



**Auditor of State
Betty Montgomery**

**CITY OF DEFIANCE
DEFIANCE COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

City of Defiance
Defiance County
631 Perry Street
Defiance, Ohio 43512-2779

To City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Defiance, Defiance County, (the City), as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Defiance, Defiance County, Ohio, as of December 31, 2003, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended December 31, 2003, the City implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. As described in Note 9, during the year ended December 31, 2003, the City changed its capital asset capitalization policy.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2003, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the City's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Betty Montgomery
Auditor of State

October 1, 2004

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003**

The discussion and analysis of the City of Defiance's (the City) financial performance provides an overall review of the City's financial activities for the year ended December 31, 2003. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2003 are as follows:

- The total net assets of the City increased \$1,807,825. Net assets of governmental activities increased \$1,151,711 or 13.53 percent over 2002 and net assets of business-type activities increased \$656,114 or 4.21 percent over 2002.
- General revenues accounted for \$7,912,530 of total governmental activities revenue. Program specific revenues accounted for \$2,842,809 or 26.62 percent of total governmental activities revenue.
- The City had \$9,603,628 in expenses related to governmental activities; \$2,842,809 of these expenses was offset by program specific charges for services, grants, or contributions. The remaining expenses of the governmental activities of \$6,760,819 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$7,912,530.
- The City has two major governmental funds, the general fund and capital improvements fund. The general fund had revenues of \$6,997,468 in 2003. This represents a decrease of \$186,927 from 2002 revenues. The expenditures of the general fund, which totaled \$7,664,167 in 2003, decreased \$806,312 from 2002. The net increase in fund balance for the general fund was \$26,315 or 2.00 percent.
- The capital improvements fund had revenues of \$1,378,486 in 2003. This represents a decrease of \$82,350 from 2002 revenues. The expenditures of the capital improvements fund, which totaled \$1,445,602 in 2003, increased \$73,398 from 2002. The net decrease in fund balance for the capital improvements fund was \$64,645 or 6.95 percent.
- Net assets for the business-type activities, which are made up of the Water, Sewer, Refuse and Utility Deposit enterprise funds, increased in 2003 by \$656,114. This increase in net assets was due primarily to adequate charges for services revenue to cover operating expenses.

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
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(Continued)**

- In the general fund, the actual revenues came in \$117,411 higher than they were in the final budget and actual expenditures were \$75,500 less than the amount in the final budget. Budgeted revenues increased \$488,000 from the original to the final budget due primarily to an increase in projected income tax. Budgeted expenditures increased \$443,229 from the original to the final budget due primarily to an increase in the cost of general government expenditures.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to these statements. These statements are organized so the reader can understand the City as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The statement of net assets and statement of activities provide information about the activities of the City as a whole, presenting both an aggregate view of the City's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column.

Reporting the City as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2003?" The statement of net assets and the statement of activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

In the statement of net assets and the statement of activities, the City is divided into two distinct kinds of activities:

Governmental activities - Most of the City's programs and services are reported here including police, fire and rescue, street maintenance, capital improvements and general administration. These services are funded primarily by property and income taxes and intergovernmental revenues including federal and state grants and other shared revenues.

Business-type activities - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided. The City's water, sewer, refuse, and utility deposits operations are reported here.

Reporting the City's Most Significant Funds

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Fund financial reports provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focuses on the City's most significant funds. The analysis of the City's major governmental and proprietary funds begins on page 10.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the readers may better understand the long-term impact of the

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental funds are the General fund and Capital Improvements fund. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 26-29 of this report.

Proprietary Funds

The City maintains three different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer, refuse, and utility deposits management functions. The City's major enterprise funds are the water and sewer funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The basic proprietary fund financial statements can be found on pages 31-35 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Agency funds are the City's only fiduciary fund type. The basic fiduciary fund financial statements can be found on page 36 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 37-81 of this report.

**CITY OF DEFIANCE
DEFIANCE COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This is the City's first year for government-wide financial statements using the full accrual basis of accounting, therefore, a comparison with prior year is not available. A comparative analysis will be presented in future years when prior year information is available.

The table below provides a summary of the City's net assets for 2003:

	Net Assets		
	Governmental Activities	Business-type Activities	Total
Assets			
Current and other assets	\$ 8,405,427	\$ 4,764,340	\$ 13,169,767
Capital assets	5,685,550	40,501,532	46,187,082
<i>Total assets</i>	<u>14,090,977</u>	<u>45,265,872</u>	<u>59,356,849</u>
Liabilities			
Long-term liabilities outstanding	2,207,404	26,322,546	28,529,950
Other liabilities	2,217,883	2,512,125	4,730,008
<i>Total liabilities</i>	<u>4,425,287</u>	<u>28,834,671</u>	<u>33,259,958</u>
Net Assets			
Invested in capital assets, net of related debt	3,306,273	12,512,562	15,818,835
Restricted	4,273,350	-	4,273,350
Unrestricted	2,086,067	3,918,639	6,004,706
<i>Total net assets</i>	<u>\$ 9,665,690</u>	<u>\$ 16,431,201</u>	<u>\$ 26,096,891</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2003, the City's assets exceeded liabilities by \$26,096,891. At year-end, net assets were \$9,665,690 and \$16,431,201 for the governmental activities and the business-type activities, respectively.

Capital assets reported on the government-wide statements represent the largest portion of the City's net assets. At year-end, capital assets represented 77.81 percent of total assets. Capital assets include land, buildings and improvements, improvements other than buildings, equipment, vehicles, and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2003, were \$3,306,273 and \$12,512,562 in the governmental activities and business-type activities, respectively. These capital assets are used to provide services to citizens

**CITY OF DEFIANCE
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

As of December 31, 2003, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

A portion of the City's net assets, \$4,273,350, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net assets of \$2,086,067 may be used to meet the government's ongoing obligations to citizens and creditors.

The table below shows the changes in net assets for fiscal year 2003. Since this is the first year the City has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2002 are not available. A comparative analysis will be provided in future years when prior year information is available.

Change in Net Assets			
	Governmental Activities	Business-type Activities	Total
Revenues			
Program revenues:			
Charges for services	\$ 1,656,674	\$ 7,631,409	\$ 9,288,083
Operating grants and contributions	1,165,264	-	1,165,264
Capital grants and contributions	20,871	312,900	333,771
<i>Total program revenues</i>	<i>2,842,809</i>	<i>7,944,309</i>	<i>10,787,118</i>
General revenues:			
Property taxes	854,507	-	854,507
Income taxes	5,661,947	-	5,661,947
Unrestricted grants and entitlements	691,903	-	691,903
Investment earnings	74,251	38,817	113,068
Gain on sale of capital assets	190,774	-	190,774
Miscellaneous	439,148	362,350	801,498
<i>Total general revenues</i>	<i>7,912,530</i>	<i>401,167</i>	<i>8,313,697</i>
<i>Total revenues</i>	<i>10,755,339</i>	<i>8,345,476</i>	<i>19,100,815</i>

**CITY OF DEFIANCE
DEFIANCE COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

Change in Net Assets (Continued)

	Governmental Activities	Business-type Activities	Total
Expenses			
General government	2,379,094	-	2,379,094
Security of persons and property	4,743,623	-	4,743,623
Public health and welfare	235,403	-	235,403
Transportation	887,323	-	887,323
Community environment	429,946	-	429,946
Leisure time activity	806,178	-	806,178
Economic development	38,851	-	38,851
Intergovernmental	5,703	-	5,703
Other	5,000	-	5,000
Interest and fiscal charges	72,507	-	72,507
Water	-	3,515,971	3,515,971
Sewer	-	3,637,857	3,637,857
Refuse	-	535,534	535,534
<i>Total expenses</i>	<u>9,603,628</u>	<u>7,689,362</u>	<u>17,292,990</u>
<i>Change in net assets</i>	1,151,711	656,114	1,807,825
<i>Net Assets, Beginning</i>	<u>8,513,979</u>	<u>15,775,087</u>	<u>24,289,066</u>
<i>Net Assets, Ending</i>	<u>\$ 9,665,690</u>	<u>\$ 16,431,201</u>	<u>26,096,891</u>

Governmental Activities

Governmental activities net assets increased \$1,151,711 in 2003. This increase is a result of decreasing expenses and an increase in municipal income taxes versus amounts reported in the prior year.

Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$4,743,623 of the total expenses of the City. These expenses were partially funded by \$1,129,641 in direct charges to users of the services. Transportation expenses totaled \$887,323. Transportation expenses were partially funded by \$555,928 in operating grants and contributions.

The state and federal government contributed to the City a total of \$1,165,264 in operating grants and contributions and \$20,871 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the total capital grants and contributions, \$20,871 subsidized general government programs.

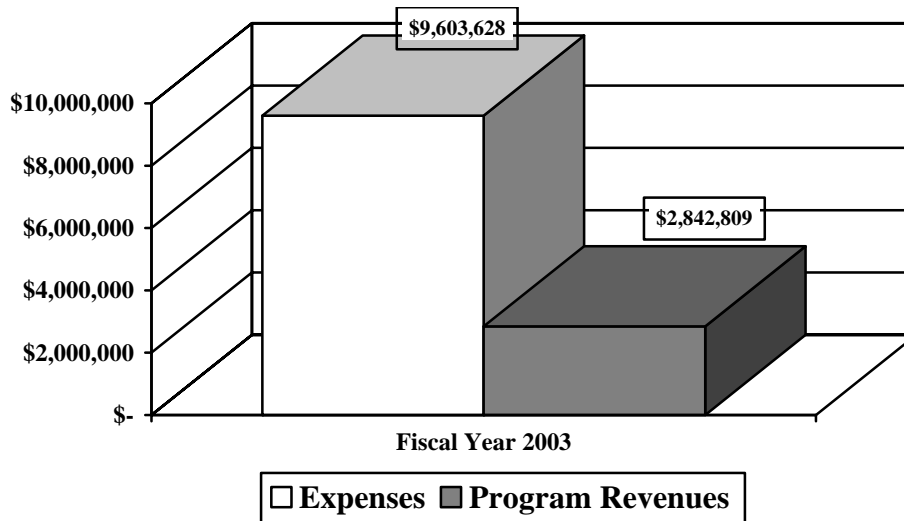
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DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

General revenues totaled \$7,912,530, and amounted to 73.57 percent of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$6,516,454. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government and local government revenue assistance, making up \$691,903. In August 2001, the State placed a freeze on local government and local government revenue assistance to be distributed to local governments in 2002.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. As can be seen in the graph below, the City is highly dependent upon property and income taxes as well as unrestricted grants and entitlements to support its governmental activities. Comparisons to 2002 have not been presented since they are not available.

Governmental Activities – Program Revenues vs. Total Expenses



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DEFIANCE COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

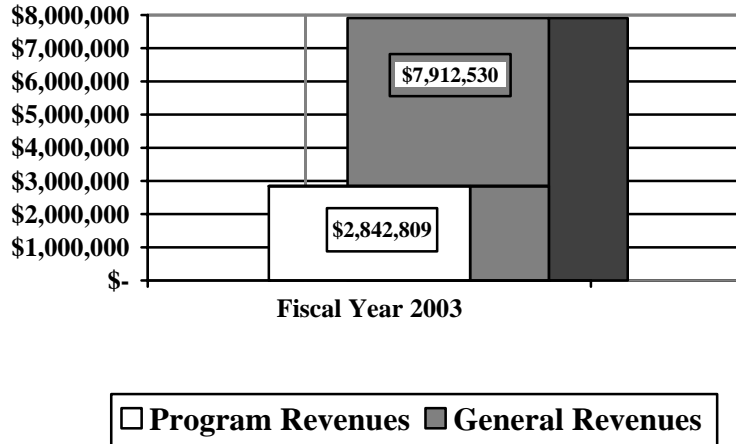
Governmental Activities		
	Total Cost of Services 2003	Net Cost of Services 2003
Program Expenses:		
General government	\$ 2,379,094	\$ 1,538,586
Security of persons and property	4,743,623	3,522,382
Public health and welfare	235,403	208,955
Transportation	887,323	331,395
Community environment	429,946	281,457
Leisure time activity	806,178	760,537
Economic development	38,851	34,297
Intergovernmental	5,703	5,703
Other	5,000	5,000
Interest and fiscal charges	72,507	72,507
<i>Total Expenses</i>	\$ 9,603,628	\$ 6,760,819

The dependence upon general revenues for governmental activities is apparent, with 70.40 percent of expenses supported through taxes and other general revenues.

