



Mary Taylor, CPA
Auditor of State

**CITY OF DEFIANCE
DEFIANCE COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Members of 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, Ohio (the City), as of and for the year ended December 31, 2009, 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 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, 2009, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2010, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the City's basic financial statements. The schedule of federal awards expenditures is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the schedule of federal awards expenditures 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.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

August 31, 2010

CITY OF DEFIANCE, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2009

The management's 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, 2009. 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 2009 are as follows:

- The total net assets of the City increased \$398,639. Net assets of governmental activities decreased \$1,102,055 or 4.46% under 2008 and net assets of business-type activities increased \$1,500,694 or 9.13% over 2008.
- General revenues accounted for \$8,478,611, or 69.76%, of total governmental activities revenue. Program specific revenues accounted for \$3,675,281, or 30.24%, of total governmental activities revenue.
- The City had \$13,249,482 in expenses related to governmental activities; \$3,675,281 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$9,574,201 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$8,478,611.
- The City has three major governmental funds, the general fund, capital improvements fund and the municipal court construction fund. The general fund had revenues of \$8,005,432 in 2009. This represents a decrease of \$1,158,830 from 2008. The expenditures and other financing uses of the general fund which totaled \$9,252,866 in 2009, decreased \$716,733 from 2008. The net decrease in fund balance for the general fund was \$1,247,434 or 34.74%.
- The capital improvements fund had revenues of \$1,645,621 in 2009. This represents a decrease of \$12,872 from 2008 revenues. The expenditures of the capital improvements fund, which totaled \$1,829,908 in 2009, decreased \$67,591 from 2008. The net decrease in fund balance for the capital improvements fund was \$184,287 or 13.82%.
- The municipal court construction fund had revenues of \$916 in 2009. The expenditures of the municipal court construction fund totaled \$1,069,026 in 2009. The net decrease in fund balance for the municipal court construction fund was \$1,068,110.
- Net assets for the business-type activities, which are made up of the water, sewer, refuse and utility deposit enterprise funds, increased in 2009 by \$1,500,694.
- In the general fund, the actual revenues came in \$515,643 lower than they were in the final budget and actual expenditures and other financing uses were \$746,118 lower than the amount in the final budget. Budgeted revenues increased \$31,452 from the original to the final budget. Budgeted expenditures and other financing uses decreased \$251,877 from the original to the final budget due primarily to a decrease in community environment and leisure time activities expenditures.

CITY OF DEFIANCE, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2009 (SEE ACCOUNTANT'S COMPILATION REPORT)

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 2009?" The statement of net assets and the statement of activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take 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.

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.

CITY OF DEFIANCE, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2009

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 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 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, capital improvements fund, and municipal court construction 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 20-24 of this report.

Proprietary Funds

The City maintains two 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 25-29 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 statement can be found on page 30 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 31-63 of this report.

CITY OF DEFIANCE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009**

Government-Wide Financial Analysis

The table below provides a summary of the City's net assets at December 31, 2009 and 2008:

	Net Assets					
	Governmental Activities <u>2009</u>	Business-type Activities <u>2009</u>	Governmental Activities <u>2008</u>	Business-type Activities <u>2008</u>	2009 Total	2008 Total
<u>Assets</u>						
Current and other assets	\$ 14,925,834	\$ 4,480,295	\$ 12,768,453	\$ 5,199,248	\$ 19,406,129	\$ 17,967,701
Capital assets, net	<u>15,965,009</u>	<u>58,610,151</u>	<u>14,382,825</u>	<u>50,778,123</u>	<u>74,575,160</u>	<u>65,160,948</u>
Total assets	<u>30,890,843</u>	<u>63,090,446</u>	<u>27,151,278</u>	<u>55,977,371</u>	<u>93,981,289</u>	<u>83,128,649</u>
<u>Liabilities</u>						
Long-term liabilities outstanding	839,313	43,570,150	917,916	38,481,829	44,409,463	39,399,745
Other liabilities	<u>6,440,607</u>	<u>1,580,545</u>	<u>1,520,384</u>	<u>1,056,485</u>	<u>8,021,152</u>	<u>2,576,869</u>
Total liabilities	<u>7,279,920</u>	<u>45,150,695</u>	<u>2,438,300</u>	<u>39,538,314</u>	<u>52,430,615</u>	<u>41,976,614</u>
<u>Net Assets</u>						
Invested in capital assets, net of related debt	14,665,319	15,197,096	14,021,819	12,651,704	29,862,415	26,673,523
Restricted	6,348,089	-	6,750,730	-	6,348,089	6,750,730
Unrestricted	<u>2,597,515</u>	<u>2,742,655</u>	<u>3,940,429</u>	<u>3,787,353</u>	<u>5,340,170</u>	<u>7,727,782</u>
Total net assets	<u>\$ 23,610,923</u>	<u>\$ 17,939,751</u>	<u>\$ 24,712,978</u>	<u>\$ 16,439,057</u>	<u>\$ 41,550,674</u>	<u>\$ 41,152,035</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2009, the City's assets exceeded liabilities by \$41,550,674. At year-end, net assets were \$23,610,923 and \$17,939,751 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 79.35% of total assets. Capital assets include land, construction in progress buildings and improvements, improvements other than buildings, equipment, vehicles and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2009, were \$14,665,319 and \$15,197,096 in the governmental activities and business-type activities, respectively. These capital assets are used to provide services to citizens 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, 2009, 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, \$6,348,089, 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 \$2,597,515 may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF DEFIANCE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009**

The table below shows the changes in net assets for 2009 and 2008.

	Change in Net Assets					
	Governmental	Business-type	Governmental	Business-type	2009	2008
	Activities	Activities	Activities	Activities	Total	Total
	<u>2009</u>	<u>2009</u>	<u>2008</u>	<u>2008</u>		
Revenues						
Program revenues:						
Charges for services	\$ 1,707,860	\$ 9,610,881	\$ 1,903,156	\$ 9,157,069	\$ 11,318,741	\$ 11,060,225
Operating grants and contributions	1,644,771	-	1,331,141	-	1,644,771	1,331,141
Capital grants and contributions	<u>322,650</u>	<u>14,354</u>	<u>171,030</u>	<u>313,087</u>	<u>337,004</u>	<u>484,117</u>
Total program revenues	<u>3,675,281</u>	<u>9,625,235</u>	<u>3,405,327</u>	<u>9,470,156</u>	<u>13,300,516</u>	<u>12,875,483</u>
General revenues:						
Property taxes	831,397	-	943,271	-	831,397	943,271
Income taxes	6,532,181	-	7,473,238	-	6,532,181	7,473,238
Unrestricted grants and entitlements	909,503	-	1,089,930	-	909,503	1,089,930
Investment earnings	22,217	9,888	155,049	69,086	32,105	224,135
Payment in lieu of taxes	83,895	-	-	-	83,895	-
Miscellaneous	<u>99,418</u>	<u>269,208</u>	<u>231,871</u>	<u>296,270</u>	<u>368,626</u>	<u>528,141</u>
Total general revenues	<u>8,478,611</u>	<u>279,096</u>	<u>9,893,359</u>	<u>365,356</u>	<u>8,757,707</u>	<u>10,258,715</u>
Total revenues	<u>12,153,892</u>	<u>9,904,331</u>	<u>13,298,686</u>	<u>9,835,512</u>	<u>22,058,223</u>	<u>23,134,198</u>
Expenses:						
General government	3,405,877	-	2,700,947	-	3,405,877	2,700,947
Security of persons and property	5,727,001	-	5,718,266	-	5,727,001	5,718,266
Public health and welfare	207,391	-	288,007	-	207,391	288,007
Transportation	1,798,226	-	2,463,188	-	1,798,226	2,463,188
Community environment	522,191	-	586,847	-	522,191	586,847
Leisure time activity	697,284	-	995,983	-	697,284	995,983
Economic development	834,468	-	84,009	-	834,468	84,009
Other	15,700	-	4,913	-	15,700	4,913
Interest and fiscal charges	41,344	-	29,296	-	41,344	29,296
Water	-	4,196,427	-	4,282,755	4,196,427	4,282,755
Sewer	-	3,971,144	-	3,993,639	3,971,144	3,993,639
Other enterprise fund	<u>-</u>	<u>680,242</u>	<u>-</u>	<u>726,933</u>	<u>680,242</u>	<u>726,933</u>
Total expenses	<u>13,249,482</u>	<u>8,847,813</u>	<u>12,871,456</u>	<u>9,003,327</u>	<u>22,097,295</u>	<u>21,874,783</u>
Special item	-	437,711	-	-	437,711	-
Transfers	<u>(6,465)</u>	<u>6,465</u>	<u>(338,560)</u>	<u>338,560</u>	<u>-</u>	<u>-</u>
Change in net assets	(1,102,055)	1,500,694	88,670	1,170,745	398,639	1,259,415
Net assets, beginning of year	<u>24,712,978</u>	<u>16,439,057</u>	<u>24,624,308</u>	<u>15,268,312</u>	<u>41,152,035</u>	<u>39,892,620</u>
Net assets, end of year	<u>\$ 23,610,923</u>	<u>\$ 17,939,751</u>	<u>\$ 24,712,978</u>	<u>\$ 16,439,057</u>	<u>\$ 41,550,674</u>	<u>\$ 41,152,035</u>

CITY OF DEFIANCE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009**

Governmental Activities

Governmental activities net assets decreased \$1,102,055 in 2009.

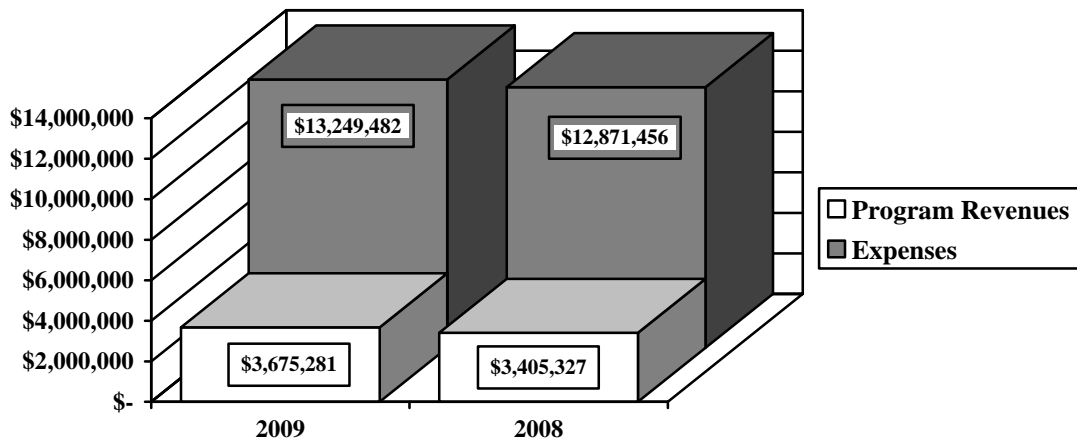
Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$5,727,001 of the total expenses of the City. These expenses were partially funded by \$1,171,103 in direct charges to users of the services and \$97,345 in operating grants and contributions. Transportation expenses totaled \$1,798,226. Transportation expenses were partially funded by \$764,425 in operating grants and contributions and \$322,650 in capital grants and contributions.

The state and federal government contributed to the City a total of \$1,644,771 in operating grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions, \$62,010 subsidized general government programs.

General revenues totaled \$8,478,611, and amounted to 69.76% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$7,363,578. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government revenue and personal property tax reimbursements, making up \$909,503.

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.

