2,100,000 in notes to pay the costs of improving and expanding the municipal sanitary sewerage system.

This page intentionally left blank.



STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

One Government Center
Room 1420
Toledo, Ohio 43604-2246
Telephone 419-245-2811
800-443-9276
Facsimile 419-245-2484
www.auditor.state.oh.us

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

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

To the City Council:

We have audited the financial statements of the City of Defiance, Defiance County, (the City) as of and for the year ended December 31, 1999, and have issued our report thereon dated August 18, 2000. We conducted our audit in accordance with generally accepted auditing standards 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated August 18, 2000.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated August 18, 2000.

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is fluid and cursive, with a large loop at the end.

Jim Petro
Auditor of State

August 18, 2000



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

CITY OF DEFIANCE

DEFIANCE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 5, 2000**