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
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Governmental Activities – General and Program Revenues



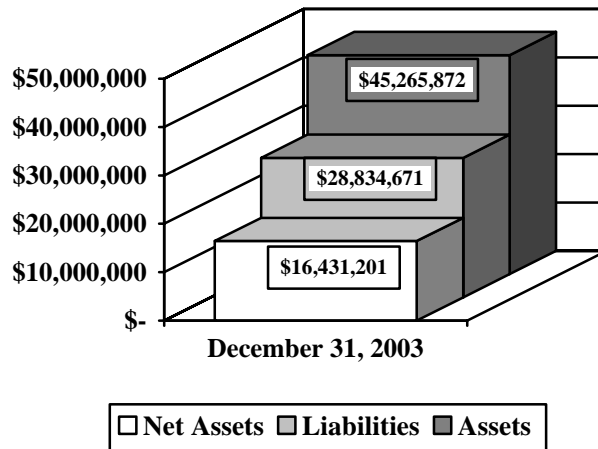
Business-type Activities

Business-type activities include the water, sewer, refuse, and utility deposit enterprise funds. These programs had program revenues of \$7,944,309, general revenues of \$401,167 and expenses of \$7,689,362 for 2003. The graph below shows the business-type activities assets, liabilities, and net assets at year-end.

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

Net Assets in Business – Type Activities



Financial Analysis of the Government's Funds

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

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at year-end.

The City's governmental funds (as presented on the balance sheet on page 28) reported a combined fund balance of \$4,845,650 which is \$18,548 above last year's total of \$4,827,102 (as restated). The December 31, 2002 fund balances have been restated as described in Note 3 to the basic financial statements. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2003 for all major and nonmajor governmental funds.

**CITY OF DEFIANCE
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

	Fund Balances 12/31/03	Fund Balances 12/31/02	Increase (Decrease)
Major funds:			
General	\$ 1,368,661	\$ 1,342,346	\$ 26,315
Capital improvements	864,848	929,493	(64,645)
Other nonmajor governmental funds	2,612,141	2,555,263	56,878
Total	\$ 4,845,650	\$ 4,827,102	\$ 18,548

General Fund

The City's general fund balance increased \$26,315. The table that follows assists in illustrating the revenues of the general fund.

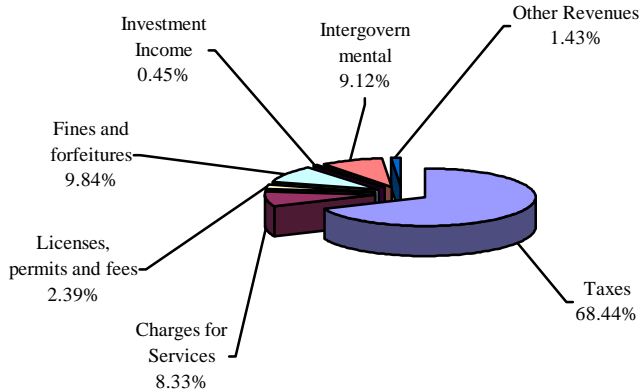
	2003 Amount	2002 Amount	Percentage Change
Revenues			
Taxes	\$ 4,789,158	\$ 4,770,146	0.40 %
Charges for services	583,127	375,319	55.37 %
Licenses, permits and fees	166,910	124,412	34.16 %
Fines and forfeitures	688,600	689,628	(0.15) %
Investment income	31,178	71,709	(56.52) %
Intergovernmental	638,616	1,015,660	(37.12) %
Other	99,879	137,521	(27.37) %
Total	\$ 6,997,468	\$ 7,184,395	(2.60) %

Tax revenue represents 68.44 percent of all general fund revenue. Tax revenue increased by 0.40 percent from the prior year. The decrease in investment income is due to drastic cuts in interest rates by the Federal Reserve Bank throughout the year. The increase in charges for services revenue is due to an increase in the collections of charges from the users of the City's services. The increase in licenses, permits, and fees revenue is due to an increase in the rates charged by the City. The decrease in intergovernmental revenue is due to the freeze on local government and local government revenue assistance to be distributed to local governments in 2002. All other revenue remained comparable to 2002.

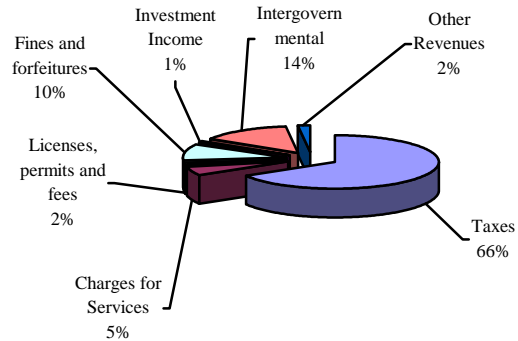
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DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

Revenues – Fiscal Year 2003



Revenues – Fiscal Year 2002



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

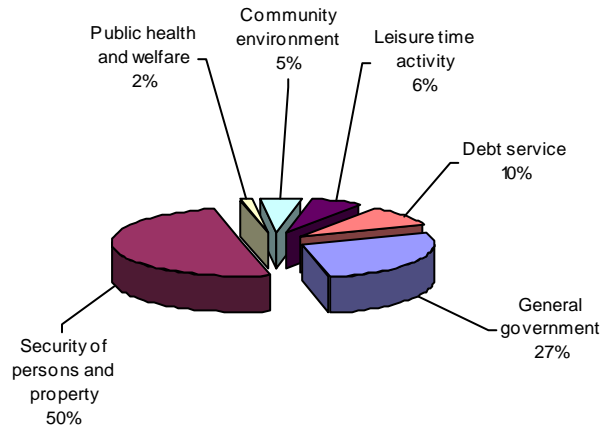
	2003 Amount	2002 Amount	Percentage Change
Expenditures			
General government	\$ 2,084,942	\$ 2,273,024	(8.27) %
Security of persons and property	3,809,314	4,038,360	(5.67) %
Public health and welfare	139,110	212,237	(34.46) %
Community environment	382,559	545,343	(29.85) %
Leisure time activity	475,334	569,347	(16.51) %
Economic development	-	48,934	(100.00) %
Debt service	772,908	783,234	(1.32) %
<i>Total</i>	<u>\$ 7,664,167</u>	<u>\$ 8,470,479</u>	(9.52) %

The most significant decrease was in the area of economic development. This decrease is a large percentage change but is an insignificant amount in comparison to the total expenditures. All other expenditures remained comparable to 2002. The largest expenditure line item, security of persons and property, decreased slightly, which is primarily attributed to the City's control of purchased goods and services.

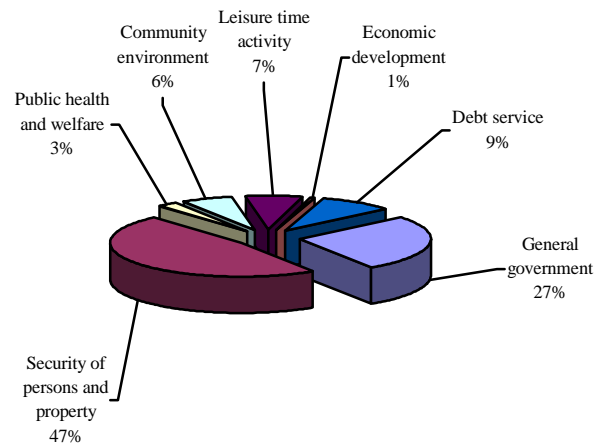
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

Expenditures - Fiscal Year 2003



Expenditures - Fiscal Year 2002



Capital Improvements Fund

The capital improvements fund had revenues of \$1,378,486 in 2003. This represents a decrease of \$82,350 from 2002 revenues. The expenditures of the capital improvements fund, which totaled \$1,445,602 in 2003, increased \$73,398 from 2002. The net decrease in fund balance for the capital improvements fund was \$64,645 or 6.95 percent.

Budgeting Highlights

The City's budgeting process is prescribed by the Ohio Revised Code (ORC). Essentially the budget is the City's appropriations which are restricted by the amounts of anticipated revenues certified by the Budget Commission in accordance with the ORC. Therefore, the City's plans or desires cannot be totally reflected in the original budget. If budgeted revenues are adjusted due to actual activity then the appropriations can be adjusted accordingly.

Budgetary information is presented for the general fund. In the general fund, the actual revenues came in \$126,204 higher than they were in the final budget and actual expenditures were \$1,888 less than the amount in the final budget. These positive variances are the result of the City's conservative budgeting. Budgeted revenues increased \$488,000 from the original to the final budget due primarily to an increase in projected income tax. Budgeted expenditures increased \$443,229 from the original to the final budget due primarily to an increase in the cost of general government expenditures.

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements for business-type activities, except in more detail. The only difference between the amounts reported as business-type activities and the amounts reported in the proprietary fund statements are interfund eliminations between proprietary funds and internal balances due to governmental activities for internal service activities. The only interfund activity reported in the government wide statements are those between business-type activities and governmental activities (reported as internal balances and transfers) whereas interfund amounts between various enterprise funds are reported in the proprietary fund statements.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2003, the City had \$46,187,082 (net of accumulated depreciation) invested in land, buildings and improvements, improvements other than buildings (IOTB), equipment, vehicles, infrastructure and construction in progress. Of this total, \$5,685,550 was reported in governmental activities and \$40,501,532 was reported in business-type activities. The following table shows fiscal 2003 balances compared to 2002:

**Capital Assets at December 31
(Net of Depreciation)**

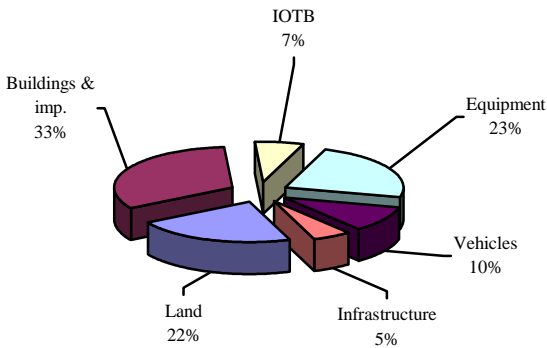
	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Land	\$ 1,243,358	\$ 1,243,358	\$ 267,100	\$ 267,100	\$ 1,510,458	\$ 1,510,458
IOTB	385,005	424,687	459,844	239,479	844,849	664,166
Buildings and improvements	1,848,039	1,959,295	23,101,653	23,654,140	24,949,692	25,613,435
Equipment	1,319,246	548,776	311,086	414,079	1,630,332	962,855
Vehicles	593,321	623,326	253,583	326,545	846,904	949,871
Infrastructure	296,581	-	15,184,363	13,284,801	15,480,944	13,284,801
Construction in progress	-	-	923,903	2,327,484	923,903	2,327,484
Totals	\$ 5,685,550	\$ 4,799,442	\$ 40,501,532	\$ 40,513,628	\$ 46,187,082	\$ 45,313,070

**CITY OF DEFIANCE
DEFIANCE COUNTY**

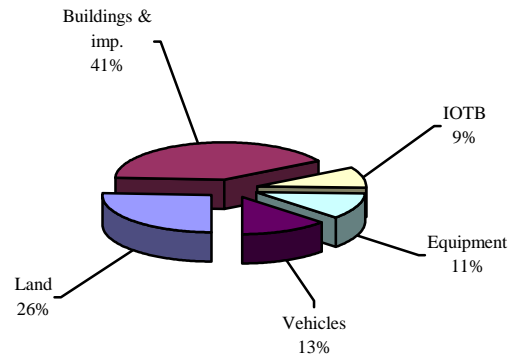
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

The following graphs show the breakdown of governmental capital assets by category for 2003 and 2002.