Governmental Activities - Program Revenues vs. Total Expenses



CITY OF DEFIANCE, OHIO

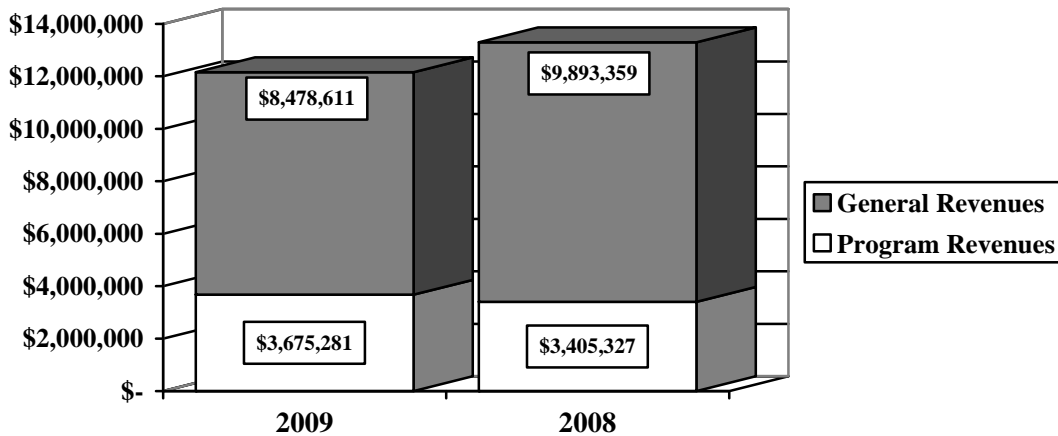
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009**

Governmental Activities

	Total Cost of Services <u>2009</u>	Net Cost of Services <u>2009</u>	Total Cost of Services <u>2008</u>	Net Cost of Services <u>2008</u>
Program Expenses:				
General government	\$ 3,405,877	\$ 2,965,552	\$ 2,700,947	\$ 2,036,837
Security of persons and property	5,727,001	4,458,553	5,718,266	4,382,139
Public health and welfare	207,391	165,870	288,007	229,233
Transportation	1,798,226	711,151	2,463,188	1,386,308
Community environment	522,191	426,769	586,847	411,214
Leisure time activity	697,284	676,038	995,983	970,821
Economic development	834,468	113,224	84,009	15,368
Other	15,700	15,700	4,913	4,913
Interest and fiscal charges	41,344	41,344	29,296	29,296
Total	<u>\$ 13,249,482</u>	<u>\$ 9,574,201</u>	<u>\$12,871,456</u>	<u>\$ 9,466,129</u>

The dependence upon general revenues for governmental activities is apparent, with 72.26% of expenses supported through taxes and other general revenues.

Governmental Activities - General and Program Revenues



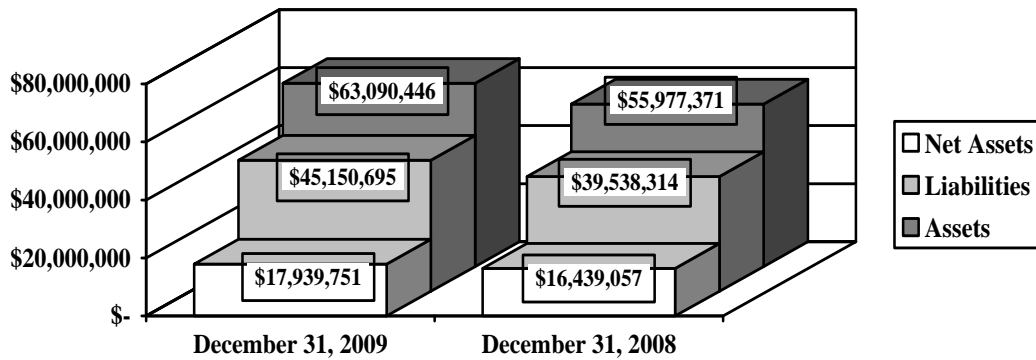
CITY OF DEFIANCE, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009

Business-type Activities

Business-type activities include the water, sewer, refuse and utility deposit enterprise funds. These programs had program revenues of \$9,625,235, general revenues of \$279,096, transfers in of \$6,465 and expenses of \$8,847,813 for 2009. The graph below shows the business-type activities assets, liabilities and net assets at year-end.

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 reported a combined fund balance of \$7,194,375 which is \$2,558,722 below last year's total of \$9,753,097. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2009 for all major and nonmajor governmental funds.

	Fund Balances 12/31/09	Fund Balances 12/31/08	(Decrease)
Major funds:			
General	\$ 2,343,146	\$ 3,590,580	\$(1,247,434)
Capital improvements	1,148,769	1,333,056	(184,287)
Municipal court construction	(1,068,110)	-	(1,068,110)
Other nonmajor governmental funds	<u>4,770,570</u>	<u>4,829,461</u>	<u>(58,891)</u>
Total	<u>\$ 7,194,375</u>	<u>\$ 9,753,097</u>	<u>\$(2,558,722)</u>

CITY OF DEFIANCE, OHIO

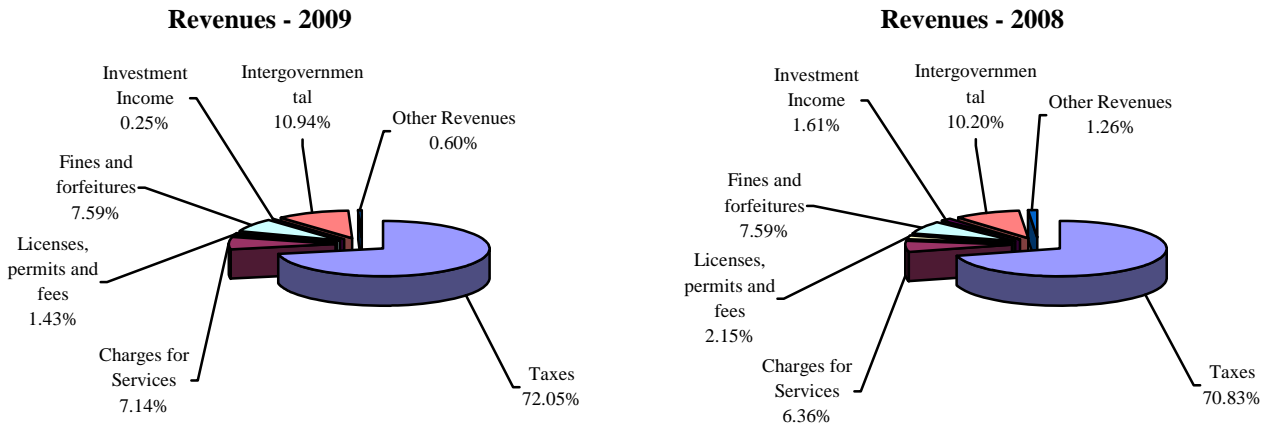
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009**

General Fund

The City's general fund balance decreased \$1,247,434. The table that follows assists in illustrating the revenues of the general fund.

	<u>2009</u> <u>Amount</u>	<u>2008</u> <u>Amount</u>	<u>Decrease</u>	<u>Percentage</u> <u>Change</u>
Revenues				
Taxes	\$ 5,767,771	\$ 6,490,643	\$ (722,872)	(11.14) %
Charges for services	571,338	582,514	(11,176)	(1.92) %
Licenses, permits and fees	114,843	196,679	(81,836)	(41.61) %
Fines and forfeitures	607,056	696,244	(89,188)	(12.81) %
Investment income	20,180	147,434	(127,254)	(86.31) %
Intergovernmental	875,958	935,381	(59,423)	(6.35) %
Other	<u>48,286</u>	<u>115,367</u>	<u>(67,081)</u>	(58.15) %
Total	<u>\$ 8,005,432</u>	<u>\$ 9,164,262</u>	<u>\$(1,158,830)</u>	(12.65) %

Tax revenue represents 72.05% of all general fund revenue. Tax revenue decreased by \$722,872 or 11.14% from the prior year. This decrease is due mainly to decreased collections of income taxes. The decrease of \$59,423 or 6.35% in the area of intergovernmental revenues can be attributed to a decrease in estate taxes being available for advance at year end. The decrease in investment income is a reduction in investments held by the City during the year.



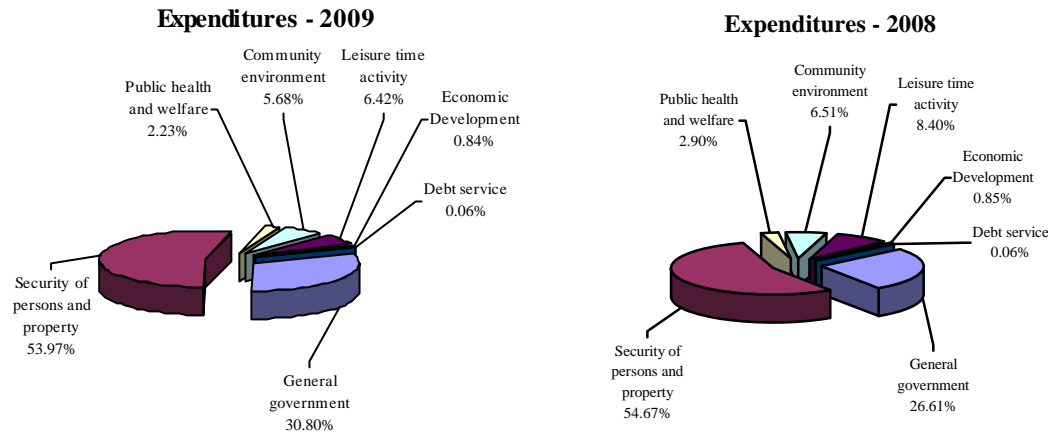
CITY OF DEFIANCE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009**

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

	<u>2009 Amount</u>	<u>2008 Amount</u>	<u>Increase/ Decrease</u>	<u>Percentage Change</u>
<u>Expenditures</u>				
General government	\$ 2,709,744	\$ 2,357,843	\$ 351,901	14.92 %
Security of persons and property	4,746,814	4,844,303	(97,489)	(2.01) %
Public health and welfare	195,960	256,613	(60,653)	(23.64) %
Community environment	499,783	577,079	(77,296)	(13.39) %
Leisure time activity	565,067	744,411	(179,344)	(24.09) %
Economic development	73,958	75,574	(1,616)	(2.14) %
Debt service	<u>5,540</u>	<u>5,539</u>	<u>1</u>	0.02 %
Total	<u>\$ 8,796,866</u>	<u>\$ 8,861,362</u>	<u>\$ (64,496)</u>	(0.73) %

Expenditures of the general fund decreased \$64,496 or 0.73%. The largest expenditure of the City, security of persons and property, decreased \$97,489 or 2.01%. Leisure time activity decreased \$179,344 or 24.09% and is primarily due to the decrease of salaries and wages during the year of around \$86,000. General government expenditures increased \$351,901 or 14.92% and can be attributed to rising costs of the economy. All other expenditures remained comparable to 2008.



Capital Improvements Fund

The capital improvements fund had revenues of \$1,645,621 in 2009. This represents a decrease of \$640,109 from 2008 revenues. The expenditures of the capital improvements fund, which totaled \$1,829,908 in 2009, decreased \$67,591 from 2008. The net decrease in fund balance for the capital improvements fund was \$184,287 or 13.82%.

Municipal Court Construction Fund

The municipal court construction fund had revenues of \$916 in 2009. The expenditures of the municipal court construction fund totaled \$1,069,026 in 2009. The net decrease in fund balance for the municipal court construction fund was \$1,068,110

CITY OF DEFIANCE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009**

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 were \$8,281,009 which was \$515,643 lower than the final budgeted revenues of \$8,796,652. Original budgeted revenues were \$8,765,200, \$484,191 higher than the actual revenues. Actual expenditures and other financing uses were \$9,306,757, which was \$746,118 lower than the final budget of \$10,052,875. Original budgeted expenditures were \$10,304,752, \$997,995 higher than the actual expenditures.

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 December 31, 2009, the City had \$74,575,160 (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, \$15,965,009 was reported in governmental activities and \$58,610,151 was reported in business-type activities. The following table shows December 31, 2009 capital assets compared to December 31, 2008:

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

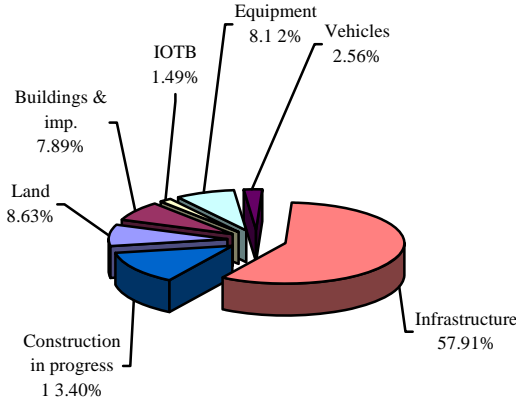
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Land	\$ 1,378,358	\$ 1,243,358	\$ 280,171	\$ 280,171	\$ 1,658,529	\$ 1,523,529
IOTB	237,769	261,381	425,716	461,377	663,485	722,758
Buildings and improvements	1,260,021	1,305,454	19,244,916	19,892,545	20,504,937	21,197,999
Equipment	1,295,830	1,059,253	469,579	372,722	1,765,409	1,431,975
Vehicles	409,340	530,643	292,514	276,246	701,854	806,889
Infrastructure	9,245,092	9,208,070	17,131,297	16,961,543	26,376,389	26,169,613
Construction in progress	<u>2,138,599</u>	<u>774,666</u>	<u>20,765,958</u>	<u>12,533,519</u>	<u>22,904,557</u>	<u>13,308,185</u>
Totals	<u>\$ 15,965,009</u>	<u>\$ 14,382,825</u>	<u>\$ 58,610,151</u>	<u>\$ 50,778,123</u>	<u>\$ 74,575,160</u>	<u>\$ 65,160,948</u>

CITY OF DEFIANCE, OHIO

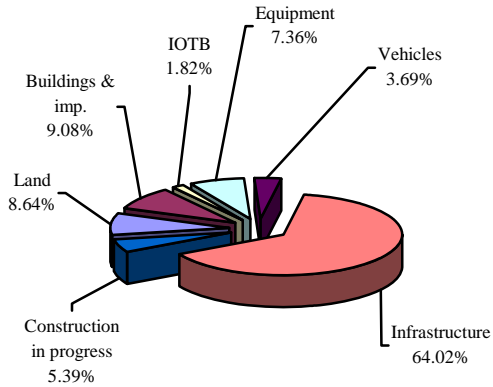
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009**

The following graphs show the breakdown of governmental capital assets by category for 2009 and 2008.

Capital Assets - Governmental Activities 2009



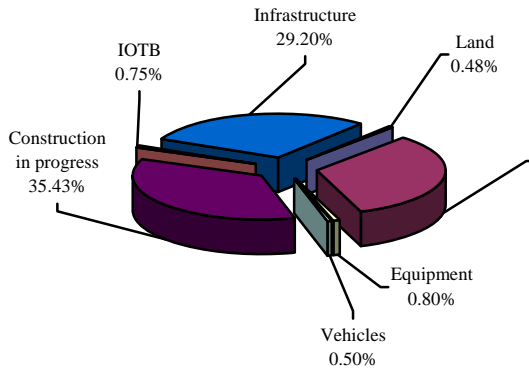
Capital Assets - Governmental Activities 2008



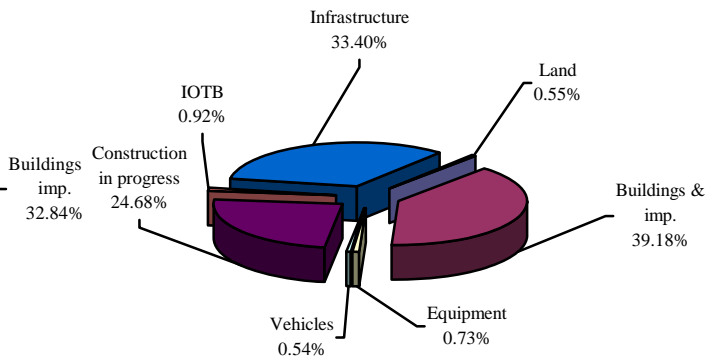
The capital asset category infrastructure includes roads, bridges, culverts, sidewalks and curbs. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 57.91% of the City's total governmental capital assets.

The following graphs show the breakdown of business-type capital assets by category for 2009 and 2008.

Capital Assets - Business-Type Activities 2009



Capital Assets - Business-Type Activities 2008



The City's third 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 29.20% of the City's total business-type capital assets.

CITY OF DEFIANCE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009**

Debt Administration

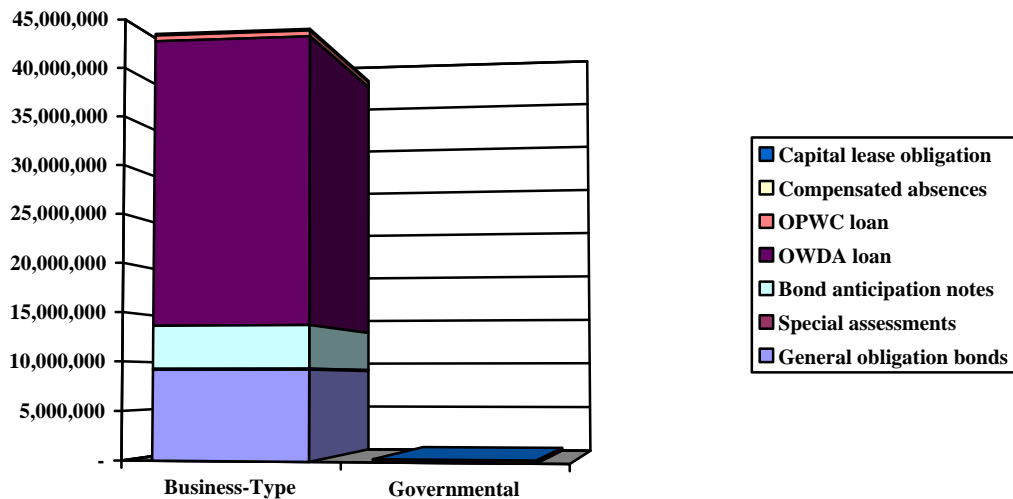
The City had the following long-term obligations outstanding at December 31, 2009 and 2008:

	Governmental Activities	
	<u>2009</u>	<u>2008</u>
Compensated absences	\$ 586,030	\$ 556,910
General obligation bonds	80,000	120,000
Special assessment bonds	166,358	229,316
Capital lease obligation	<u>6,925</u>	<u>11,690</u>
Total long-term obligations	<u>\$ 839,313</u>	<u>\$ 917,916</u>

	Business-type Activities	
	<u>2009</u>	<u>2008</u>
General obligation bonds	\$ 9,135,000	\$ 9,660,000
Special assessment bonds	101,018	107,483
OWDA loan	29,051,352	22,892,250
OPWC loan	607,863	683,429
Bond anticipation notes	4,347,000	4,774,000
Capital lease obligation	3,041	9,257
Compensated absences	<u>157,095</u>	<u>174,089</u>
Total long-term obligations	<u>\$ 43,402,369</u>	<u>\$ 38,300,508</u>

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

Long-term obligations



CITY OF DEFIANCE, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2009

Economic Conditions and Outlook

Defiance is centrally located within one hour of Toledo, Ohio and Fort Wayne, Indiana. Its strategic location also provides excellent access to Cleveland, Cincinnati, Detroit and Chicago. The transportation needs of the community are met by State Routes 18, 15, 66, 281, 424, and 111; but more importantly, the City is beginning to realize the benefits of ongoing improvements to State Route 24. This multi-year project, which is now over 50 percent complete, creates four-lane highway access from Toledo to Fort Wayne.

In conjunction with the SR 24 project, the City is participating in the expansion of the Route 66 interchange. The project--the last of four improved interchanges on the Route 24 corridor through Defiance--will enhance SR 66 from a 2-lane bridge to a 5-lane bridge crossing SR 24, and includes sidewalk-to-sidewalk roadway and infrastructure improvements along the City's primary commercial district. The Ohio Department of Transportation project will cost approximately \$12 million and will be completed by fall, 2010.

Without question, however, the City of Defiance has faced unprecedented economic stress during the last two years. The global recession and resulting unemployment have hit northwest Ohio and southern Michigan especially hard. The city government has taken steps to ensure its future economic stability by curtailing spending, and encouraging growth and economic development in creative ways.

In spite of the recent economic difficulties, the City of Defiance continues to take a proactive approach to developing new industry. The City and Defiance County have broken the barriers of political isolationism and partnered on several projects to develop a strong community. Both entities have supported each other on roadway improvements and other infrastructure installations. And as the recession appears to be reaching its end, the City and the County are again attracting interest from new and expanding businesses by offering incentives through tax increment financing, enterprise zone agreements and revolving loan agreements.

Defiance is presented with an altogether different type of challenge, however, in its water and wastewater enterprise operations. The City is currently five years into a 20-year plan to eliminate wet weather discharge into the Maumee and Auglaize rivers by rebuilding the wastewater collection system to eliminate combined sanitary and storm sewer overflows. The total projected cost is \$118 million, to be funded by increased sewer rates to the system's 6,600 users. The improvements are mandated by the U.S. Environmental Protection Agency, and annual rate increases since inception of the project are already beginning to place an undue burden on the system's customer base. The City is actively seeking relief in the form of additional federal assistance and by investigating even more efficient ways of achieving the required overflow elimination.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, 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: Mr. John Lehner, Finance Director, City of Defiance, 631 Perry Street, Defiance, Ohio 43512.

CITY OF DEFIANCE, OHIO

STATEMENT OF NET ASSETS
DECEMBER 31, 2009

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 10,500,517	\$ 3,215,898	\$ 13,716,415
Investments	172,223	-	172,223
Cash with escrow agent	-	205,584	205,584
Receivables (net of allowances for uncollectibles):			
Income taxes	788,900	-	788,900
Property and other local taxes	781,462	-	781,462
Accounts	246,780	482,272	729,052
Loans	1,492,009	-	1,492,009
Special assessments	235,268	80,302	315,570
Accrued interest	1,199	264	1,463
Due from other governments	661,713	2,212	663,925
Materials and supplies inventory	47,651	39,047	86,698
Internal balance	(1,888)	1,888	-
Unamortized bond issuance costs	-	167,783	167,783
Restricted assets:			
Equity in pooled cash and cash equivalents	-	285,045	285,045
Capital assets:			
Land and construction-in-progress	3,516,957	21,046,129	24,563,086
Depreciable capital assets, net	<u>12,448,052</u>	<u>37,564,022</u>	<u>50,012,074</u>
Total capital assets	<u>15,965,009</u>	<u>58,610,151</u>	<u>74,575,160</u>
Total assets	<u>30,890,843</u>	<u>63,090,446</u>	<u>93,981,289</u>
Liabilities:			
Accounts payable	87,082	97,118	184,200
Contracts payable	392,533	730,754	1,123,287
Accrued wages and benefits	177,006	72,300	249,306
Retainage payable	-	205,584	205,584
Due to other governments	267,932	77,119	345,051
Due to claimants	28,690	-	28,690
Accrued interest payable	23,964	112,625	136,589
Payable from restricted assets:			
Refunded deposits	-	285,045	285,045
Unearned revenue	663,400	-	663,400
Notes payable	4,800,000	-	4,800,000
Long-term liabilities:			
Due within one year	381,295	6,137,729	6,519,024
Due in more than one year	<u>458,018</u>	<u>37,432,421</u>	<u>37,890,439</u>
Total liabilities	<u>7,279,920</u>	<u>45,150,695</u>	<u>52,430,615</u>
Net assets:			
Invested in capital assets, net of related debt	14,665,319	15,197,096	29,862,415
Restricted for:			
Capital projects	1,180,352	-	1,180,352
Debt service	1,188,099	-	1,188,099
Transportation projects	632,776	-	632,776
Safety projects	583,247	-	583,247
Special projects	498,582	-	498,582
Community environment projects	27,686	-	27,686
Economic development projects	1,950,777	-	1,950,777
Health projects	6,169	-	6,169
Parks and recreations projects	34,995	-	34,995
Other purposes	245,406	-	245,406
Unrestricted	<u>2,597,515</u>	<u>2,742,655</u>	<u>5,340,170</u>
Total net assets	<u>\$ 23,610,923</u>	<u>\$ 17,939,751</u>	<u>\$ 41,550,674</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF DEFIANCE, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General government	\$ 3,405,877	\$ 378,315	\$ 62,010	\$ -
Security of persons and property	5,727,001	1,171,103	97,345	-
Public health and welfare	207,391	41,521	-	-
Transportation	1,798,226	-	764,425	322,650
Community environment	522,191	95,422	-	-
Leisure time activity	697,284	21,246	-	-
Economic development	834,468	253	720,991	-
Other	15,700	-	-	-
Interest and fiscal charges	41,344	-	-	-
Total governmental activities	<u>13,249,482</u>	<u>1,707,860</u>	<u>1,644,771</u>	<u>322,650</u>
Business-type Activities:				
Water	4,196,427	4,194,197	-	6,071
Sewer	3,971,144	4,690,081	-	8,283
Other business-type activities:				
Refuse	<u>680,242</u>	<u>726,603</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>8,847,813</u>	<u>9,610,881</u>	<u>-</u>	<u>14,354</u>
Total primary government	<u>\$ 22,097,295</u>	<u>\$ 11,318,741</u>	<u>\$ 1,644,771</u>	<u>\$ 337,004</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	
Investment earnings	
Payment in lieu of taxes	
Miscellaneous	
Total general revenues	
Transfers	
Special item - forgiveness of loan	
Total general revenues, transfers and special item	
Change in net assets	
Net assets at beginning of year	
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
\$ (2,965,552)	\$ -	\$ (2,965,552)
(4,458,553)	-	(4,458,553)
(165,870)	-	(165,870)
(711,151)	-	(711,151)
(426,769)	-	(426,769)
(676,038)	-	(676,038)
(113,224)	-	(113,224)
(15,700)	-	(15,700)
(41,344)	-	(41,344)
<u>(9,574,201)</u>	<u>-</u>	<u>(9,574,201)</u>
-	3,841	3,841
-	727,220	727,220
-	46,361	46,361
-	777,422	777,422
<u>(9,574,201)</u>	<u>777,422</u>	<u>(8,796,779)</u>
5,227,106	-	5,227,106
21,395	-	21,395
1,283,680	-	1,283,680
525,405	-	525,405
305,992	-	305,992
909,503	-	909,503
22,217	9,888	32,105
83,895	-	83,895
99,418	269,208	368,626
<u>8,478,611</u>	<u>279,096</u>	<u>8,757,707</u>
<u>(6,465)</u>	<u>6,465</u>	<u>-</u>
-	437,711	437,711
<u>(6,465)</u>	<u>444,176</u>	<u>437,711</u>
(1,102,055)	1,500,694	398,639
<u>24,712,978</u>	<u>16,439,057</u>	<u>41,152,035</u>
<u>\$ 23,610,923</u>	<u>\$ 17,939,751</u>	<u>\$ 41,550,674</u>