Capital Assets - Governmental Activities 2003



Capital Assets - Governmental Activities 2002



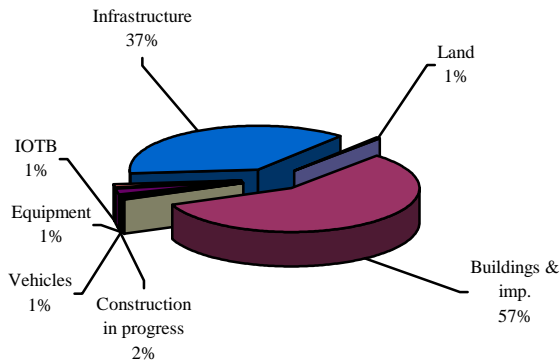
The City added the capital asset category of infrastructure this year. The capital asset category infrastructure includes roads, bridges, culverts, sidewalks, and curbs. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation), with only one year reported, represents approximately 5 percent of the City's total governmental capital assets.

The following graphs show the breakdown of business-type capital assets by category for 2003 and 2002.

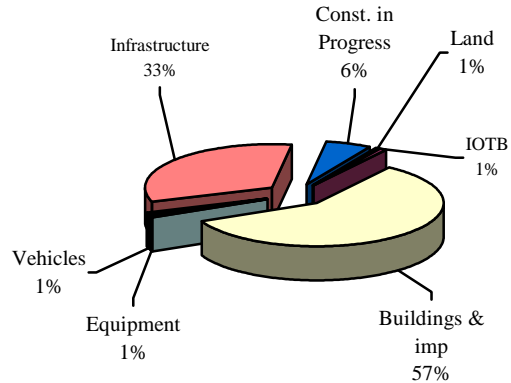
**CITY OF DEFIANCE
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

Capital Assets - Business-Type Activities 2003



Capital Assets - Business-Type Activities 2002



The City's second largest business-type capital asset category is infrastructure that primarily includes water and sewer lines. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 37 percent of the City's total business-type capital assets.

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2003 and 2002:

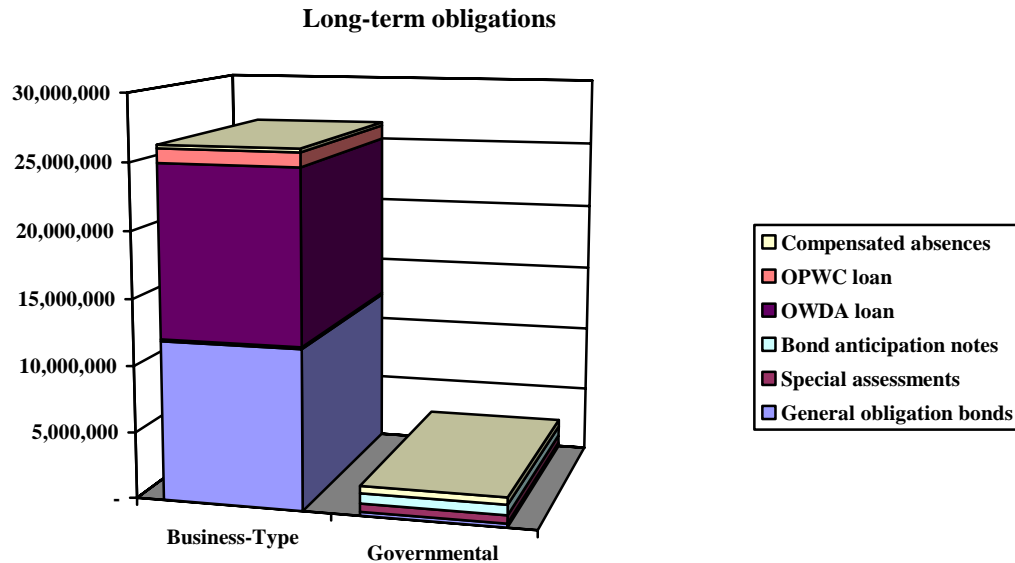
	Governmental Activities	
	2003	2002
Compensated absences	\$ 539,250	\$ 506,919
General obligation bonds	290,000	315,000
Special assessment bonds	618,154	690,121
Bond anticipation notes	760,000	762,388
Total long-term obligations	\$ 2,207,404	\$ 2,274,428

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

	Business-type Activities	
	2003	2002
General obligation bonds	\$ 12,000,000	\$ 12,495,000
Special assessment bonds	134,901	139,523
OWDA loan	12,873,756	13,560,900
OPWC loan	1,056,313	1,123,263
Compensated absences	257,576	266,801
Total long-term obligations	\$ 26,322,546	\$ 27,585,487

A comparison of the long-term obligations by category is depicted in the chart below.



Economic Conditions and Outlook

Defiance is the commercial and industrial hub of the six-county Northwest Ohio area. It is conveniently located within one-hour drive of Toledo and Fort Wayne. Cleveland, Cincinnati, Detroit, and Chicago are all within an easy drive of Defiance. An excellent system of state and U.S. highways serves the transportation needs of the community. Intersecting in Defiance are state routes 18, 15, 66, 281, 424 and 111, and U.S. 24, a major route between Fort Wayne and Toledo.

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

The City of Defiance has taken a proactive approach to developing new industry. In particular, Enterprise Park on the west side of Defiance offers an excellent site for manufacturing, warehousing, service business, or office needs. It consists of 750 acres which has access to two gas service providers as well as feasibility of two railroads servicing the site. The City continues to attract interest by introducing new incentives through tax increment financing, enterprise zone agreements, revolving loans and in cooperation with the Defiance County Economic Development Office.

Recently, the Ohio Department of Transportation has committed to providing a connector road from West High Street to Ralston Avenue as part of the U.S. 24 improvements that they anticipate will take place over the next 3 to 5 years. This road will further the development of the existing Olsen Enterprise Park by allowing easier access to U.S. 24. It will also provide access to currently land locked properties owned by the City of Defiance and private enterprise which has already prompted growing interest in the area.

While the City of Defiance is poised for significant positive economic changes, over the past two years the City of Defiance has experienced what many cities across the State of Ohio have experienced. A slowdown in the overall economy decreased funding from the State and Federal levels and a general downsizing in industry have created a poor economic condition for local governments. In 2003, a number of individuals were laid off, budgets were slashed, and projects were eliminated. In 2004, a hiring freeze was implemented, further budget cuts were made, and many projects were abolished.

In August of 2004, the City of Defiance was unsuccessful in passing an additional three-tenths percent tax for general purposes. Decisions were made to lay off five firefighters and to transfer dispatching to the E911 center in hopes to eliminate the gap between the revenues and expenses.

Contacting the City's Financial Management

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Rebecca Snow, Finance Director, City of Defiance, 631 Perry Street, Defiance, Ohio 43512.

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**CITY OF DEFIANCE
DEFIANCE COUNTY**

**STATEMENT OF NET ASSETS
DECEMBER 31, 2003**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 3,323,748	\$ 4,049,716	\$ 7,373,464
Investments	313,899	-	313,899
Receivables:			
Income taxes	1,412,304	-	1,412,304
Property and other local taxes	837,075	-	837,075
Accounts	168,568	259,458	428,026
Loans	954,374	-	954,374
Special assessments	694,436	118,338	812,774
Due from other governments	613,374	1,831	615,205
Materials and supplies inventory	47,186	116,743	163,929
Prepayments	75,802	-	75,802
Internal balance	(35,339)	35,339	-
Restricted assets:			
Equity in pooled cash and cash equivalents	-	182,915	182,915
Capital assets:			
Land and construction-in-progress	1,243,358	1,191,003	2,434,361
Depreciable capital assets, net	4,442,192	39,310,529	43,752,721
<i>Total capital assets</i>	<u>5,685,550</u>	<u>40,501,532</u>	<u>46,187,082</u>
<i>Total assets</i>	<u>14,090,977</u>	<u>45,265,872</u>	<u>59,356,849</u>
Liabilities:			
Accounts payable	\$ 107,518	\$ 123,384	\$ 230,902
Contracts payable	-	52,234	52,234
Accrued wages and benefits	176,231	68,995	245,226
Due to other governments	308,812	98,669	407,481
Due to claimants	26,522	-	26,522
Accrued interest payable	11,600	61,928	73,528
Deferred revenue	752,200	-	752,200
Utility deposits payable		182,915	182,915
Bond anticipation notes payable	835,000	1,924,000	2,759,000
Long-term liabilities:			
Due within one year	1,130,744	1,279,450	2,410,194
Due in more than one year	1,076,660	25,043,096	26,119,756
<i>Total liabilities</i>	<u>4,425,287</u>	<u>28,834,671</u>	<u>33,259,958</u>
Net assets:			
Invested in capital assets, net of related debt	3,306,273	12,512,562	15,818,835
Restricted for:			
Capital projects	894,284	-	894,284
Debt service	1,212,839	-	1,212,839
Other purposes	2,166,227	-	2,166,227
Unrestricted	2,086,067	3,918,639	6,004,706
<i>Total net assets</i>	<u>\$ 9,665,690</u>	<u>\$ 16,431,201</u>	<u>\$ 26,096,891</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General government	\$ 2,379,094	\$ 301,901	\$ 517,736	\$ 20,871
Security of persons and property	4,743,623	1,129,641	91,600	-
Public health and welfare	235,403	26,448	-	-
Transportation	887,323	-	555,928	-
Community environment	429,946	148,489	-	-
Leisure time activity	806,178	45,641	-	-
Economic development	38,851	4,554	-	-
Intergovernmental	5,703	-	-	-
Other	5,000	-	-	-
Interest and fiscal charges	72,507	-	-	-
<i>Total governmental activities</i>	<u>9,603,628</u>	<u>1,656,674</u>	<u>1,165,264</u>	<u>20,871</u>
Business-type Activities:				
Water	3,515,971	3,400,764	-	312,900
Sewer	3,637,857	3,658,131	-	-
Other	535,534	572,514	-	-
<i>Total business-type activities</i>	<u>7,689,362</u>	<u>7,631,409</u>	<u>-</u>	<u>312,900</u>
<i>Total primary government</i>	<u>\$ 17,292,990</u>	<u>\$ 9,288,083</u>	<u>\$ 1,165,264</u>	<u>\$ 333,771</u>

General Revenues:

Income taxes levied for:

 General purposes

 Special purposes

 Capital purposes

Property taxes levied for:

 General purposes

 Special purposes

Grants and entitlements not restricted to specific programs

Gain on sale of capital assets

Investment earnings

Miscellaneous

Total general revenues

Change in net assets

Net assets at beginning of year (restated)

Net assets at end of year

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Net Revenue (Expense) and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (1,538,586)	\$ -	\$ (1,538,586)
(3,522,382)	-	(3,522,382)
(208,955)	-	(208,955)
(331,395)	-	(331,395)
(281,457)	-	(281,457)
(760,537)	-	(760,537)
(34,297)	-	(34,297)
(5,703)	-	(5,703)
(5,000)	-	(5,000)
(72,507)	-	(72,507)
(6,760,819)	-	(6,760,819)
-	197,693	197,693
-	20,274	20,274
-	36,980	36,980
-	254,947	254,947
(6,760,819)	254,947	(6,505,872)
4,331,820	-	4,331,820
24,050	-	24,050
1,306,077	-	1,306,077
549,548	-	549,548
304,959	-	304,959
691,903	-	691,903
190,774	-	190,774
74,251	38,817	113,068
439,148	362,350	801,498
7,912,530	401,167	8,313,697
1,151,711	656,114	1,807,825
8,513,979	15,775,087	24,289,066
\$ 9,665,690	\$ 16,431,201	\$ 26,096,891