CITY OF DEFIANCE, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2009

	<u>General</u>	<u>Capital Improvements</u>	<u>Municipal Court Construction</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and cash equivalents.	\$ 1,826,574	\$ 1,140,970	\$ 4,035,168	\$ 3,072,384	\$ 10,075,096
Investments	172,223	-	-	-	172,223
Receivables (net of allowance for uncollectibles):					
Income taxes.	603,812	182,054	-	3,034	788,900
Property and other local taxes.	595,600	-	-	185,862	781,462
Accounts.	176,749	-	-	70,031	246,780
Loans	-	-	-	1,492,009	1,492,009
Special assessments	-	-	-	235,268	235,268
Accrued interest.	676	-	417	62	1,155
Due from other governments.	281,066	-	-	379,862	660,928
Materials and supplies inventory.	-	-	-	47,651	47,651
Total assets	<u>\$ 3,656,700</u>	<u>\$ 1,323,024</u>	<u>\$ 4,035,585</u>	<u>\$ 5,486,163</u>	<u>\$ 14,501,472</u>
Liabilities:					
Accounts payable.	\$ 27,010	\$ 24,367	\$ 16,408	\$ 19,141	\$ 86,926
Contracts payable	-	118,305	264,668	9,560	392,533
Accrued wages and benefits	160,287	-	-	16,719	177,006
Due to other governments	227,333	-	-	40,599	267,932
Accrued interest payable	-	-	22,619	-	22,619
Notes payable.	-	-	4,800,000	-	4,800,000
Due to claimants	28,690	-	-	-	28,690
Deferred revenue.	350,234	31,583	-	486,174	867,991
Unearned revenue.	520,000	-	-	143,400	663,400
Total liabilities	<u>1,313,554</u>	<u>174,255</u>	<u>5,103,695</u>	<u>715,593</u>	<u>7,307,097</u>
Fund balances:					
Reserved for encumbrances	126,211	203,967	3,025,222	143,631	3,499,031
Reserved for materials and supplies inventory.	-	-	-	47,651	47,651
Reserved for loans	-	-	-	1,492,009	1,492,009
Reserved for debt service	-	-	-	954,176	954,176
Reserved for noncurrent investments	172,223	-	-	-	172,223
Unreserved (deficit), undesignated, reported in:					
General fund	2,044,712	-	-	-	2,044,712
Special revenue funds.	-	-	-	2,133,103	2,133,103
Capital projects funds.	-	944,802	(4,093,332)	-	(3,148,530)
Total fund balances (deficit)	<u>2,343,146</u>	<u>1,148,769</u>	<u>(1,068,110)</u>	<u>4,770,570</u>	<u>7,194,375</u>
Total liabilities and fund balances	<u>\$ 3,656,700</u>	<u>\$ 1,323,024</u>	<u>\$ 4,035,585</u>	<u>\$ 5,486,163</u>	<u>\$ 14,501,472</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF DEFIANCE, OHIO

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2009

Total governmental fund balances	\$	7,194,375
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		15,965,009
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Income taxes receivable	\$ 136,859	
Property and other local taxes receivable	75,600	
Special assessments receivable	235,268	
Intergovernmental revenue receivable	<u>420,264</u>	
Total		867,991
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 (deficit) of \$1,888, are:		424,206
Accrued interest payable on long-term bonds is not due and payable in the current period and therefore is not reported in the funds.		(1,345)
Long-term liabilities, including bonds payable, compensated absences, and capital lease obligations, are not due and payable in the current period and therefore are not reported in the funds.		
General obligation bonds payable	(80,000)	
Special assessment bonds payable	(166,358)	
Compensated absences payable	(586,030)	
Capital lease obligation payable	<u>(6,925)</u>	
Total		<u>(839,313)</u>
Net assets of governmental activities	\$	<u><u>23,610,923</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF DEFIANCE, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

	<u>General</u>	<u>Capital Improvements</u>	<u>Municipal Court Construction</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Income taxes	\$ 5,240,726	\$ 1,311,765	\$ -	\$ 21,863	\$ 6,574,354
Property and other local taxes	527,045	-	-	305,992	833,037
Charges for services	571,338	-	-	253	571,591
Licenses, permits and fees	114,843	-	-	168,671	283,514
Fines and forfeitures	607,056	-	-	249,999	857,055
Intergovernmental	875,958	322,650	-	1,636,446	2,835,054
Special assessments	-	-	-	111,684	111,684
Investment income	20,180	-	916	65,627	86,723
Donations	7,125	-	-	4,925	12,050
Payment in lieu of taxes	-	-	-	83,895	83,895
Other	41,161	11,206	-	47,051	99,418
	<u>8,005,432</u>	<u>1,645,621</u>	<u>916</u>	<u>2,696,406</u>	<u>12,348,375</u>
Expenditures:					
Current:					
General government	2,709,744	-	-	616,782	3,326,526
Security of persons and property	4,746,814	-	-	747,838	5,494,652
Public health and welfare	195,960	-	-	-	195,960
Transportation	-	-	-	944,909	944,909
Community environment	499,783	-	-	1,556	501,339
Leisure time activity	565,067	-	-	-	565,067
Economic development and assistance	73,958	-	-	760,510	834,468
Other	-	-	-	15,700	15,700
Capital outlay	-	1,829,908	1,046,407	9,560	2,885,875
Debt service:					
Principal retirement	4,765	-	-	102,958	107,723
Interest and fiscal charges	775	-	22,619	18,519	41,913
Total expenditures	<u>8,796,866</u>	<u>1,829,908</u>	<u>1,069,026</u>	<u>3,218,332</u>	<u>14,914,132</u>
Excess of expenditures over revenues	<u>(791,434)</u>	<u>(184,287)</u>	<u>(1,068,110)</u>	<u>(521,926)</u>	<u>(2,565,757)</u>
Other financing sources (uses):					
Transfers in	-	-	-	456,000	456,000
Transfers out	(456,000)	-	-	(6,465)	(462,465)
Sale of capital assets	-	-	-	13,500	13,500
Total other financing sources (uses)	<u>(456,000)</u>	<u>-</u>	<u>-</u>	<u>463,035</u>	<u>7,035</u>
Net change in fund balances	(1,247,434)	(184,287)	(1,068,110)	(58,891)	(2,558,722)
Fund balances at beginning of year	<u>3,590,580</u>	<u>1,333,056</u>	<u>-</u>	<u>4,829,461</u>	<u>9,753,097</u>
Fund balances (deficit) at end of year	<u>\$ 2,343,146</u>	<u>\$ 1,148,769</u>	<u>\$ (1,068,110)</u>	<u>\$ 4,770,570</u>	<u>\$ 7,194,375</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF DEFIANCE, OHIO

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, 2009

Net change in fund balances - total governmental funds \$ (2,558,722)

*Amounts reported for governmental activities
in the statement of activities are different because:*

Government funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceed depreciation expense in the current period.

Capital asset additions	\$	2,570,136	
Current year depreciation		(951,335)	
Total			1,618,801

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. (36,617)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Income taxes		(42,173)	
Property and other local taxes		(1,640)	
Special assessments		(77,123)	
Intergovernmental		(75,453)	
Total			(196,389)

Repayment of bonds, notes, and capital lease obligations are expenditures in the governmental funds, but the repayments reduces long-term liabilities on the statement of net assets. Principal payments during the year were:

General obligation bonds		40,000	
Special assessment bonds		62,958	
Capital lease obligations		4,765	
Total			107,723

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 569

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. (36,327)

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 the consolidation of internal service fund activity related to enterprise funds of \$9,473, is allocated among the governmental activities. (1,093)

Change in net assets of governmental activities \$ (1,102,055)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF DEFIANCE, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Income taxes.	\$ 5,910,791	\$ 5,932,000	\$ 5,249,652	\$ (682,348)
Property and other local taxes	531,294	533,200	527,045	(6,155)
Charges for services	590,581	592,700	587,308	(5,392)
Licenses, permits and fees	90,276	90,600	114,843	24,243
Fines and forfeitures	642,893	645,200	617,754	(27,446)
Intergovernmental	792,444	795,288	1,107,949	312,661
Investment income	174,374	175,000	19,520	(155,480)
Donations.	6,103	6,125	7,125	1,000
Other	26,444	26,539	49,813	23,274
Total revenues.	<u>8,765,200</u>	<u>8,796,652</u>	<u>8,281,009</u>	<u>(515,643)</u>
Expenditures:				
Current:				
General government	2,800,268	2,906,492	2,690,774	215,718
Security of persons and property.	5,200,756	5,185,030	4,800,200	384,830
Public health and welfare	257,033	214,928	198,976	15,952
Community environment.	660,076	537,638	497,735	39,903
Leisure time activity	801,946	636,079	588,870	47,209
Economic development and assistance	112,673	80,151	74,202	5,949
Total expenditures	<u>9,832,752</u>	<u>9,560,318</u>	<u>8,850,757</u>	<u>709,561</u>
Excess of revenues over expenditures.	<u>(1,067,552)</u>	<u>(763,666)</u>	<u>(569,748)</u>	<u>193,918</u>
Other financing uses:				
Transfers out	<u>(472,000)</u>	<u>(492,557)</u>	<u>(456,000)</u>	<u>36,557</u>
Total other financing uses	<u>(472,000)</u>	<u>(492,557)</u>	<u>(456,000)</u>	<u>36,557</u>
Net change in fund balance.	(1,539,552)	(1,256,223)	(1,025,748)	230,475
Fund balance at beginning of year	2,559,048	2,559,048	2,559,048	-
Prior year encumbrances appropriated	310,137	310,137	310,137	-
Fund balance at end of year.	<u>\$ 1,329,633</u>	<u>\$ 1,612,962</u>	<u>\$ 1,843,437</u>	<u>\$ 230,475</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF DEFIANCE, OHIO

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2009

	Business-type Activities - Enterprise Funds				Governmental
	Water	Sewer	Nonmajor	Total	Activities - Internal Fund
Assets:					
Current assets:					
Equity in pooled cash and cash equivalents	\$ 415,355	\$ 2,325,613	\$ 474,930	\$ 3,215,898	\$ 425,421
Cash with escrow agent	-	205,584	-	205,584	-
Receivables (net of allowance for uncollectibles)					
Accounts	192,835	245,036	44,665	482,536	-
Accrued interest	-	-	-	-	44
Special assessments.	74,308	5,994	-	80,302	-
Materials and supplies inventory	30,952	8,095	-	39,047	-
Due from other governments	-	2,212	-	2,212	785
Total current assets	<u>713,450</u>	<u>2,792,534</u>	<u>519,595</u>	<u>4,025,579</u>	<u>426,250</u>
Noncurrent assets:					
Restricted equity in pooled cash and cash equivalents.	-	-	285,045	285,045	-
Unamortized bond issuance costs.	167,783	-	-	167,783	-
Capital assets:					
Land and construction-in-progress.	871,600	20,174,529	-	21,046,129	-
Depreciable capital assets, net	<u>23,495,523</u>	<u>14,068,499</u>	<u>-</u>	<u>37,564,022</u>	<u>-</u>
Total capital assets.	<u>24,367,123</u>	<u>34,243,028</u>	<u>-</u>	<u>58,610,151</u>	<u>-</u>
Total noncurrent assets.	<u>24,534,906</u>	<u>34,243,028</u>	<u>285,045</u>	<u>59,062,979</u>	<u>-</u>
Total assets	<u>25,248,356</u>	<u>37,035,562</u>	<u>804,640</u>	<u>63,088,558</u>	<u>426,250</u>
Liabilities:					
Current liabilities:					
Accounts payable.	39,811	57,307	-	97,118	156
Contracts payable.	-	730,754	-	730,754	-
Accrued wages and benefits	41,268	31,032	-	72,300	-
Retainage payable	-	205,584	-	205,584	-
Due to other governments	43,189	33,930	-	77,119	-
Bond anticipation notes payable.	62,500	4,284,500	-	4,347,000	-
Accrued interest payable.	33,284	79,341	-	112,625	-
Compensated absences -current	58,145	38,402	-	96,547	-
General obligation bonds payable - current.	540,000	-	-	540,000	-
Special assessment bonds payable - current	-	6,836	-	6,836	-
OPWC loans payable - current.	66,418	10,710	-	77,128	-
OWDA loans payable - current	-	1,067,177	-	1,067,177	-
Capital lease obligation - current	2,225	816	-	3,041	-
Total current liabilities	<u>886,840</u>	<u>6,546,389</u>	<u>-</u>	<u>7,433,229</u>	<u>156</u>
Current liabilities payable from restricted assets:					
Refundable deposit	-	-	285,045	285,045	-
Noncurrent liabilities:					
Compensated absences	21,922	38,626	-	60,548	-
General obligation bonds payable (net of unamortized premium and deferred amount on refunding)	8,762,781	-	-	8,762,781	-
Special assessment bonds payable	-	94,182	-	94,182	-
OPWC loans payable.	428,996	101,739	-	530,735	-
OWDA loans payable.	7,195,365	20,788,810	-	27,984,175	-
Total noncurrent liabilities	<u>16,409,064</u>	<u>21,023,357</u>	<u>-</u>	<u>37,432,421</u>	<u>-</u>
Total liabilities	<u>17,295,904</u>	<u>27,569,746</u>	<u>285,045</u>	<u>45,150,695</u>	<u>156</u>
Net assets:					
Invested in capital assets, net of related debt	7,308,838	7,888,258	-	15,197,096	-
Unrestricted	<u>643,614</u>	<u>1,577,558</u>	<u>519,595</u>	<u>2,740,767</u>	<u>426,094</u>
Total net assets.	<u>\$ 7,952,452</u>	<u>\$ 9,465,816</u>	<u>\$ 519,595</u>	<u>17,937,863</u>	<u>\$ 426,094</u>
Adjustment to reflect the consolidation of the internal service fund activity related to enterprise funds				1,888	
Net assets of business-type activities				<u>\$ 17,939,751</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF DEFIANCE, OHIO

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2009

	Business-type Activities - Enterprise Funds				Governmental
	Water	Sewer	Nonmajor	Total	Activities - Internal Service Fund
Operating revenues:					
Charges for services	\$ 4,137,123	\$ 4,690,081	\$ 726,603	\$ 9,553,807	\$ 1,898,345
Tap-in fees	57,074	-	-	57,074	-
Other	966	252,267	-	253,233	-
Total operating revenues	<u>4,195,163</u>	<u>4,942,348</u>	<u>726,603</u>	<u>9,864,114</u>	<u>1,898,345</u>
Operating expenses:					
Personal services	1,614,451	1,440,655	-	3,055,106	-
Contractual services	236,772	854,931	-	1,091,703	-
Materials and supplies	602,668	271,341	-	874,009	-
Administrative costs	14,527	22,074	-	36,601	-
Utilities	223,011	285,368	680,242	1,188,621	-
Claims	-	-	-	-	1,891,871
Depreciation	708,256	542,906	-	1,251,162	-
Other	10,985	10,227	-	21,212	-
Total operating expenses	<u>3,410,670</u>	<u>3,427,502</u>	<u>680,242</u>	<u>7,518,414</u>	<u>1,891,871</u>
Operating income	<u>784,493</u>	<u>1,514,846</u>	<u>46,361</u>	<u>2,345,700</u>	<u>6,474</u>
Nonoperating revenues (expenses):					
Interest revenue	1,678	8,210	-	9,888	1,121
Loss on disposal of capital assets	(5,547)	(17,222)	-	(22,769)	-
Interest and fiscal charges	(785,262)	(530,841)	-	(1,316,103)	-
Intergovernmental	6,071	8,283	-	14,354	785
Other nonoperating revenue	15,975	-	-	15,975	-
Total nonoperating revenues (expenses)	<u>(767,085)</u>	<u>(531,570)</u>	<u>-</u>	<u>(1,298,655)</u>	<u>1,906</u>
Net income before transfers and special item	17,408	983,276	46,361	1,047,045	8,380
Transfers in	-	6,465	-	6,465	-
Special item - forgiveness of loan	-	437,711	-	437,711	-
Changes in net assets	17,408	1,427,452	46,361	1,491,221	8,380
Net assets at beginning of year	<u>7,935,044</u>	<u>8,038,364</u>	<u>473,234</u>		<u>417,714</u>
Net assets at end of year	<u>\$ 7,952,452</u>	<u>\$ 9,465,816</u>	<u>\$ 519,595</u>		<u>\$ 426,094</u>
Adjustment to reflect the consolidation of the internal service fund activity related to enterprise funds				<u>9,473</u>	
Change in net assets of business-type activities				<u>\$ 1,500,694</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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CITY OF DEFIANCE, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2009

	Business-type Activities - Enterprise Funds				Governmental
	Water	Sewer	Nonmajor	Total	Activities - Internal Service Fund
Cash flows from operating activities:					
Cash received from charges for services	\$ 4,118,727	\$ 4,656,272	\$ 745,495	\$ 9,520,494	\$ 1,908,148
Cash received from tap-in fees	57,074	-	-	57,074	-
Cash received from other operations	1,137	252,349	-	253,486	-
Cash payments for personal services	(1,646,092)	(1,419,300)	-	(3,065,392)	-
Cash payments for contractual services	(241,581)	(793,202)	-	(1,034,783)	-
Cash payments for administrative costs	(11,078)	(18,534)	-	(29,612)	-
Cash payments for materials and supplies.	(666,826)	(270,873)	-	(937,699)	-
Cash payments for claims	-	-	-	-	(1,891,715)
Cash payments for utilities	(228,130)	(290,874)	(680,242)	(1,199,246)	-
Cash payments for other operations	(1,220)	(462)	(6,453)	(8,135)	-
Net cash provided by operating activities	<u>1,382,011</u>	<u>2,115,376</u>	<u>58,800</u>	<u>3,556,187</u>	<u>16,433</u>
Cash flows from noncapital financing activities:					
Cash received from nonoperating revenues	15,975	-	-	15,975	-
Cash received from transfers in	-	6,465	-	6,465	-
Cash received from grants.	6,071	6,071	-	12,142	-
Net cash provided by noncapital financing activities.	<u>22,046</u>	<u>12,536</u>	<u>-</u>	<u>34,582</u>	<u>-</u>
Cash flows from capital and related financing activities:					
Cash payments for the acquisition of capital assets	(227,260)	(8,339,099)	-	(8,566,359)	-
Cash received from premium on notes	4	260	-	264	-
Cash received from issuance of loans	168,264	7,615,990	-	7,784,254	-
Cash received from issuance of notes	62,500	4,284,500	-	4,347,000	-
Cash payments for principal retirement.	(798,416)	(5,776,272)	-	(6,574,688)	-
Cash payments for interest and fiscal charges	(787,219)	(550,981)	-	(1,338,200)	-
Net cash (used in) capital and related financing activities	<u>(1,582,127)</u>	<u>(2,765,602)</u>	<u>-</u>	<u>(4,347,729)</u>	<u>-</u>
Cash flows from investing activities:					
Cash received from interest earned.	1,648	7,976	-	9,624	1,077
Net cash provided by investing activities.	<u>1,648</u>	<u>7,976</u>	<u>-</u>	<u>9,624</u>	<u>1,077</u>
Net increase (decrease) in cash and cash equivalents.	(176,422)	(629,714)	58,800	(747,336)	17,510
Cash and cash equivalents at beginning of year	<u>591,777</u>	<u>3,160,911</u>	<u>701,175</u>	<u>4,453,863</u>	<u>407,911</u>
Cash and cash equivalents at end of year.	<u>\$ 415,355</u>	<u>\$ 2,531,197</u>	<u>\$ 759,975</u>	<u>\$ 3,706,527</u>	<u>\$ 425,421</u>

--Continued

CITY OF DEFIANCE, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2009

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Water	Sewer	Nonmajor	Total	
Reconciliation of operating income to net cash provided by operating activities:					
Operating income	\$ 784,493	\$ 1,514,846	\$ 46,361	\$ 2,345,700	\$ 6,474
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation.	708,256	542,906	-	1,251,162	-
Changes in assets and liabilities:					
(Increase) in accounts receivable	(23,704)	(39,298)	(10,019)	(73,021)	-
Decrease in special assessments receivable	5,308	5,489	-	10,797	-
(Increase) decrease in materials and supplies inventory.	34,859	(2,860)	-	31,999	-
Decrease in due from other governments.	171	82	-	253	9,803
Increase (decrease) in accounts payable.	(95,133)	15,269	-	(79,864)	156
Decrease in contracts payable.	(598)	-	-	(598)	-
Increase in accrued wages and benefits	102	6,327	-	6,429	-
Increase (decrease) in compensated absences payable	(29,633)	12,639	-	(16,994)	-
Increase (decrease) in due to other governments	(2,110)	2,508	-	398	-
Increase in retainage payable.	-	57,468	-	57,468	-
Increase in utility deposits payable	-	-	22,458	22,458	-
Net cash provided by operating activities.	<u>\$ 1,382,011</u>	<u>\$ 2,115,376</u>	<u>\$ 58,800</u>	<u>\$ 3,556,187</u>	<u>\$ 16,433</u>

Non-cash capital transactions:

At December 31, 2009 and December 31, 2008, the water fund purchased \$5 and \$598 in capital assets on account, respectively
 At December 31, 2009 and December 31, 2008, the sewer fund purchased \$760,976 and \$220,783 in capital assets on account, respectively
 During 2009, \$437,711 in OWDA loans payable in the sewer fund was forgiven by the OWDA.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF DEFIANCE, OHIO

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
DECEMBER 31, 2009

	<u>Agency</u>
Assets:	
Cash in segregated accounts	\$ 8,078
Total assets	<u>\$ 8,078</u>
Liabilities:	
Due to other governments.	\$ 8,078
Total liabilities	<u>\$ 8,078</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF DEFIANCE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

NOTE 1 - DESCRIPTION OF THE CITY

The City of Defiance, Ohio (the “City”), located in Defiance County, is a politic and corporate body established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio and its charter. The City operates under a Council/Mayor form of government and provides the following services to its residents: public safety, highways and streets, water, sewer, 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) guidance 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 City has the option to also apply FASB guidance issued after November 30, 1989 to its business-type activities and enterprise funds, subject to this same limitation. The City has elected not to apply these FASB guidance. 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 prevention, emergency medical services, street maintenance and repair, parks and recreation, water, sanitary sewer, public service and planning and zoning.

The following organizations are described due to its relationship with the City.

JOINTLY GOVERNED ORGANIZATIONS

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

CITY OF DEFIANCE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

The City provides resources to the Executive Council based on a membership fee and services provided to the City. The MVPO exercises total control over the operation of MVPO including budgeting, contracting and designating management. The City has no ongoing financial interest or responsibility for the MVPO. In 2009, the City contributed \$133,675 for the MVPO's operations. Information can be obtained from Brett J. Kolb, Fulton County Auditor, 152 South Fulton Avenue, Suite 165, Wauseon, Ohio 43567.

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

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

JOINT VENTURES WITHOUT EQUITY INTEREST

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

The main source of revenue for the MANTF is from federal grants and local matching shares by the entities. The City has no ongoing financial responsibility to the MANTF. The City has indirect access to the net resources of the MANTF since the City is able to influence the MANTF to use its surplus resources to undertake projects of interest to the City's residents. This access to the net resources of the Board has not been explicitly defined, nor is it currently measurable. In 2009, the City contributed \$25,000 to the MANTF which represents 20% of total contributions. Complete financial statements for the MANTF can be obtained through the Defiance County Sheriff's Office located at 113 Biede Street, Defiance, Ohio 43512.

Community Improvement Corporation of Defiance County (Corporation) - The Corporation shall be exercised, conducted, and controlled by the Board of Trustees and the Board shall name a minimum of nine and a maximum of fifteen trustees with forty percent 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 and the villages and townships of Defiance County participate in the operation of the Corporation. The Corporation duties are to advance, encourage and promote the industrial, economic, commercial and civic development.