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2003**

	General	Capital Improvements	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in pooled cash and cash equivalents	\$ 302,008	\$ 1,413,578	\$ 1,503,259	\$ 3,218,845
Investments	313,899	-	-	313,899
Receivables:				
Income taxes	1,079,209	325,390	7,705	1,412,304
Property and other local taxes	644,200	-	192,875	837,075
Accounts	92,306	-	57,288	149,594
Loans	-	-	954,374	954,374
Special assessments	-	-	694,436	694,436
Prepayments	75,802	-	-	75,802
Due from other funds	10,654	-	-	10,654
Due from other governments	314,445	-	298,929	613,374
Materials and supplies inventory	7,612	-	39,574	47,186
<i>Total assets</i>	<u>\$ 2,840,135</u>	<u>\$ 1,738,968</u>	<u>\$ 3,748,440</u>	<u>\$ 8,327,543</u>
Liabilities:				
Accounts payable	\$ 82,204	\$ 8,640	\$ 16,674	\$ 107,518
Accrued wages and benefits	158,390	-	17,841	176,231
Compensated absences payable	37,788	-	-	37,788
Due to other funds	-	-	10,654	10,654
Due to other governments	266,308	-	42,504	308,812
Accrued interest payable	-	1,044	-	1,044
Bond anticipation note payable	-	835,000	-	835,000
Due to claimants	26,522	-	-	26,522
Deferred revenue	900,262	29,436	1,048,626	1,978,324
<i>Total liabilities</i>	<u>1,471,474</u>	<u>874,120</u>	<u>1,136,299</u>	<u>3,481,893</u>
Fund balances:				
Reserved for encumbrances	206,634	1,086,508	73,056	1,366,198
Reserved for materials and supplies inventory	7,612	-	39,574	47,186
Reserved for prepayments	75,802	-	-	75,802
Reserved for loans	-	-	954,374	954,374
Reserved for noncurrent investments	313,899	-	-	313,899
Unreserved undesignated (deficit), reported in:				
General fund	764,714	-	-	764,714
Special revenue funds	-	-	958,607	958,607
Debt service funds	-	-	586,530	586,530
Capital projects funds	-	(221,660)	-	(221,660)
<i>Total fund balances</i>	<u>1,368,661</u>	<u>864,848</u>	<u>2,612,141</u>	<u>4,845,650</u>
<i>Total liabilities and fund balances</i>	<u>\$ 2,840,135</u>	<u>\$ 1,738,968</u>	<u>\$ 3,748,440</u>	<u>\$ 8,327,543</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2003**

Total governmental fund balances \$ 4,845,650

*Amounts reported for governmental activities
on the statement of net assets are different because:*

Capital assets used in governmental activities
are not financial resources and therefore are not
reported in the funds. 5,685,550

Other long-term assets are not available to pay for current period
expenditures and therefore are deferred in the funds.

Income tax	\$ 129,836
Property and other local taxes	48,000
Special assessments	694,436
Intergovernmental	<u>353,852</u>

Total 1,226,124

An internal service fund is used by management to charge the costs
of health care to individual funds. The assets and
liabilities of the internal service fund is included in governmental
activities on the statement of net assets. The net assets of the
internal service fund, including an internal balance of \$(35,339), are: 88,538

Long-term liabilities, including bonds payable, are not due and payable
in the current period and therefore are not reported in the funds. The
long-term liabilities are as follows:

General obligation bonds	(290,000)
Special assessment bonds	(618,154)
Bond anticipation notes	(760,000)
Compensated absences	(501,462)
Accrued interest	<u>(10,556)</u>

Total (2,180,172)

Net assets of governmental activities \$ 9,665,690

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF DEFIANCE
DEFIANCE COUNTY**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003

	General	Capital Improvements	Other Governmental Funds	Total Governmental Funds
Revenues:				
Income taxes	\$ 4,261,110	\$ 1,284,757	\$ 21,413	\$ 5,567,280
Property and other local taxes	528,048	-	304,959	833,007
Charges for services	583,127	-	4,554	587,681
Licenses, permits and fees	166,910	-	117,387	284,297
Fines and forfeitures	688,600	-	96,096	784,696
Intergovernmental	638,616	20,871	1,176,475	1,835,962
Special assessments	-	-	135,015	135,015
Investment income	31,178	-	42,384	73,562
Other	99,879	72,858	266,411	439,148
<i>Total revenues</i>	<u>6,997,468</u>	<u>1,378,486</u>	<u>2,164,694</u>	<u>10,540,648</u>
Expenditures:				
Current:				
General government	2,084,942	-	191,058	2,276,000
Security of persons and property	3,809,314	-	621,918	4,431,232
Public health and welfare	139,110	-	-	139,110
Transportation	-	-	698,651	698,651
Community environment	382,559	-	-	382,559
Leisure time activity	475,334	-	-	475,334
Economic development and assistance	-	-	38,851	38,851
Other	-	-	5,000	5,000
Intergovernmental	-	-	5,703	5,703
Capital outlay	-	1,442,237	658,588	2,100,825
Debt service:				
Principal retirement	762,388	-	96,967	859,355
Interest and fiscal charges	10,520	1,044	61,692	73,256
Note issuance costs	-	2,321	-	2,321
<i>Total expenditures</i>	<u>7,664,167</u>	<u>1,445,602</u>	<u>2,378,428</u>	<u>11,488,197</u>
<i>Excess (deficiency) of revenues over (under) expenditures</i>	<u>(666,699)</u>	<u>(67,116)</u>	<u>(213,734)</u>	<u>(947,549)</u>
Other financing sources (uses):				
Proceeds of notes	760,000	-	-	760,000
Premium on notes	-	2,471	-	2,471
Transfers in	200,000	-	470,612	670,612
Transfers out	(470,612)	-	(200,000)	(670,612)
Proceeds from sale of capital assets	203,626	-	-	203,626
<i>Total other financing sources (uses)</i>	<u>693,014</u>	<u>2,471</u>	<u>270,612</u>	<u>966,097</u>
<i>Net change in fund balances</i>	26,315	(64,645)	56,878	18,548
<i>Fund balances at beginning of year (restated)</i>	1,342,346	929,493	2,555,263	4,827,102
<i>Fund balances at end of year</i>	<u>\$ 1,368,661</u>	<u>\$ 864,848</u>	<u>\$ 2,612,141</u>	<u>\$ 4,845,650</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF DEFIANCE
DEFIANCE COUNTY**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2003

Net Change in Fund Balances - Total Governmental Funds	\$ 18,548
 <i>Amounts reported for governmental activities in the statement of activities are different because</i>	
Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays \$1,336,374 exceeded depreciation expense \$437,414 in the current period.	898,960
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	(12,852)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund statement.	23,228
Proceeds of notes are reported as an other financing source in the governmental funds, but as an increase in liabilities in governmental activities.	(760,000)
Repayment of bonds and notes principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	859,355
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	599
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	31,731
The internal service fund used by management to charge the costs of health care to individual funds is not reported in the statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund, including an internal balance of \$(35,339), is allocated among the governmental activities.	92,142
<i>Change in net assets of governmental activities</i>	<u><u>\$ 1,151,711</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF DEFIANCE
DEFIANCE COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2003

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Income taxes	\$ 3,927,097	\$ 4,164,675	\$ 4,189,129	\$ 24,454
Property and other local taxes	423,796	449,434	528,048	78,614
Charges for services	600,132	636,438	640,175	3,737
Licenses, permits and fees	156,470	165,936	166,910	974
Fines and forfeitures	645,306	684,345	688,363	4,018
Intergovernmental	813,813	863,047	868,114	5,067
Investment income	29,269	31,040	31,222	182
Other	58,548	62,090	62,455	365
<i>Total revenues</i>	<u>6,654,431</u>	<u>7,057,005</u>	<u>7,174,416</u>	<u>117,411</u>
Expenditures:				
Current:				
General government	1,929,670	2,323,099	2,395,550	(72,451)
Security of persons and property	3,926,784	3,926,784	3,935,165	(8,381)
Public health and welfare	170,773	170,773	141,022	29,751
Community environment	476,074	519,074	463,566	55,508
Leisure time activity	523,667	523,667	488,441	35,226
Economic development and assistance	33,000	35,500	263	35,237
Other	1,000	1,000	390	610
Debt service:				
Principal retirement	760,000	760,000	760,000	-
Interest and fiscal charges	15,064	15,064	15,064	-
<i>Total expenditures</i>	<u>7,836,032</u>	<u>8,274,961</u>	<u>8,199,461</u>	<u>75,500</u>
<i>Deficiency of revenues under expenditures</i>	<u>(1,181,601)</u>	<u>(1,217,956)</u>	<u>(1,025,045)</u>	<u>192,911</u>
Other financing sources (uses):				
Proceeds from sale of capital assets	190,889	202,437	203,626	1,189
Proceeds from sale of notes	714,483	757,707	762,156	4,449
Transfers in	187,490	198,833	200,000	1,167
Transfers out	(392,700)	(397,000)	(470,612)	(73,612)
Other financing sources	319,207	338,518	340,506	1,988
<i>Total other financing sources (uses)</i>	<u>1,019,369</u>	<u>1,100,495</u>	<u>1,035,676</u>	<u>(64,819)</u>
<i>Net change in fund balance</i>	<u>(162,232)</u>	<u>(117,461)</u>	<u>10,631</u>	<u>128,092</u>
<i>Fund balance at beginning of year (restated)</i>	167,454	167,454	167,454	-
<i>Prior year encumbrances appropriated</i>	224,072	224,072	224,072	-
<i>Fund balance at end of year</i>	<u>\$ 229,294</u>	<u>\$ 274,065</u>	<u>\$ 402,157</u>	<u>\$ 128,092</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2003**

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Fund
	Water	Sewer	Other	Total	
Assets:					
Current assets:					
Equity in pooled cash and cash equivalents	\$ 1,448,975	\$ 2,350,518	\$ 250,223	\$ 4,049,716	\$ 104,903
Receivables (net of allowance for uncollectibles):					
Accounts	110,442	131,480	17,536	259,458	18,974
Special assessments	-	118,338	-	118,338	-
Materials and supplies inventory	110,691	6,052	-	116,743	-
Due from other governments	1,831	-	-	1,831	-
<i>Total current assets</i>	1,671,939	2,606,388	267,759	4,546,086	123,877
Noncurrent assets:					
Restricted equity in pooled cash	-	-	182,915	182,915	-
Capital assets:					
Land and construction-in-progress	280,965	910,038	-	1,191,003	-
Depreciable capital assets, net	19,118,095	20,192,434	-	39,310,529	-
Total capital assets	19,399,060	21,102,472	-	40,501,532	-
<i>Total noncurrent assets</i>	19,399,060	21,102,472	182,915	40,684,447	-
<i>Total assets</i>	21,070,999	23,708,860	450,674	45,230,533	123,877
Liabilities:					
Current liabilities:					
Accounts payable	66,995	56,389	-	123,384	-
Contracts payable	-	52,234	-	52,234	-
Accrued wages and benefits	38,064	30,931	-	68,995	-
Compensated absences payable	54,864	47,840	-	102,704	-
Due to other governments	53,860	44,809	-	98,669	-
Bond anticipation notes payable	113,000	1,811,000	-	1,924,000	-
General obligations payable - current	375,000	-	-	375,000	-
OPWC loans payable - current	57,498	10,710	-	68,208	-
Special assessment bonds payable - current	-	4,888	-	4,888	-
Accrued interest payable	49,915	12,013	-	61,928	-
OWDA loans payable - current	-	728,614	-	728,614	-
<i>Total current liabilities</i>	809,196	2,799,428	-	3,608,624	-

(Continued)

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2003
(Continued)**

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Fund
	Water	Sewer	Other	Total	
Current liabilities payable from restricted assets:					
Utility deposits payable			182,915	182,915	-
<i>Total current liabilities payable from restricted assets</i>	-	-	182,915	182,915	-
Noncurrent liabilities:					
Compensated absences	83,212	71,660	-	154,872	-
General obligation bonds payable	11,625,000	-	-	11,625,000	-
Special assessment bonds payable	-	130,013	-	130,013	-
OPWC loans payable	822,106	165,999	-	988,105	-
OWDA loans payable	-	12,145,142		12,145,142	
<i>Total noncurrent liabilities</i>	12,530,318	12,512,814	-	25,043,132	-
<i>Total liabilities</i>	13,339,514	15,312,242	182,915	28,834,671	-
Net assets:					
Invested in capital assets, net of related debt	6,406,456	6,106,106	-	12,512,562	-
Unrestricted	1,325,029	2,290,512	267,759	3,883,300	123,877
Total net assets	<u>\$ 7,731,485</u>	<u>\$ 8,396,618</u>	<u>\$ 267,759</u>	16,395,862	<u>\$ 123,877</u>
Adjustment to reflect the consolidation of the internal service fund activity related to enterprise funds				35,339	
Net assets of business-type activities				<u>\$ 16,431,201</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Fund
	Water	Sewer	Other	Total	
Operating revenues:					
Charges for services	\$ 3,327,604	\$ 3,649,003	\$ 572,514	\$ 7,549,121	\$ 1,556,437
Tap-in fees	73,140	-	-	73,140	-
Other	20	9,128	-	9,148	-
<i>Total operating revenues</i>	<u>3,400,764</u>	<u>3,658,131</u>	<u>572,514</u>	<u>7,631,409</u>	<u>1,556,437</u>
Operating expenses:					
Personal services	1,371,221	1,081,847	-	2,453,068	-
Contractual services	8,833	96,925	-	105,758	-
Materials and supplies	481,979	380,092	-	862,071	-
Administrative costs	152,427	196,442	-	348,869	-
Utilities expense	239,913	259,877	535,534	1,035,324	-
Claims expense	-	-	-	-	1,429,645
Depreciation	549,723	843,248	-	1,392,971	-
Other	2,183	38,832	-	41,015	-
<i>Total operating expenses</i>	<u>2,806,279</u>	<u>2,897,263</u>	<u>535,534</u>	<u>6,239,076</u>	<u>1,429,645</u>
<i>Operating income</i>	<u>594,485</u>	<u>760,868</u>	<u>36,980</u>	<u>1,392,333</u>	<u>126,792</u>
Nonoperating revenues (expenses):					
Interest revenue	17,257	21,560	-	38,817	689
Interest and fiscal charges	(729,498)	(756,127)	-	(1,485,625)	-
Intergovernmental	13,364	244,921	-	258,285	-
Other nonoperating revenue	104,065	-	-	104,065	-
<i>Total nonoperating revenues (expenses)</i>	<u>(594,812)</u>	<u>(489,646)</u>	<u>-</u>	<u>(1,084,458)</u>	<u>689</u>
<i>Net income before capital contributions</i>	<u>(327)</u>	<u>271,222</u>	<u>36,980</u>	<u>307,875</u>	<u>127,481</u>
Capital contributions	312,900	-	-	312,900	-
<i>Changes in net assets</i>	<u>312,573</u>	<u>271,222</u>	<u>36,980</u>	<u>620,775</u>	<u>127,481</u>
<i>Net assets at beginning of year (restated)</i>	<u>7,418,912</u>	<u>8,125,396</u>	<u>230,779</u>		<u>(3,604)</u>
<i>Net assets at end of year</i>	<u>\$ 7,731,485</u>	<u>\$ 8,396,618</u>	<u>\$ 267,759</u>		<u>\$ 123,877</u>
<i>Adjustment to reflect the consolidation of the internal service fund activity related to enterprise funds</i>				<u>35,339</u>	
<i>Change in net assets of business-type activities</i>				<u>\$ 656,114</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Business-type Activities - Enterprise Funds				Governmental Activities -
	Water	Sewer	Other	Total	Internal Service Fund
Cash flows from operating activities:					
Cash received from charges for services	\$3,434,925	\$3,576,621	\$ 599,073	\$7,610,619	\$ 1,554,982
Cash received from tap-in fees	73,140	-	-	73,140	-
Cash received from other operations	20	9,128	-	9,148	-
Cash payments for personal services	(1,370,087)	(1,072,394)	-	(2,442,481)	-
Cash payments for contractual services	(13,103)	(97,115)	-	(110,218)	-
Cash payments for administrative costs	(152,104)	(180,435)	-	(332,539)	(1,450,769)
Cash payments for materials and supplies	(476,766)	(360,494)	-	(837,260)	-
Cash payments for utilities expense	(242,367)	(256,032)	(547,832)	(1,046,231)	-
Cash payments for other expenses	(1,802)	(39,034)	-	(40,836)	-
<i>Net cash provided by operating activities</i>	<u>1,251,856</u>	<u>1,580,245</u>	<u>51,241</u>	<u>2,883,342</u>	<u>104,213</u>
Cash flows from noncapital financing activities:					
Cash received from nonoperating revenues	104,065	-	-	104,065	-
Cash received from operating grants	11,533	244,334	-	255,867	-
<i>Net cash provided by noncapital financing activities</i>	<u>115,598</u>	<u>244,334</u>	<u>-</u>	<u>359,932</u>	<u>-</u>
Cash flows from capital and related financing activities:					
Cash payments for the acquisition of capital assets	(794,439)	(586,436)	-	(1,380,875)	-
Cash received from capital contributions	312,900	-	-	312,900	-
Cash received from proceeds of notes	113,000	1,815,800	-	1,928,800	-
Cash payments for principal retirement	(724,035)	(2,800,352)	-	(3,524,387)	-
Cash payments for interest and fiscal charges	(735,436)	(793,055)	-	(1,528,491)	-
<i>Net cash used in capital and related financing activities</i>	<u>(1,828,010)</u>	<u>(2,364,043)</u>	<u>-</u>	<u>(4,192,053)</u>	<u>-</u>
Cash flows from investing activities:					
Cash received from interest earned	17,257	21,560	-	38,817	689
<i>Net cash provided by investing activities</i>	<u>17,257</u>	<u>21,560</u>	<u>-</u>	<u>38,817</u>	<u>689</u>
Net increase (decrease) in cash and cash equivalents	(443,299)	(517,904)	51,241	(909,962)	104,902
<i>Cash and cash equivalents at beginning of year</i>	<u>1,892,274</u>	<u>2,868,422</u>	<u>381,897</u>	<u>5,142,593</u>	<u>1</u>
<i>Cash and cash equivalents at end of year</i>	<u><u>\$1,448,975</u></u>	<u><u>\$2,350,518</u></u>	<u><u>\$ 433,138</u></u>	<u><u>\$4,232,631</u></u>	<u><u>\$ 104,903</u></u>

(Continued)

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

	Business-type Activities - Enterprise Funds				Governmental Activities -
	Water	Sewer	Other	Total	Internal Service Fund
Reconciliation of operating income to net cash provided by operating activities:					
Operating income	\$ 594,485	\$ 760,868	\$ 36,980	\$1,392,333	\$ 126,792
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	549,723	843,248	-	1,392,971	-
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable	9,590	45,956	6,534	62,080	(1,455)
Increase in special assessments receivable	-	(118,338)	-	(118,338)	-
(Increase) decrease in materials and supplies inventory	11,408	(1,569)	-	9,839	-
Increase in due from other governments	98,320	588	-	98,908	-
Increase (decrease) in accounts payable	(12,215)	28,959	150	16,894	-
Increase in contracts payable	-	11,455	-	11,455	-
Decrease in accrued wages and benefits	(10,457)	(5,440)	-	(15,897)	-
Decrease in compensated absences payable	(9,207)	(18)	-	(9,225)	-
Increase in due to other governments	20,798	15,124	-	35,922	-
Decrease in deferred revenue	(589)	(588)	-	(1,177)	-
Decrease in claims payable				-	(21,124)
Increase in utility deposits payable	-	-	7,727	7,727	-
<i>Net cash provided by operating activities</i>	<u>\$1,251,856</u>	<u>\$1,580,245</u>	<u>\$ 51,391</u>	<u>\$2,883,492</u>	<u>\$ 104,213</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
DECEMBER 31, 2003**

	<u>Agency</u>
Assets:	
Cash with fiscal and escrow agent	<u>\$ 31,988</u>
<i>Total assets</i>	<u><u>\$ 31,988</u></u>
Liabilities:	
Due to other governments	<u>\$ 31,988</u>
<i>Total liabilities</i>	<u><u>\$ 31,988</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003**

NOTE 1 - DESCRIPTION OF THE CITY

The City of Defiance, Defiance County, (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 basic financial statements (BFS) of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds 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

For financial reporting purposes, the City's BFS include all funds, agencies, boards, commissions, and departments for which the City is financially accountable. Financial accountability, as defined by the GASB, exists if the City appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the City. The City may also be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the City. The City also took into consideration other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's basic financial statements to be misleading or incomplete. Based upon the foregoing criteria, the City has no component units.

The primary government consists of all funds, agencies, departments, and offices that are not legally separate from the City. The primary government includes the City departments and agencies that provide the following services: police protection, fire fighting and

**CITY OF DEFIANCE
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

prevention, emergency medical services, street maintenance and repair, parks and recreation, wastewater, water, public service and planning and zoning.

The following organizations are described due to its relationship with 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. In 2003, the City paid \$125,106 to MVPO.

MVPO is governed by a Board consisting of fifteen members. The Board is made up of one County Commissioner from each member County as well as one township representative and one municipal representative for each of the five member counties. The main sources of revenue are fees charged by MVPO to administer CDBG grants and a per capita amount from each City.

Noble Township - City of Defiance Joint Economic Development District

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

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

**CITY OF DEFIANCE
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

JOINT VENTURE WITHOUT EQUITY INTEREST

Multi-Area Narcotics Task Force (MANTF)

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

The main source of revenue for the MANTF is from federal grants and local matching shares by the entities. The City has no ongoing financial responsibility to the MANTF. The City has indirect access to the net resources of the MANTF since the City is able to influence the MANTF to use its surplus resources to undertake projects of interest to the City's residents. This access to the net resources of the Board has not been explicitly defined, nor is it currently measurable. The City contributed \$6,600 to the MANTF in 2003. 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 \$35,000 in payments to the Corporation in 2003. The City's degree of control over the Board is limited to its representation on the Board.

**CITY OF DEFIANCE
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

RELATED ORGANIZATION

Defiance Public Library

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

B. Basis of Presentation - Fund Accounting

The City's (BFS) consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activities of the internal service fund are eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a

**CITY OF DEFIANCE
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental functions are self-financing or draw from the general revenues of the City.

FUND FINANCIAL STATEMENTS

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the City's proprietary funds are charges for services. Operating expenses from the enterprise funds include personnel and other expenses related to sewer, water, refuse, and utility deposits and operating expenses for the internal service fund include claims and administrative expenses. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

The agency funds do not report a measurement focus as they do not report operations.

C. Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental

**CITY OF DEFIANCE
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

General Fund - The general fund accounts for all financial resources except those required to be accounted for in another fund.

Capital Improvements Fund - The capital improvements fund accounts for resources used to purchase equipment and construct capital assets.

Other governmental funds of the City are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary funds; and (c) for grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUNDS

Proprietary fund reporting focuses on changes in net assets, financial position, and cash flows. Proprietary funds are classified as either enterprise or internal service.

Enterprise Funds - The enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds:

Sewer Fund - This fund accounts for the provision of sanitary sewer service to the residents and commercial users located within the City.

Water Fund - This fund accounts for the provision of water treatment and distribution to its residential and commercial users located within the City.

Internal Service Fund - The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The City's internal service fund is used to account for employee health insurance.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds,

**CITY OF DEFIANCE
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's only fiduciary funds are agency funds.

D. Measurement Focus and Basis of Accounting

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net assets.