CITY OF DEFIANCE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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, as such the Corporation has 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's degree of control over the Board is limited to its representation on the Board. The City made \$65,000 in payments to the Corporation in 2009. Information can be obtained from Jerry Hayes, Executive Director, 1300 East Second Street, Suite 201, Defiance, Ohio 43512.

RELATED ORGANIZATION

Defiance Public Library (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 City 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, Michele Zeedyk, Chief Fiscal Officer, at 320 Fort Street, Defiance, Ohio 43512.

B. Basis of Presentation - Fund Accounting

The City's basic financial statements (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 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.

CITY OF DEFIANCE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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.

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 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.

Municipal court construction fund - The municipal court construction fund accounts for resources used for the construction of the municipal court facility.

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) 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:

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

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

Other enterprise funds of the City are used to account for refuse collection and utility deposits. These funds are nonmajor funds whose activity has been aggregated and presented in a single column in the BFS.

CITY OF DEFIANCE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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, 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 fund is an agency fund which accounts for the municipal court.

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.

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.

Agency funds do not report a measurement focus as they do not report operations.

CITY OF DEFIANCE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned (See Note 7). Revenue from property taxes is recognized in the 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 nonexchange transactions must also be available before it can be recognized.

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

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2009, but which were levied to finance year 2010 operations, and other revenues received in advance of the year for which they were intended to finance, have been recorded as unearned revenue. Income taxes and special assessments not received within the available period, grants and entitlements received before the eligibility requirements are met, and delinquent property taxes due at December 31, 2009, are recorded as deferred revenue on the governmental fund financial statements.

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

CITY OF DEFIANCE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are 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 establishes a limit on the amount City Council may appropriate. The appropriations resolution is City Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by City Council. The legal level of control has been established by City Council at the fund, department and object level. Budgetary modifications may only be made by resolution of the City Council at the legal level of control.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Finance Director. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time the final appropriations were enacted by City Council.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by City Council during the year.

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 other than cash with escrow agent and cash in segregated accounts, is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the City's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" and "investments" on the financial statements.

CITY OF DEFIANCE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

During 2009, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), U.S. government money market mutual funds and the City's own bonds. These investments are reported at fair value which is based on quoted market prices.

The City has invested funds in STAR Ohio during 2009. 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 shares price which is the price the investment could be sold for on December 31, 2009.

Following Ohio Statutes, the Council has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue earned and credited to the general fund during 2009 amounted to \$20,180, which included \$15,398 assigned from other funds of the City.

The City has segregated bank accounts for monies held separate from the City's central bank account. These monies are held for the municipal court operations and retainage. These interest bearing depository accounts for the municipal court operations and retainage are presented on the financial statements as "cash in segregated accounts" and "cash with escrow agent", respectively, since they are not required to be deposited into the City treasury.

For purposes of the statement of cash flows and for presentation on the financial statements, 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.

J. Inventories of Materials and Supplies

On government-wide financial statements, purchased inventories are presented at the lower of cost or market. Inventories are recorded on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental funds when consumed. Inventories of the proprietary funds are expensed when used. Inventory consists of expendable supplies held for consumption.

CITY OF DEFIANCE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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 disposals during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold at \$2,500. 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 for the business-type activities.

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:

<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
Equipment	10 - 30 years	10 - 30 years
Infrastructure	30 years	50 years
Vehicles	6 - 15 years	6 - 15 years

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.

CITY OF DEFIANCE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

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, compensated absences 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. Interfund Activity

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

CITY OF DEFIANCE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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.

O. 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, loans, debt service and noncurrent investments in the governmental fund financial statements.

P. 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.

Q. 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 or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

R. 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 event that are within the control of the City and that are either unusual in nature or infrequent in occurrence. During 2009, the City had a portion of an Ohio Water Development Authority (OWDA) loan forgiven in the sewer enterprise fund. This item will be presented on the financial statements as a special item.

S. Unamortized Issuance Costs/Bond Premium and Discount/Accounting Gain or Loss

On government-wide financial statements and in the enterprise funds, issuance costs are deferred and amortized over the term of the bonds using the straight-line method. Issuance costs are recorded as deferred charges on the statement of net assets.

CITY OF DEFIANCE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Bond premiums and discounts are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Bond premiums are presented as an addition to the face amount of the bonds and bond discounts are presented as a reduction to the face amount of the bonds.

For advance refundings resulting in the defeasance of debt reported in the government-wide financial statements and enterprise funds, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This accounting gain or loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as an addition to or reduction from the face amount of the new debt.

On the governmental fund financial statements, issuance costs and bond premiums and discounts are recognized in the current period. The reconciliation between the bonds face value and the amount reported on the statement of net assets is presented in Note 12.

NOTE 3 - ACCOUNTABILITY

A. Change in Accounting Principles

For 2009, the City has implemented GASB Statement No. 52, "Land and Other Real Estate Held as Investments by Endowments", GASB Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", GASB Statement No. 56 "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards", and GASB Statement No. 57 "Other Postemployment Benefit (OPEB) Measurements by Agent Employers and Agent Multiple-Employers".

GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The implementation of GASB Statement No. 52 did not have an effect on the financial statements of the City.

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB's authoritative literature. The implementation of GASB Statement No. 55 did not have an effect on the financial statements of the City.

GASB Statement No. 56 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' (AICPA) Statements on Auditing Standards. The implementation of GASB Statement No. 56 did not have an effect on the financial statements of the City.

GASB Statement No. 57 establishes standards for the measurement and financial reporting of actuarially determined information by agent employers with individual-employer OPEB plans that have fewer than 100 total plan members and by the agent multiple-employer OPEB plans in which they participate. The implementation of GASB Statement No. 57 did not have an effect on the financial statements of the City.

CITY OF DEFIANCE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 3 - ACCOUNTABILITY - (Continued)

B. Deficit Fund Balances

The following fund had deficit fund balance as of December 31, 2009:

<u>Major governmental fund</u>	<u>Deficit</u>
Municipal court construction	\$ 1,068,110

This fund complied with State law, which does not permit a cash basis deficit at year end. The general fund is liable for any deficits in this fund and provides transfers when cash is required, not when accruals occur. The deficit fund balance results from a short-term note being booked as a fund liability as described in Note 13.

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the City into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies 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.

Inactive deposits are public deposits that the City Council has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Interim monies 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 and 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;

CITY OF DEFIANCE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one-hundred-eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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.

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 Finance Director by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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 City, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. 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".

B. Cash in Segregated Accounts

At year end, the City had \$8,078 in cash in segregated accounts held for the Municipal Court which is included on the financial statements of the City as an agency fund. This amount is included in the "deposits with financial institutions" below.

CITY OF DEFIANCE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Cash with Escrow Agent

At year end, the City had \$205,584 on deposit with financial institutions for a retainage escrow account. This amount is included in the “deposits with financial institutions” below.

D. Deposits with Financial Institutions

At December 31, 2009, the carrying amount of all City deposits was \$5,933,997. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of December 31, 2009, \$5,668,284 of the City’s bank balance of \$6,286,019 was exposed to custodial risk as discussed below, while \$617,735 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the City’s deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the City. The City has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions’ trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

E. Investments

As of December 31, 2009, the City had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>				
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>19 to 24 months</u>	<u>Greater than 24 months</u>
STAR Ohio	\$ 3,636,862	\$ 3,636,862	\$ -	\$ -	\$ -	\$ -
Money market mutual funds	4,642,013	4,642,013	-	-	-	-
City owned bonds	172,223	-	21,376	-	21,770	129,077
Total	<u>\$ 8,451,098</u>	<u>\$ 8,278,875</u>	<u>\$ 21,376</u>	<u>\$ -</u>	<u>\$ 21,770</u>	<u>\$ 129,077</u>

The weighted average maturity of investments is 0.02 years.

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the City’s investment policy limits investment portfolio maturities to five years or less except for investments in City owned bonds which extend beyond five years.

Credit Risk: The City’s investments in U.S. Government money market mutual funds are invested in securities which are rated AAA and Aaa by Standard & Poor’s and Moody’s Investor Services, respectively. Standard & Poor’s has assigned STAR Ohio an AAAM money market rating.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The City’s investment policy does not specifically address custodial credit risk beyond the adherence to all relevant Sections of the Ohio Revised Code.

CITY OF DEFIANCE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Concentration of Credit Risk: The City places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the City at December 31, 2009:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 3,636,862	43.03
Money market mutual funds	4,642,013	54.93
City owned bonds	172,223	2.04
Total	<u>\$ 8,451,098</u>	<u>100.00</u>

F. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of December 31, 2009:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 5,933,997
Investments	8,451,098
Cash on hand	2,250
Total	<u>\$ 14,387,345</u>

<u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 10,672,740
Business-type activities	3,706,527
Agency fund	8,078
Total	<u>\$ 14,387,345</u>

NOTE 5 - INTERFUND TRANSFERS

For 2009, interfund transfers consisted of the following, as reported in the fund statements:

Transfers from general fund to:	
Nonmajor governmental funds	\$ 456,000
Transfers from nonmajor governmental fund to:	
Sewer	<u>6,465</u>
Total transfers	<u>\$ 462,465</u>

Transfers are used to (1) move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF DEFIANCE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 5 - INTERFUND TRANSFERS - (Continued)

Transfers between governmental funds are eliminated for reporting on the government-wide financial statements. Transfers between enterprise funds are eliminated for reporting on the government-wide financial statements. Transfers between governmental activities and business-type activities are reported as transfers on the statement of activities.

All transfers made were in accordance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real and public utility 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 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. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Public utility real and tangible personal property taxes collected in one calendar year are levied 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. Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2009 public utility property taxes became a lien December 31, 2008, are levied after October 1, 2009, and are collected in 2010 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

Beginning in calendar year 2009 tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property tax collections in calendar year 2009 represent delinquent collections.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property was eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the City due to the phasing out of the tax. In calendar years 2009-2010, the City will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

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. Property taxes receivable represents real property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2009 and for which there is an enforceable legal claim. In the governmental funds, the current portion receivable has been offset by unearned revenue since the current taxes were not levied to finance 2009 operations and the collection of delinquent taxes has been offset by deferred revenue since the collection of the taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

CITY OF DEFIANCE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 6 - PROPERTY TAXES - (Continued)

The full tax rate for all City operations for the year ended December 31, 2009 was \$10.59 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2009 property tax receipts were based are as follows:

<u>Real Property</u>	
Residential/Agricultural	\$ 189,193,240
Commercial/Industrial/Mineral	80,171,600
<u>Public Utility</u>	
Real	39,270
Personal	<u>10,828,840</u>
Total Assessed Value	<u><u>\$ 280,232,950</u></u>

NOTE 7 - LOCAL INCOME TAX

This locally levied tax of 1.5 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 2009 was \$6,574,354 on the modified accrual basis of accounting.

NOTE 8 - RECEIVABLES

Receivables at December 31, 2009, consisted of income and property taxes, accounts (billings for user charged services), accrued interest receivable, special assessments, loans and intergovernmental receivables arising from grants, entitlements, and shared revenue. All intergovernmental receivables have been classified as “due from other governments” on the financial statements. Receivables have been recorded to the extent that they are measurable at December 31, 2009.