FUND FINANCIAL STATEMENTS

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the financial statements for governmental funds.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

E. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis

**CITY OF DEFIANCE
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

of accounting. Proprietary and agency funds also use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

REVENUES - EXCHANGE AND NON-EXCHANGE TRANSACTIONS

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

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, state-levied locally shared taxes (including gasoline tax, local government funds and permissive tax), fines and forfeitures, fees and special assessments.

DEFERRED REVENUE

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

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Property taxes for which there is an enforceable legal claim as of December 31, 2003, but which were levied to finance year 2004 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

EXPENSES/EXPENDITURES

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

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

F. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code 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 ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The legal level of budgetary control is at the fund level. Budgetary modifications may only be made by resolution of the City Council at the legal level of control.

TAX BUDGET

During the first Council meeting in July, the Mayor presents the following fiscal year's annual operating budget to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

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ESTIMATED RESOURCES

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The 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. 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 appropriations measure. On or about January 1, the certificate of estimated resources is amended to include encumbered cash balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimates need to be either increased or decreased. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2003.

APPROPRIATIONS

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the fund, department, and object level. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The appropriations for a fund may only be modified during the year by an ordinance of Council. The amounts on the budgetary statement reflect the final appropriation amounts, including all amendments and modifications legally enacted by Council.

LAPSING OF APPROPRIATIONS

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. Encumbrances are carried forward and are not reappropriated as part of the subsequent year appropriations.

**CITY OF DEFIANCE
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

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. The City incurred no expenditures or revenues in providing these services. The participating former employees make premium payments directly to the City's Insurance Provider and the Provider is responsible for all claims.

H. 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 "Investment" on the combined balance sheet.

During fiscal year 2003, investments were limited to STAR Ohio, mutual funds, and the City's own bonds.

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

The City has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2003. 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, 2003.

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 2003:

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)

	Interest Actually Received	Interest Based Upon Share of Cash Fund Balance	Interest Assigned by Other Funds
	<u> </u>	<u> </u>	<u> </u>
General Fund	\$ 31,178	\$ 4,186	\$ 26,992
Nonmajor Governmental Funds			
State Highway Improvement Fund	744	281	463
Street Construction, Maintenance, and Repair Fund	744	135	609
Cable TV Contract Fund	744	504	240
Termination Benefits Fund	744	204	540
Enterprise Fund			
Water	17,257	15,736	1521
Internal Service Fund			
Health Care Trust	689	494	195

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

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the City's investment account at year-end is provided in Note 4.

I. Restricted Assets

Customer deposits are classified as restricted assets because these funds are being held for specified purposes.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

J. Inventories of Materials and Supplies

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption.

K. Capital Assets

Governmental capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. During fiscal 2003, the City increased its capitalization threshold from \$500 to \$2,500 (see Note 9 for details). The City's infrastructure consists of roads, bridges, culverts, and sanitary sewers. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacements. Depreciation is computed using the straight-line method over the following useful lives:

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-type Activities Estimated Lives</u>
Improvements other than buildings	15 - 30 years	N/A
Land improvements	N/A	15 - 30 years
Buildings and improvements	15 - 45 years	30 - 50 years
Furniture and equipment	10 - 30 years	10 - 30 years
Infrastructure	30 years	50 years
Vehicles	6 - 15 years	6 - 15 years

Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The City's policy is to capitalize net interest on construction projects until substantial completion of the project. The amount of capitalized interest equals the difference between the interest cost associated with the tax-exempt borrowing used to finance the project from the date of borrowing until completion of the project and the interest earned from temporary investment of the debt proceeds over the same period.

Capitalized interest is amortized on the straight-line method over the estimated useful life of the asset. For 2003, the net interest expense incurred on proprietary fund construction projects was not material.

L. 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 conformity with GASB Statement No. 16, "Accounting for Compensated Absences", vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability is based on the sick leave accumulated at December 31 by those employees who are currently eligible to receive termination payments and by those employees for whom it is probable they will become eligible to receive termination benefits in the future.

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)

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 provision 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 resigned 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.

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. City employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is reimbursed for accumulated vacation and sick leave at various rates.

The entire compensated absence liability is reported on the government-wide financial statements.

On governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported. For proprietary funds, the entire amount of compensated absences is reported as a fund liability.

M. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

N. Prepayments

Payments made to vendors for services that will benefit periods beyond December 31, 2003, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

O. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “due to/from other funds.” These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

P. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the BFS.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

Q. 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 a reservation of fund balance for amounts representing encumbrances outstanding, materials and supplies inventory, prepayments, loans, and noncurrent investments in the governmental fund financial statements.

R. Estimates

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

S. Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction. Capital contributions are reported as revenue in the proprietary fund financial statements.

T. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

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U. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for sewer, water, refuse, and utility deposits programs. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

V. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2003.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2003, the City has implemented GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statement*". At December 31, 2002, there was no effect on fund balance as a result of implementing GASB Statement Nos. 37 and 38.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes, and rescinds certain financial statement note disclosures.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

GASB 34 creates new basic financial statements for reporting on the City's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the City's programs between business-type and governmental activities. Except for the restatement explained below, the beginning net asset amount for the business-type activities equals fund equity of the enterprise funds from last year. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at December 31, 2002, the elimination of the internal service fund, and the conversion to the accrual basis of accounting.

In addition to implementing GASB Statement No. 34, the City switched from the purchase method to the consumption method of accounting for inventory of materials and supplies. This change in accounting principle had no effect on fund balance at December 31, 2002.

Governmental Activities - Restatement of Fund Balance

Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Standards of GASB Statement No. 34. It was also determined that GASB Interpretation No. 6 had an effect on fund balances as previously reported at December 31, 2002. The implementation of GASB Interpretation No. 6 and fund reclassifications had the following effect on the City's governmental fund balances as previously reported.

	<u>General</u>	<u>Capital Improvement</u>	<u>Other Governmental</u>	<u>Total</u>
Fund balance				
December 31, 2002	\$ 1,319,396	\$ 929,493	\$ 2,550,663	\$ 4,799,552
Fund reclassification	-	-	4,600	4,600
GASB Interpretation No. 6 adjustments	<u>22,950</u>	<u>-</u>	<u>-</u>	<u>22,950</u>
Restated fund balance				
January 1, 2003	<u>\$ 1,342,346</u>	<u>\$ 929,493</u>	<u>\$ 2,555,263</u>	<u>\$ 4,827,102</u>

The transition from governmental fund balance to net assets of the governmental activities is also presented.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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Restated fund balance, December 31, 2002	\$ 4,827,102
GASB Statement No. 34 adjustments:	
Capital assets	4,799,442
Internal service funds	(3,604)
Long-term liabilities	(2,311,857)
Long-term (deferred assets)	1,202,896
Governmental activities net, December 31, 2002	\$ 8,513,979

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund

The general fund unencumbered fund balance at the beginning of the year has been restated from \$140,644 to \$167,454 due to a fund reclassification to properly reflect its intended purpose in accordance with GASB Statement No. 34.

Statement of Net Assets – Proprietary Funds

During 2003, the City determined that Utility Deposits Payable were understated by \$175,188 as of December 31, 2002. This correction resulted in an increase of \$13,561 in amounts previously reported as net income for the year ending December 31, 2002.

Business-type Activities	Water	Sewer	Nonmajor Enterprise Funds	Total Enterprise Funds
Fund equity at December 31, 2002	\$ 10,920,410	\$ 8,684,089	\$ 405,967	\$ 20,010,466
Adjustment for Utilities Deposits Payable	-	-	(175,188)	(175,188)
Adjustment for capital assets	(3,501,498)	(558,693)	-	(4,060,191)
Restated net assets at January 1, 2003	\$ 7,418,912	\$ 8,125,396	\$ 230,779	\$ 15,775,087

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

Monies 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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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Active moneys must be maintained either as cash in the City treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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7. High grade commercial paper for a period not to exceed 180 days in an amount not to exceed twenty-five percent of the City's interim monies available for investment; and
8. Bankers acceptances for a period not to exceed 180 days and in an amount not to exceed twenty-five percent of the City's interim monies available for investment.

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

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

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

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

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

Deposits: At year-end, the carrying amount of the City's deposits was \$2,244,554 and the bank balance was \$2,431,836. Of the bank balance:

1. \$400,000 was covered by federal depository insurance; and

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2. \$2,031,836 was uninsured and uncollateralized as defined by GASB even though it was covered by collateral held by third party trustees pursuant to § 135.81, Ohio Revised Code, in single institution collateral pools securing all public funds on deposit with specific depository institutions. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

Investments: The City's investments are required to be categorized to give an indication of the level of risk assumed by the City at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the City's name. STAR Ohio (an investment pool operated by the Ohio State Treasurer) is an unclassified investment 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, 2003:

	Category 1	Uncategorized	Reported Amount	Fair Value
Mutual Funds	\$ -	\$ 2,274,679	\$ 2,274,679	\$ 2,274,679
City of Defiance bonds	313,899	-	313,899	313,899
Investment in STAR Ohio	-	3,066,884	3,066,884	3,066,884
Total investments	<u>\$ 313,899</u>	<u>\$ 5,341,563</u>	<u>\$ 5,655,462</u>	<u>\$ 5,655,462</u>

The classification of cash and cash equivalents on the basic financial statements 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 cash and cash equivalents and investments on the basic financial statements (per GASB Statement No. 9) and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

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	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$ 7,588,367	\$ 313,899
Cash on hand	(2,250)	-
Investments of the cash management pool:		
Investment in STAR Ohio	(3,066,884)	3,066,884
Mutual Funds	(2,274,679)	2,274,679
GASB Statement No. 3	\$ 2,244,554	\$ 5,655,462

NOTE 5 - INTERFUND TRANSFERS

- A. Interfund transfers for the year ended December 31, 2003, consisted of the following, as reported in the fund statements:

Transfers to general fund from:	
Nonmajor governmental funds	\$ 200,000
Transfers to nonmajor governmental funds from:	
General fund	470,612
Total	\$ 670,612

- B. At December 31, 2003, the Permissive Tax special revenue fund has a negative cash balance. This fund overdraft of the internal investment pool has been reported as a fund liability.

Due to general fund from:	
Nonmajor governmental funds	\$ 10,654
Total	\$ 10,654

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Taxes collected from real property taxes (other than public utility) in one calendar year are levied in the preceding calendar year on the assessed value as of

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revaluated every six years. The last revaluation was completed in 1999. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by July 20.

Taxes collected on tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values listed on December 31 of the prior year, and at tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30 with the remainder payable by September 20. Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property currently is assessed at 88 percent of its true value; public utility real property is assessed at 35 percent of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Defiance. The County Auditor periodically remits to the City its portion of the taxes collected. The full tax rate for all City operations for the year ended December 31, 2003 was \$10.59 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2002 property tax receipts were based are as follows:

Real property tax	\$ 153,524,200
Public utility tangible personal property	63,225,220
Tangible personal property	<u>53,028,564</u>
 Total assessed valuation	 <u><u>\$ 269,777,984</u></u>

Property taxes receivables represent real and tangible personal property taxes, public utility taxes, and outstanding delinquencies which are measurable as of December 31, 2003. Although total property tax collections for the next year are measurable, they are generally not collected during the available period. The exception to this is any advances received by the City in the first thirty-one days of the year are credited as property tax revenues with the remainder being credited to deferred revenue.

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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 revenues are reported to the extent that it was measurable and available to finance current operations at December 31. Income tax revenue for 2003 was \$5,567,280.

NOTE 8 - RECEIVABLES

Receivables at December 31, 2003, consisted of taxes, 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 BFS. Receivables have been recorded to the extent that they are measurable at December 31, 2003, as well as intended to finance fiscal 2003 operations.

A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:

Income taxes	\$ 1,412,304
Real and other taxes	837,075
Accounts	168,568
Special assessments	694,436
Due from other governments	613,374

Business-type Activities:

Accounts	\$ 259,458
Special assessments	118,338
Due from other governments	1,831

Receivables have been disaggregated on the face of the BFS. The only receivable not expected to be collected within the subsequent year are the special assessments which are collected over the life of the assessment.

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NOTE 9 - CAPITAL ASSETS

- A.** The capital asset balances of the governmental activities and business-type activities have been restated due to the reclassification of improvements to the category improvements other than buildings and due to an increase in the capital asset threshold from \$500 to \$2,500 in governmental activities and business-type activities. Under GASB Statement No. 34, the City has elected to “phase in” the retroactive reporting of governmental infrastructure assets. The City plans to retroactively report governmental infrastructure capital assets in the 2004 basic financial statements. Only governmental infrastructure capital assets acquired or constructed in 2003 are reflected in the basic financial statements for the fiscal year ended December 31, 2003.

	Balance 12/31/02	Adjustments	Restated Balance 12/31/02
Governmental Activities:			
Land	\$ 2,337,563	\$ (1,094,205)	\$ 1,243,358
Improvements other than buildings	-	979,424	979,424
Buildings	4,512,151	(9,991)	4,502,160
Equipment	1,446,427	(294,280)	1,152,147
Vehicles	2,967,450	(695,935)	2,271,515
Less: accumulated depreciation	-	(5,349,162)	(5,349,162)
Total	\$ 11,263,591	\$ (6,464,149)	\$ 4,799,442
Business-type Activities:			
Land	\$ 207,359	\$ 59,741	\$ 267,100
Land improvements	418,348	120,544	538,892
Buildings and improvements	29,963,498	(651,066)	29,312,432
Equipment	4,045,679	(1,729,396)	2,316,283
Vehicles	1,367,325	(584,614)	782,711
Infrastructure	22,899,921	(642,816)	22,257,105
Construction in progress	2,327,484	-	2,327,484
Less: accumulated depreciation	(16,655,795)	(632,584)	(17,288,379)
Total	\$ 44,573,819	\$ (4,060,191)	\$ 40,513,628

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B. Capital asset activity for the year ended December 31, 2003, was as follows:

Governmental Activities:	Restated Balance 12/31/02	Additions	Disposals	Balance 12/31/03
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,243,358	\$ -	\$ -	\$ 1,243,358
Total capital assets, not being depreciated	<u>1,243,358</u>	<u>-</u>	<u>-</u>	<u>1,243,358</u>
<i>Capital assets, being depreciated:</i>				
Buildings	4,502,160	15,365	-	4,517,525
Improvements other than buildings	979,424	-	-	979,424
Equipment	1,152,147	896,122	(17,250)	2,031,019
Vehicles	2,271,515	123,279	(123,925)	2,270,869
Infrastructure	-	301,608	-	301,608
Total capital assets, being depreciated	<u>8,905,246</u>	<u>1,336,374</u>	<u>(141,175)</u>	<u>10,100,445</u>
<i>Less: accumulated depreciation:</i>				
Buildings	(2,542,865)	(126,621)	-	(2,669,486)
Improvements other than buildings	(554,737)	(39,682)	-	(594,419)
Equipment	(603,371)	(118,473)	10,071	(711,773)
Vehicles	(1,648,189)	(147,611)	118,252	(1,677,548)
Infrastructure	-	(5,027)	-	(5,027)
Total accumulated depreciation	<u>(5,349,162)</u>	<u>(437,414)</u>	<u>128,323</u>	<u>(5,658,253)</u>
Total capital assets, being depreciated, net	<u>3,556,084</u>	<u>898,960</u>	<u>(12,852)</u>	<u>4,442,192</u>
Governmental activities capital assets, net	<u>\$ 4,799,442</u>	<u>\$ 898,960</u>	<u>\$ (12,852)</u>	<u>\$ 5,685,550</u>

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(Continued)

Business-type Activities:	Restated Balance 12/31/02	Additions	Disposals	Balance 12/31/03
<i>Capital assets, not being depreciated:</i>				
Land	\$ 267,100	\$ -	\$ -	\$ 267,100
Construction in progress	2,327,484	1,341,384	(2,744,965)	923,903
Total capital assets, not being depreciated	<u>2,594,584</u>	<u>1,341,384</u>	<u>(2,744,965)</u>	<u>1,191,003</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	538,892	250,602	-	789,494
Buildings and improvements	29,312,432	155,259	-	29,467,691
Equipment	2,316,283	5,487	-	2,321,770
Vehicles	782,711	20,085	-	802,796
Infrastructure	22,257,105	2,353,023	-	24,610,128
Total capital assets, being depreciated	<u>55,207,423</u>	<u>2,784,456</u>	<u>-</u>	<u>57,991,879</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(299,413)	(30,237)	-	(329,650)
Buildings and improvements	(5,658,292)	(707,746)	-	(6,366,038)
Equipment	(1,902,204)	(108,480)	-	(2,010,684)
Vehicles	(456,166)	(93,047)	-	(549,213)
Infrastructure	(8,972,304)	(453,461)	-	(9,425,765)
Total accumulated depreciation	<u>(17,288,379)</u>	<u>(1,392,971)</u>	<u>-</u>	<u>(18,681,350)</u>
Total capital assets, being depreciated, net	<u>37,919,044</u>	<u>1,391,485</u>	<u>-</u>	<u>39,310,529</u>
Business-type activities capital assets, net	<u>\$ 40,513,628</u>	<u>\$ 2,732,869</u>	<u>\$ (2,744,965)</u>	<u>\$ 40,501,532</u>

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Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:

General government	\$ 48,238
Security of persons and property	131,874
Public health and welfare	39,924
Transportation	71,785
Community environment	25,951
Leisure time activity	<u>119,642</u>
Total depreciation expense - governmental activities	<u><u>\$ 437,414</u></u>

NOTE 10 - OTHER EMPLOYEE BENEFITS

Compensated Absences

Accumulated Unpaid Vacation

City employees earn vacation leave at varying rates based upon length of service. In the case of death or retirement, an employee (or his estate) is paid for his unused vacation leave. The total obligation for vacation leave for the City as a whole amounted to \$333,694 at December 31, 2003. Amounts are recorded as a fund liability and/or on the government-wide financial statements as applicable.

Accumulated Unpaid Sick Leave

City employees earn sick leave at varying rates based upon length of service. Upon retirement an employee is paid a percentage of his accumulated sick leave within various limits. The total obligation for sick leave accrual for the City as a whole amounted to \$463,132 at December 31, 2003. Amounts are recorded as a fund liability and/or on the government-wide financial statements as applicable.

NOTE 11 - NOTES PAYABLE

The City had the following bond anticipation notes outstanding at December 31, 2003:

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Governmental Activities:	Issue Date	Balance at 01/01/03	Additions	Reductions	Balance at 12/31/03
General Obligation Bond					
Anticipation Notes:					
Capital Improvements Fund	12/24/03	\$ -	\$ 835,000	\$ -	\$ 835,000

On December 24, 2003, the City issued \$835,000 of general obligation bonds anticipation notes for the purpose of improving the streets within the Powell View subdivision. The notes have a maturity date of December 24, 2004.

The City had the following bond anticipation note activity during fiscal year 2003 in the Water and Sewer enterprise funds:

Business-Type Activities	Interest Rate	Issue Date	Maturity Date	Balance 01/01/03	Additions	Reductions	Balance 12/31/03
Sewer Fund							
Sewer improvements	5.18%	07/13/02	07/12/03	\$ 1,936,140	\$ -	\$ (1,936,140)	\$ -
Sewerline construction	5.25%	05/12/02	05/11/03	172,500	-	(172,500)	-
Utilities improvement	1.80%	05/09/03	05/09/04	-	113,000	-	113,000
Sewer improvements	1.25%	07/12/03	07/11/04	-	1,698,000	-	1,698,000
Total Sewer				<u>\$ 2,108,640</u>	<u>\$ 1,811,000</u>	<u>\$ (2,108,640)</u>	<u>\$ 1,811,000</u>
Water Fund							
Water line construction	5.25%	05/12/02	05/11/03	\$ 172,500	\$ -	\$ (172,500)	\$ -
Utilities improvement	1.80%	05/09/03	05/09/04	-	113,000	-	113,000
Total Water				<u>\$ 172,500</u>	<u>\$ 113,000</u>	<u>\$ (172,500)</u>	<u>\$ 113,000</u>

NOTE 12 - LONG-TERM OBLIGATIONS

A. Governmental Activities Long-Term Obligations

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

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<u>Governmental Activities:</u>	<u>Balance</u> <u>12/31/02</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/03</u>	<u>Amounts</u> <u>Due in</u> <u>One Year</u>
Compensated absences payable	\$ 506,919	\$ 272,537	\$ (240,206)	\$ 539,250	\$ 268,777
General obligation bonds payable	315,000	-	(25,000)	290,000	30,000
Special assessment bonds payable	690,121	-	(71,967)	618,154	71,967
Bond anticipation notes payable	<u>762,388</u>	<u>760,000</u>	<u>(762,388)</u>	<u>760,000</u>	<u>760,000</u>
Total	<u>\$ 2,274,428</u>	<u>\$ 1,032,537</u>	<u>\$ (1,099,561)</u>	<u>\$ 2,207,404</u>	<u>\$ 1,130,744</u>

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

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

On July 13, 2000, the City issued \$760,000 in bond anticipation notes to pay costs of acquiring, remodeling, and renovating a building and site to house municipal functions. In 2001, the City issued a \$762,000 bonds anticipation note to retire the previous note and provide funds to continue the construction process. In 2002, the City issued a \$762,388 bond anticipation note to retire the previous note and provide funds to continue the construction process. In 2003, the City issued a \$760,000 bond anticipation note to retire the previous note and provide funds to continue the construction process.

The proceeds of the 2003 issue and the retirement of the 2002 issue are reported in the general fund.

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

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Year	General Obligation Bonds			Special Assessment Bonds			
	Ending	Principal	Interest	Total	Principal	Interest	Total
2004	\$	30,000	\$ 20,155	\$ 50,155	\$ 71,967	\$ 41,986	\$ 113,953
2005		30,000	18,070	48,070	72,967	37,026	109,993
2006		35,000	15,985	50,985	77,968	32,136	110,104
2007		35,000	13,553	48,553	77,968	26,491	104,459
2008		40,000	11,120	51,120	87,968	21,131	109,099
2009-2013		120,000	16,296	136,296	216,273	37,621	253,894
2014		-	-	-	13,043	770	13,813
Total	\$	<u>290,000</u>	<u>\$ 95,179</u>	<u>\$ 385,179</u>	<u>\$ 618,154</u>	<u>\$ 197,161</u>	<u>\$ 815,315</u>

B. Business-Type Activities Long-Term Obligations

The City had the following general obligation bonds and long-term loans payable outstanding at year-end related to business-type activities:

<u>Business-Type Activities</u>	<u>Interest Rate</u>	<u>Balance 01/01/03</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/03</u>	<u>Amount Due in One Year</u>
<u>General Obligation Bonds:</u>						
Waterline improvements	5.25%	\$ 135,000	\$ -	\$ (135,000)	\$ -	\$ -
Waterline improvements	6.10%	5,115,000	-	(150,000)	4,965,000	160,000
Waterworks - Series 1997	Various	7,245,000	-	(210,000)	7,035,000	215,000
Total general obligation bonds		<u>12,495,000</u>	<u>-</u>	<u>(495,000)</u>	<u>12,000,000</u>	<u>375,000</u>
<u>Special Assessment Bonds</u>						
Sewer street improvements - Series 2000	5.75%	<u>139,523</u>	<u>-</u>	<u>(4,622)</u>	<u>134,901</u>	<u>4,888</u>
<u>Other Long-Term Obligations</u>						
OWDA loan	3.91-7.65%	13,560,900	-	(687,144)	12,873,756	728,614
OPWC loan	0-4.00%	1,123,263	-	(66,950)	1,056,313	68,208
Compensated absence payable		266,801	86,320	(95,545)	257,576	102,740
Total other long-term obligations		<u>14,950,964</u>	<u>86,320</u>	<u>(849,639)</u>	<u>14,187,645</u>	<u>899,562</u>
Total business-type activities long-term liabilities		<u>\$ 27,585,487</u>	<u>\$ 86,320</u>	<u>\$ (1,349,261)</u>	<u>\$ 26,322,546</u>	<u>\$ 1,279,450</u>

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

On February 3, 1998, the City issued \$8,000,000 in Waterworks System Improvements bonds. The Bonds were issued for the purpose of improving and expanding the municipal waterworks system by acquiring, construction, 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 2003, the City retired \$210,000 of these bonds, leaving an outstanding balance of \$7,035,000 at December 31, 2003.