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

Governmental activities:

Income taxes	\$ 788,900
Property and other local taxes	781,462
Accounts	246,780
Loans	1,492,009
Special assessments	235,268
Accrued interest	1,199
Due from other governments	661,713

Business-type activities:

Accounts	482,272
Special assessments	80,302
Accrued interest	264
Due from other governments	2,212

CITY OF DEFIANCE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 8 - RECEIVABLES - (Continued)

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

NOTE 9 - CAPITAL ASSETS

The following activity occurred in the City's governmental activities and business-type activities capital assets during 2009:

	Balance			Balance
<u>Governmental activities:</u>	<u>12/31/08</u>	<u>Additions</u>	<u>Disposals</u>	<u>12/31/09</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,243,358	\$ 135,000	\$ -	\$ 1,378,358
Construction in progress	<u>774,666</u>	<u>1,982,748</u>	<u>(618,815)</u>	<u>2,138,599</u>
Total capital assets, not being depreciated	<u>2,018,024</u>	<u>2,117,748</u>	<u>(618,815)</u>	<u>3,516,957</u>
<i>Capital assets, being depreciated:</i>				
Buildings	4,520,559	40,000	(5,900)	4,554,659
Improvements other than buildings	1,027,934	6,400	(44,185)	990,149
Equipment	2,201,008	405,837	(18,225)	2,588,620
Vehicles	2,334,269	40,151	(96,533)	2,277,887
Infrastructure	<u>15,964,403</u>	<u>578,815</u>	<u>-</u>	<u>16,543,218</u>
Total capital assets, being depreciated	<u>26,048,173</u>	<u>1,071,203</u>	<u>(164,843)</u>	<u>26,954,533</u>
<i>Less: accumulated depreciation:</i>				
Buildings	(3,215,105)	(85,367)	5,834	(3,294,638)
Improvements other than buildings	(766,553)	(30,012)	44,185	(752,380)
Equipment	(1,141,755)	(166,385)	15,350	(1,292,790)
Vehicles	(1,803,626)	(127,778)	62,857	(1,868,547)
Infrastructure	<u>(6,756,333)</u>	<u>(541,793)</u>	<u>-</u>	<u>(7,298,126)</u>
Total accumulated depreciation	<u>(13,683,372)</u>	<u>(951,335)</u>	<u>128,226</u>	<u>(14,506,481)</u>
Total capital assets, being depreciated, net	<u>12,364,801</u>	<u>119,868</u>	<u>(36,617)</u>	<u>12,448,052</u>
Governmental activities capital assets, net	<u>\$ 14,382,825</u>	<u>\$ 2,237,616</u>	<u>\$ (655,432)</u>	<u>\$ 15,965,009</u>

CITY OF DEFIANCE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 9 - CAPITAL ASSETS - (Continued)

<u>Business-type activities:</u>	<u>Balance</u> <u>12/31/08</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/09</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 280,171	\$ -	\$ -	\$ 280,171
Construction in progress	12,533,519	8,898,702	(666,263)	20,765,958
Total capital assets, not being depreciated	<u>12,813,690</u>	<u>8,898,702</u>	<u>(666,263)</u>	<u>21,046,129</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	965,930	-	-	965,930
Buildings and improvements	29,481,170	-	(90,631)	29,390,539
Equipment	2,585,609	150,976	(36,938)	2,699,647
Vehicles	993,461	56,281	(27,352)	1,022,390
Infrastructure	27,302,516	666,263	-	27,968,779
Total capital assets, being depreciated	<u>61,328,686</u>	<u>873,520</u>	<u>(154,921)</u>	<u>62,047,285</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(504,553)	(35,661)	-	(540,214)
Buildings and improvements	(9,588,625)	(630,407)	73,409	(10,145,623)
Equipment	(2,212,887)	(48,572)	31,391	(2,230,068)
Vehicles	(717,215)	(40,013)	27,352	(729,876)
Infrastructure	(10,340,973)	(496,509)	-	(10,837,482)
Total accumulated depreciation	<u>(23,364,253)</u>	<u>(1,251,162)</u>	<u>132,152</u>	<u>(24,483,263)</u>
Total capital assets being depreciated, net	<u>37,964,433</u>	<u>(377,642)</u>	<u>(22,769)</u>	<u>37,564,022</u>
Business-type activities capital assets, net	<u>\$ 50,778,123</u>	<u>\$ 8,521,060</u>	<u>\$ (689,032)</u>	<u>\$ 58,610,151</u>

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

<u>Governmental activities:</u>	
General government	\$ 40,679
Security of persons and property	165,848
Public health and welfare	8,332
Community environment	12,957
Leisure time activity	98,349
Transportation	<u>625,170</u>
Total depreciation expense - governmental activities	<u>\$ 951,335</u>

CITY OF DEFIANCE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 9 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to the enterprise funds of the City as follows:

Business-type activities:

Water	\$ 708,256
Sewer	<u>542,906</u>
Total depreciation expense - business-type activities	<u>\$ 1,251,162</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 \$361,511 at December 31, 2009. 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 \$381,614 at December 31, 2009. Amounts are recorded as a fund liability and/or on the government-wide financial statements, as applicable.

NOTE 11 - CAPITAL LEASES

In a prior year, the City entered into capital leases agreements for the acquisition of copier equipment. Capital assets consisting of copier equipment were capitalized in the general fund and the water and sewer enterprise funds. These lease agreements meet the criteria of a capital lease as defined by FASB Statement No. 13 "Accounting for Leases", which defines a capital lease as one which transfers benefits and risks of ownership to the lessee. The amount of the \$50,377 represents the present value of the minimum lease payments at the time of acquisition. As of December 31, 2009 accumulated depreciation was \$20,035, resulting in a net carrying value of \$30,342. A corresponding liability has been recorded in the governmental activities and the water and sewer enterprise funds. Principal payments in 2009 were \$4,765 in the general fund, \$3,893 in the water fund and \$2,323 in the sewer fund.

CITY OF DEFIANCE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 11 - CAPITAL LEASES - (Continued)

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2009:

Year Ending December 31,	Governmental Activities	Business-Type Activities- Enterprise Funds		Total
	General	Water	Sewer	
2010	\$ 5,538	\$ 2,291	\$ 830	\$ 8,659
2011	1,806	-	-	1,806
Total	7,344	2,291	830	10,465
Less: amount representing interest	(419)	(66)	(14)	(499)
Present value of net minimum lease payments	<u>\$ 6,925</u>	<u>\$ 2,225</u>	<u>\$ 816</u>	<u>\$ 9,966</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:

	Balance 12/31/08	Additions	Reductions	Balance 12/31/09	Amount Due in One Year
<u>Governmental activities:</u>					
Compensated absences payable	\$ 556,910	\$ 322,545	\$ (293,425)	\$ 586,030	\$ 276,592
General obligation bonds payable	120,000	-	(40,000)	80,000	40,000
Special assessment bonds payable	229,316	-	(62,958)	166,358	59,543
Capital lease obligation	<u>11,690</u>	<u>-</u>	<u>(4,765)</u>	<u>6,925</u>	<u>5,160</u>
Total	<u>\$ 917,916</u>	<u>\$ 322,545</u>	<u>\$ (401,148)</u>	<u>\$ 839,313</u>	<u>\$ 381,295</u>

Special assessment debt with governmental commitment and debt issued for governmental purposes of the City is retired from the debt service fund (a nonmajor governmental 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, the bond indentures provide for principal and interest to be paid from use charges.

The City's capital lease obligation is described in Note 11 to the financial statements. Compensated absences consisting of sick leave (severance) and vacation benefits will be paid from the fund from which the employee is paid which, for the City is the general fund and the street construction, maintenance and repair fund (a nonmajor governmental fund).

CITY OF DEFIANCE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

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

<u>Year Ending</u>	<u>General Obligation Bonds</u>			<u>Special Assessment Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 40,000	\$ 5,560	\$ 45,560	\$ 59,543	\$ 10,843	\$ 70,386
2011	40,000	2,388	42,388	64,543	6,924	71,467
2012	-	-	-	14,543	2,437	16,980
2013	-	-	-	14,686	1,640	16,326
2014	-	-	-	13,043	770	13,813
Total	<u>\$ 80,000</u>	<u>\$ 7,948</u>	<u>\$ 87,948</u>	<u>\$ 166,358</u>	<u>\$ 22,614</u>	<u>\$ 188,972</u>

B. Business-Type Activities Long-Term Obligations

The following activity occurred in the business type activities long-term obligations during 2009:

<u>Business-type activities:</u>	<u>Interest Rate</u>	<u>Balance 12/31/08</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/09</u>	<u>Amount Due in One Year</u>
<u>General obligation bonds:</u>						
Waterworks - series 2005 refunding	4.00-5.00%	\$ 3,920,000	\$ -	\$ (250,000)	\$ 3,670,000	\$ 260,000
Waterworks - series 2007 refunding	4.50-5.25%	5,740,000	-	(275,000)	5,465,000	280,000
Total general obligation bonds		9,660,000	-	(525,000)	9,135,000	540,000
<u>Special assessment bonds</u>						
Sewer street improvements - Series 2000	5.75%	107,483	-	(6,465)	101,018	6,836
<u>Notes payable</u>						
Water - 2008 bond anticipation note	4.50%	63,000	-	(63,000)	-	-
Sewer - 2008 bond anticipation note	4.50%	4,711,000	-	(4,711,000)	-	-
Water - 2009 bond anticipation note	2.25%	-	62,500	-	62,500	62,500
Sewer - 2009 bond anticipation note	2.25%	-	4,284,500	-	4,284,500	4,284,500
Total bond anticipation notes		4,774,000	4,347,000	(4,774,000)	4,347,000	4,347,000
<u>Other long-term obligations</u>						
OWDA loans	3.20-7.65%	22,892,250	7,784,254	(1,625,152)	29,051,352	1,067,177
OPWC loans	0-4.00%	683,429	-	(75,566)	607,863	77,128
Capital leases		9,257	-	(6,216)	3,041	3,041
Compensated absences payable		174,089	84,950	(101,944)	157,095	96,547
Total other long-term obligations		23,759,025	7,869,204	(1,808,878)	29,819,351	1,243,893
Total business-type activities long-term liabilities		<u>\$ 38,300,508</u>	<u>\$ 12,216,204</u>	<u>\$ (7,114,343)</u>	43,402,369	<u>\$ 6,137,729</u>
Less: Unamortized deferred charge on refunding					(385,522)	
Add: Unamortized bond premium					553,303	
Total on statement of net assets					<u>\$ 43,570,150</u>	

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

CITY OF DEFIANCE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

On July 6, 2005, the City issued \$4,805,000 in Series 2005 Waterworks System improvement refunding bonds to advance refund all the outstanding 1994 Waterworks System improvement bonds (principal \$4,805,000; interest rate 6.10%). The refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net assets.

The Series 2005 Waterworks System improvement refunding bonds issue is comprised of current interest bonds, par value \$4,805,000, with an annual interest rate ranging from 4.00%-5.00%. The re-acquisition price exceeded the net carrying amount of the old debt by \$143,106. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of new debt issued.

The 2007 Waterworks System improvement refunding bonds issue is comprised of current interest bonds, par value \$5,860,000, with an annual interest rate ranging from 4.50%-5.25%. The re-acquisition price exceeded the net carrying amount of the old debt by \$329,282. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of new debt issued.

On April 14, 2009, the City issued a water improvement note payable in the amount of \$62,500. This note bears an interest rate of 2.25% and matured April 14, 2010.

On April 14, 2009, the City issued a sewer improvement note payable in the amount of \$4,284,500. This note bears an interest rate of 2.25% and matured April 14, 2010.

On May 11, 2001, the City issued \$145,434 in special assessment bonds to finance the costs of sewer improvements to South Jefferson Street. These bonds bear an interest rate of 5.75% and mature December 1, 2020. During 2009, the City retired \$6,465 of these bonds, leaving an outstanding balance of \$101,018 at December 31, 2009.

The City constructed a wastewater treatment facility in 1990. The Project was financed through expenditure by the OWDA. In 1999, the City began making major improvements to its wastewater treatment facility, which was also partially financed by OWDA. During 2008, the City borrowed money through the OWDA to finance water reservoir construction and sewer design construction. All OWDA loans with the exception of the wastewater facility and wastewater facility improvement loans are currently "open" meaning that final disbursements have not been made from the OWDA; therefore, future debt service requirements have not been finalized and are not presented in the schedule of future debt service requirements below.