On May 11, 2001, the City issued \$145,434 in special assessment bonds to finance the costs of sewer improvements to South Jefferson Street. These bonds bear an interest rate of 5.75 percent and mature December 1, 2020. During 2003, the City retired \$4,622 of these bonds, leaving an outstanding balance of \$134,901 at December 31, 2003.

The City constructed a waste water treatment facility in 1990. The Project was financed through expenditure by the Ohio Water Development Authority (OWDA). In 1999, the City began making major improvements to its wastewater treatment facility, which were also partially financed by OWDA. At December 31, 2003, the City had the following OWDA loans outstanding:

	Interest Rate	Maturity Date	Balance Outstanding 12/31/03
OWDA loan	7.65%	1/1/2013	\$ 5,521,339
OWDA loan	3.91%	7/1/2020	7,352,417
Total			\$ 12,873,756

Improvements to the City's water treatment facilities were financed through expenditures by the Ohio Public Works Commission (OPWC). At December 31, 2003, the City has the following four loans outstanding to the OPWC:

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	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance Outstanding 12/31/03</u>
OWDA loan	4.00%	1/1/2014	\$ 206,998
OWDA loan	3.00%	7/1/2017	368,828
OWDA loan	3.91%	7/1/2019	303,778
OWDA loan	3.91%	7/1/2020	176,709
Total			<u>\$ 1,056,313</u>

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

The following is a summary of the City's future annual debt service principal and interest requirements for the business-type activities:

<u>Year Ending</u>	<u>General Obligation Bonds</u>			<u>Sewer Special Assessment Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 375,000	\$ 686,063	\$ 1,061,063	\$ 4,888	\$ 7,757	\$ 12,645
2005	410,000	650,525	1,060,525	5,169	7,476	12,645
2006	430,000	630,583	1,060,583	5,467	7,178	12,645
2007	455,000	609,108	1,064,108	5,781	6,864	12,645
2008	475,000	586,007	1,061,007	6,113	6,532	12,645
2009-2013	2,815,000	2,493,733	5,308,733	36,261	26,964	63,225
2014-2018	3,695,000	1,568,272	5,263,272	47,956	15,269	63,225
2019-2023	3,345,000	465,270	3,810,270	23,266	2,024	25,290
Total	\$ 12,000,000	\$ 7,689,561	\$ 19,689,561	\$ 134,901	\$ 80,064	\$ 214,965

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Year Ending	OWDA Loans Payable			OPWC Loans Payable		
	Principal	Interest	Total	Principal	Interest	Total
2004	\$ 728,614	\$ 706,844	\$ 1,435,458	\$ 68,208	\$ 19,053	\$ 87,261
2005	772,816	662,642	1,435,458	69,510	17,751	87,261
2006	819,944	615,514	1,435,458	70,857	16,404	87,261
2007	870,205	565,253	1,435,458	72,252	15,009	87,261
2008	923,818	511,640	1,435,458	73,696	13,565	87,261
2009-2013	5,138,633	1,561,451	6,700,084	391,980	44,327	436,307
2014-2018	2,483,635	496,910	2,980,545	283,943	7,401	291,344
2019-2020	1,136,091	56,127	1,192,218	25,867	-	25,867
Total	\$ 12,873,756	\$ 5,176,381	\$ 18,050,137	\$ 1,056,313	\$ 133,510	\$ 1,189,823

NOTE 13 - RISK MANAGEMENT

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

The first pool provides comprehensive automobile liability, automobile physical damage, comprehensive general liability, crime and property liability, and public officials' liability coverage up to specific limits. The pool includes the following municipalities: Archbold, Bowling Green, Defiance, Huron, Napoleon, Sandusky, and Willard. Member contributions are calculated annually to produce a sufficient sum of money within the pool to fund administrative expenses and to create reserves for claims. As of December 31, 2003, the pool had cash reserves of \$619,451, 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, Clyde, Defiance, Fayette, Hicksville, Napoleon, Oberlin, Sandusky, Upper Sandusky, and Willard. As of December 31, 2003 the pool

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had cash reserves of \$2,397,520 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 \$966.97 for family coverage, \$726.18 for two-party coverage, and \$335.84 for single party coverage. Life insurance monthly premiums are \$4.72 for family and two party coverage and \$2.60 for single party coverage. During 2003, the City paid \$1,249,325 into the pool for coverage. The cost of coverage is paid by the fund that pays the salary of the individual employees. The amount of the risk retained within the employee is \$75,000 per individual with excess claims coverage provided by the Lloyds Company.

The individual BORMA, Inc. members are not considered "participants having equity interest" as defined by GASB Statement No. 14 since members have no rights to any assets of BORMA, Inc. other than possible residual claims upon dissolution. Therefore, BORMA, Inc. is a multi-jurisdictional arrangement that has the characteristics of a joint venture but has additional features that distinguish it, for financial reporting purposes, from the traditional joint venture defined in GASB Statement No. 14.

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
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

NOTE 14 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6705.

For the year ended December 31, 2003, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5% of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1% of their annual covered salary; members in public safety contributed 9%. The City's contribution rate for pension benefits for 2003 was 8.55%, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 11.7% of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2003, 2002, and 2001 were \$336,553, \$568,818, and \$363,335, respectively; 96.13% has been contributed for 2003 and 100% for 2002 and 2001. \$13,015, representing the unpaid contribution for 2003, is recorded as a liability

**CITY OF DEFIANCE
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

within the respective funds. The City and plan members did not make any contributions to the member-directed plan for 2003.

B. Ohio Police and Fire Pension Fund

The City contributes to 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 the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. 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% of their annual covered salary to fund pension obligations while the City is required to contribute 19.5% for police officers and 24.0 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the Fund for police and firefighters for the years ended December 31, 2003, 2002, and 2001 were \$330,386, \$343,180, and \$336,864, respectively. 96.14% has been contributed for 2003 and 100% for the years 2002 and 2001. \$12,749, representing the unpaid contributions for 2003, is recorded as a liability within the respective funds.

NOTE 15 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12, *"Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers"*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2003 local government employer contribution rate was 13.55% of covered payroll (16.70% for public safety and law enforcement); 5.00% of covered payroll was the portion that was used to fund health care.

**CITY OF DEFIANCE
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2002, include a rate of return on investments of 8.00%, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.3% based on additional annual pay increases. Health care premiums were assumed to increase 4.00% annually.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 364,881. Actual employer contributions for 2003 which were used to fund postemployment benefits were \$196,815. The actual contribution and the actuarially required contribution amounts are the same. OPERS' net assets available for payment of benefits at December 31, 2002 (the latest information available) were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

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

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

B. Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check, or is a spouse or eligible dependent child of such person. An

**CITY OF DEFIANCE
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "*Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers*". The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll, of which 7.75% of covered payroll was applied to the postemployment health care program during 2003. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2003 that were used to fund postemployment benefits were \$104,957 for police and \$81,569 for firefighters. The OP&F's total health care expense for the year ended December 31, 2002 (the latest information available) was \$141,028,006, which was net of member contributions of \$12,623,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2002 (the latest information available), was 13,527 for police and 10,396 for firefighters.

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

While the City is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).

**CITY OF DEFIANCE
DEFIANCE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Unreported cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements (as reported in the fund financial statements) to the budgetary basis statements for all governmental funds for which a budgetary basis statement is presented.

Net Change in Fund Balance

	General
Budget basis	\$ 10,631
Net adjustment for revenue accruals	(176,948)
Net adjustment for expenditure accruals	310,890
Net adjustment for other sources/uses	(342,662)
Adjustment for encumbrances	224,404
GAAP basis	\$ 26,315

NOTE 17 - LOANS RECEIVABLE

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

	Balance Outstanding 12/31/02	Loans Received	Principal Received	Balance Outstanding 12/31/03
CDBG loans	\$ 872,660	\$ 239,750	\$ (158,036)	\$ 954,374

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

The CDBG loans are reported in the nonmajor governmental funds. Fund balance has been reserved for the outstanding balance due at year-end.

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 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, 2003.

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 Basic Financial Statements.

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**CITY OF DEFIANCE
DEFIANCE COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2003**

<u>Grantor Agency/Programs</u>	<u>CFDA Number</u>	<u>Pass Through Entity Number</u>	<u>Disbursements</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Passed Through Ohio Department of Development</i>			
Community Development Block Grants			
Formula Grant	14.228	A-F-01-111-1	\$ 7,250
Formula Grant	14.228	A-F-02-111-1	88,000
Community Housing Improvement Program Grant	14.228	A-C-01-111-1	<u>67,156</u>
Total Community Development Block Grant			162,406
Home Improvement Partnership Program Grant	14.239	A-C-01-111-2	<u>272,096</u>
Total U.S. Department of Housing and Urban Development			<u>434,502</u>
U.S. DEPARTMENT OF JUSTICE			
Community Oriented Policing Services Grant	16.71	01-CMWX-0323	<u>27,485</u>
Total U.S. Department of Justice			<u>27,485</u>
Total Federal Awards Expenditures			<u><u>\$ 461,987</u></u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FISCAL YEAR ENDED DECEMBER 31, 2003**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

These loans are collateralized by mortgages on the property. At December 31, 2003, the gross amount of loans outstanding under this program was \$954,374. Delinquent amounts due are \$16,900.

NOTE C - MATCHING REQUIREMENTS

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



**Auditor of State
Betty Montgomery**

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

City of Defiance
Defiance County
631 Perry Street
Defiance, Ohio 43512-2779

To City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Defiance (the City) as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 1, 2004, in which we noted the City adopted Governmental Accounting Standards Board Statement No 34 and changed its fixed asset capitalization policy. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could directly and materially affect 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 we must report under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the City's management in a separate letter dated October 1, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting 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 the City's management in a separate letter dated October 1, 2004.

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

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

Betty Montgomery
Auditor of State

October 1, 2004



**Auditor of State
Betty Montgomery**

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

City of Defiance
Defiance County
631 Perry Street
Defiance, Ohio 43512-2779

To City Council:

Compliance

We have audited the compliance of the City of Defiance, Defiance County, (the City) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2003. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

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www.auditor.state.oh.us

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2003. We noted certain instances of noncompliance that do not require inclusion in this report that we have reported to the management of the City in a separate letter dated October 1, 2004.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over federal compliance that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated October 1, 2004.

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



Betty Montgomery
Auditor of State

October 1, 2004

**CITY OF DEFIANCE
DEFIANCE COUNTY**

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2003

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**CITY OF DEFIANCE
DEFIANCE COUNTY**

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2003

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2002-001	Finding for Recover Repaid under Audit against Roger Reece for excessive use of City owned gasoline.	Yes	
2002-002	Ohio Revised Code § 5705.39, appropriations exceeding estimated resources	No	Partially corrected. Reported in the Management Letter.
2002-003	Ohio Revised Code § 5705.41(B), expenditures exceeding appropriations	No	Partially corrected. Reported in the Management Letter.
2002-004	Reportable Condition – Special Assessments Receivable not properly reported	Yes	



**Auditor of State
Betty Montgomery**

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CITY OF DEFIANCE

DEFIANCE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 4, 2004**