CITY OF DEFIANCE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

At December 31, 2009, the City had the following OWDA loans outstanding:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance Outstanding 12/31/09</u>
Wastewater facility	7.65%	1/1/2013	\$ 2,176,876
Wastewater facility improvements	3.91%	7/1/2020	5,010,969
Group 4 sewer design	3.25%	1/29/2029	726,942
Group 2 express sewer	3.36%	1/1/2030	438,923
Group 6 sewer planning	3.25%	7/1/2029	4,226,637
Group 6 sewer design	3.25%	1/1/2030	1,998,987
Group 5 sewer planning/sses	3.25%	1/1/2031	154,940
Group 4 sewer separation	3.53%	1/1/2031	386,816
Sewer design groups 1 & 2	3.20%	7/1/2014	6,095,047
Group 5 design	4.14%	1/1/2031	41,915
Group 31A river intrusion elimination project	4.14%	1/1/2031	64,824
Group 6 sewer separation	3.70%	1/1/2013	533,111
Water reservoir construction	4.09%	7/1/2037	<u>7,195,365</u>
Total			<u>\$ 29,051,352</u>

Improvements to the City's water treatment facilities were financed through expenditures by the Ohio Public Works Commission (OPWC). At December 31, 2009, the City has the following four loans outstanding with OPWC:

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance Outstanding 12/31/09</u>
OPWC loan	4.00%	1/1/2014	\$ 96,014
OPWC loan	3.00%	7/1/2017	223,013
OPWC loan	0.00%	7/1/2019	176,387
OPWC loan	0.00%	7/1/2020	<u>112,449</u>
Total			<u>\$ 607,863</u>

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

CITY OF DEFIANCE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

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

Year Ending December 31,	General Obligation Bonds			Sewer Special Assessment Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2010	\$ 540,000	\$ 435,438	\$ 975,438	\$ 6,836	\$ 5,809	\$ 12,645
2011	575,000	426,788	1,001,788	7,230	5,415	12,645
2012	595,000	401,038	996,038	7,645	5,000	12,645
2013	630,000	374,388	1,004,388	8,085	4,560	12,645
2014	655,000	342,888	997,888	8,550	4,095	12,645
2015 - 2019	3,765,000	1,177,877	4,942,877	50,714	12,511	63,225
2020 - 2023	2,375,000	281,457	2,656,457	11,958	687	12,645
Total	<u>\$ 9,135,000</u>	<u>\$ 3,439,874</u>	<u>\$ 12,574,874</u>	<u>\$ 101,018</u>	<u>\$ 38,077</u>	<u>\$ 139,095</u>

Year Ending December 31,	OWDA Loans Payable			OPWC Loans Payable		
	Principal	Interest	Total	Principal	Interest	Total
2010	\$ 1,067,177	\$ 358,642	\$ 1,425,819	\$ 77,128	\$ 10,134	\$ 87,262
2011	1,134,218	291,601	1,425,819	78,745	8,516	87,261
2012	1,205,883	219,936	1,425,819	80,419	6,842	87,261
2013	442,937	143,532	586,469	82,154	5,108	87,262
2014	460,426	126,044	586,470	72,186	3,313	75,499
2015 - 2019	2,589,594	342,756	2,932,350	211,881	3,632	215,513
2020	287,610	5,623	293,233	5,350	-	5,350
Total	<u>\$ 7,187,845</u>	<u>\$ 1,488,134</u>	<u>\$ 8,675,979</u>	<u>\$ 607,863</u>	<u>\$ 37,545</u>	<u>\$ 645,408</u>

NOTE 13 - NOTES PAYABLE

On October 6, 2009, the City issued \$4,800,000 in bond anticipation notes for the purpose of paying costs of construction on the municipal court facility. A summary of the note transactions for the year ended December 31, 2009 follows:

	Maturity Date	Outstanding 12/31/2008	Issued	Retired	Outstanding 12/31/2009
Bond anticipation notes - 2.00%	10/5/2010	\$ -	<u>\$4,800,000</u>	<u>\$ -</u>	<u>\$ 4,800,000</u>

The notes are backed by the full faith and credit of the City. Of the original proceeds of \$4,800,000 of the notes, \$3,753,593 remained unspent at December 31, 2009.

CITY OF DEFIANCE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 14 - RISK MANAGEMENT

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

The first pool provides comprehensive automobile liability, automobile physical damage, comprehensive general liability, crime and property liability, and public officials' liability coverage up to specific limits. The pool includes the following municipalities: 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, 2009, the pool had cash reserves of \$2,316,036, 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, 2009, the pool had cash reserves of \$4,876,508 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 \$1,112 for family coverage, \$845 for two-party coverage and \$363 for single party coverage. Life insurance monthly premiums are \$2.55 for family, two party, and single party coverage. During 2009, the City paid \$193,118 into the pool for coverage. The cost of coverage is paid by the fund that pays the salary of the individual employees. The amount of the risk retained within the employee is \$75,000 per individual with excess claims coverage provided by the Lloyds Company.

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

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

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

CITY OF DEFIANCE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

NOTE 15 - PENSION PLANS

A. Ohio Public Employees Retirement System

Plan Description - The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension 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 Pension Plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the Member-Directed Plan. While members in the State and local divisions may participate in all three plans, law enforcement (generally sheriffs, deputy sheriffs and township police) and public safety divisions exist only within the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Pension and the 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, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions. For 2009, member and contribution rates were consistent across all three plans. While members in the State and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Plan. The 2009 member contribution rates were 10.00% for members in State and local classifications. Public safety and law enforcement members contributed 10.10%. The City's contribution rate for 2009 was 14.00%, except for those plan members in law enforcement or public safety, for whom the City's contribution was 17.63% of covered payroll.

The City's contribution rate for pension benefits for 2009 was 7.00% from January 1 through March 31, 2009 and 8.50% from April 1 through December 31, 2009, except for those plan members in law enforcement and public safety. For those classifications, pension contributions were 10.63% from January 1 through March 31, 2009 and 12.13% from April 1 through December 31, 2009. The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2009, 2008 and 2007 were \$355,140, \$310,697 and \$343,477, respectively; 91.79% has been contributed for 2009 and 100% has been contributed for 2008 and 2007.

CITY OF DEFIANCE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

NOTE 15 - PENSION PLANS - (Continued)

B. Ohio Police and Fire Pension Fund

Plan Description - 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 OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy - Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.50% and 24.00% for police officers and firefighters, respectively. Contribution rates are established by State statute. For 2009, the portion of the City's contributions to fund pension obligations was 12.75% for police officers and 17.25% for firefighters. The City's required contributions for pension obligations to OP&F for police officers and firefighters were \$194,179 and \$224,642 for the year ended December 31, 2009, \$210,943 and \$236,046 for the year ended December 31, 2008 and \$192,789 and \$199,535 for the year ended December 31, 2007. The full amount has been contributed for 2008 and 2007. 90.82% has been contributed for police and firefighters for 2009.

NOTE 16 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

Plan Description - OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

To qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have ten years or more of qualifying Ohio service credit. The Ohio Revised Code permits, but not does mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the healthcare plan are presented separately in the OPERS financial report which may be obtained by writing to OPERS, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy - The post-employment healthcare plan was established under, and is administrated in accordance with, Internal Revenue Code Section 401(h). State statute requires that public employers fund post-employment healthcare through contributions to OPERS. A portion of each employer's contribution to the Traditional or Combined Plans is set aside for the funding of post-employment health care.

CITY OF DEFIANCE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 16 - POSTRETIREMENT BENEFIT PLANS - (Continued)

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2009, local government employers contributed 14.00% of covered payroll (17.63% for public safety and law enforcement). Each year the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for the funding of the postemployment health care benefits. The portion of employer contributions allocated to fund post-employment healthcare for 2009 was 7.00% from January 1 through March 31, 2009 and 5.50% from April 1 through December 31, 2009.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment healthcare plan.

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2009, 2008 and 2007 were \$256,793, \$310,697 and \$226,243, respectively; 91.79% has been contributed for 2009 and 100% has been contributed for 2008 and 2007.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Board of Trustees on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

B. Ohio Police and Fire Pension Fund

Plan Description - The City contributes to the OP&F Pension Fund sponsored health care program, a cost-sharing multiple-employer defined postemployment health care plan administered by OP&F. OP&F provides healthcare benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium and long term care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to post-employment 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.

The Ohio Revised Code allows, but does not mandate OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits is 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 OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy - The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50% and 24.00% of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.50% of covered payroll for police employer units and 24.00% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

CITY OF DEFIANCE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

NOTE 16 - POSTRETIREMENT BENEFIT PLANS - (Continued)

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administrated as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan into the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2009, the employer contribution allocated to the health care plan was 6.75% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that the pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions to OP&F which were allocated to fund post-employment healthcare benefits for police officers and firefighters were \$102,801 and \$87,904 for the year ended December 31, 2009, \$111,675 and \$92,366 for the year ended December 31, 2008 and \$101,995 and \$77,983 for the year ended December 31, 2007. The full amount has been contributed for 2008 and 2007. 90.82% has been contributed for police and firefighters for 2009.

NOTE 17 - 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 and other financing sources are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP);
2. Expenditures/expenses and other financing uses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP); and,
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).

CITY OF DEFIANCE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 17 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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 Balances	
	<u>General</u>
Budget basis	\$ (1,025,748)
Net adjustment for revenue accruals	(275,577)
Net adjustment for expenditure accruals	(101,469)
Adjustment for encumbrances	<u>155,360</u>
GAAP basis	<u><u>\$ (1,247,434)</u></u>

NOTE 18 - 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 <u>12/31/08</u>	Loans Disbursed <u> </u>	Principal Received <u> </u>	Balance Outstanding <u>12/31/09</u>
CDBG loans	<u>\$ 1,450,586</u>	<u>\$ 230,000</u>	<u>\$ (188,577)</u>	<u>\$ 1,492,009</u>

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

NOTE 19 - CONTINGENCIES

A. Grants

The City receives significant financial assistance from numerous federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2009.

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.

CITY OF DEFIANCE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

NOTE 20 - SIGNIFICANT SUBSEQUENT EVENT

On April 13, 2010, the City retired \$4,347,000 in general obligation bond anticipation notes and issued \$3,920,000 in new notes with an interest rate of 2.25% and a maturity date of April 13, 2011. The following table summarizes the activity.

<u>Note Issuance</u>	<u>Original Issue Date</u>	<u>Retired</u>	<u>Issued</u>
Sewer	04/14/09	\$ 4,291,000	\$ 3,871,000
Water	04/14/09	<u>56,000</u>	<u>49,000</u>
<i>Total notes</i>		<u>\$ 4,347,000</u>	<u>\$ 3,920,000</u>

The difference between the amount of the new notes issued and the amount of the old notes retired represent resources of the City used to repay the notes or new money issued to finance various projects.

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2009**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Passed Through Ohio Department of Development</i>			
Home Investment Partnerships Program (Chip)	A-C-07-111-2	14.239	245,495
Community Development Block Grant (Formula)	A-F-08-111-1	14.228	15,700
Community Development Block Grant (Home)	A-C-07-111-1	14.228	86,794
Community Development Block Grant (Revitalization)	A-T-07-111-1	14.228	310,461
Community Development Block Grant (Revolving Loans)		14.228	239,794
Total			<u>652,749</u>
Total U.S. Department of Housing and Urban Development			<u><u>898,244</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, 2009**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) reports the City of Defiance, Defiance County, Ohio, (the City) federal award programs' disbursements. The schedule has been prepared on the cash basis of accounting.

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

The City has a revolving loan fund (RLF) program to provide low-interest loans to businesses to create jobs for low to moderate income persons and also to lend money to eligible persons 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 Schedule reports loans made and administrative costs as disbursements on the Schedule. Subsequent loans are subject to the same compliance requirements imposed by HUD as the initial loans; and therefore, are reported as federal expenditures in the year of disbursement. Prior year outstanding loan balances are reported in the schedule below.

These loans are collateralized by mortgages on the property or Uniform Commercial Filings (UCC) that collateralize machinery and equipment.

Activity in the CDBG revolving loan fund during 2009 is as follows:

Beginning loans receivable balance as of January 1, 2009	\$1,450,586
Loans made	230,000
Loan principal repaid	<u>(188,577)</u>
Ending loans receivable balance as of December 31, 2009	\$1,492,009
Cash balance on hand in the revolving loan fund as of December 31, 2009	\$272,996
Administrative costs expended during 2009	\$9,794

NOTE C - MATCHING REQUIREMENTS

Certain Federal programs require the City to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The City has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

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Mary Taylor, CPA
Auditor of State

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

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

To the Members of 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 the City of Defiance, Defiance County, (the City) as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 31, 2010. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not

identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We noted certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated August 31, 2010.

We intend this report solely for the information and use of management, the audit committee, City Council, federal awarding agencies, pass-through entities, and others within the City. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

August 31, 2010



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

To the Members of 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 apply to its major federal program for the year ended December 31, 2009. The summary of auditor's results section of the accompanying schedule of findings identifies the City's major federal program. The City's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. 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 included in the Comptroller General of the United States' *Government Auditing Standards*; 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 reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Defiance, Defiance County, Ohio, complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended December 31, 2009.

Internal Control Over Compliance

The City's management is responsible for establishing and maintaining effective internal control over compliance with the 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 directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of opining on compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We noted a matter involving federal compliance not requiring inclusion in this report, that we reported to the City's management in a separate letter dated August 31, 2010.

We intend this report solely for the information and use of the audit committee, management, City Council, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

August 31, 2010

**CITY OF DEFIANCE
DEFIANCE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2009**

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 weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control 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 weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control 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(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	CDBG Downtown Revitalization Grant CFDA 14.228
<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



Mary Taylor, CPA
Auditor of State

CITY OF DEFIANCE

DEFIANCE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 21, 2010**