

**CITY OF DEFIANCE
DEFIANCE COUNTY, OHIO**

BASIC FINANCIAL STATEMENTS
(AUDITED)

FOR THE YEAR ENDED
DECEMBER 31, 2007

JOHN SEELE, FINANCE DIRECTOR



Mary Taylor, CPA

Auditor of State

Members of Council
City of Defiance
631 Perry Street
Defiance, Ohio 43512

We have reviewed the *Independent Auditor's Report* of the City of Defiance, Defiance County, prepared by Julian & Grube, Inc., for the audit period January 1, 2007 through December 31, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of Defiance is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 8, 2008

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**CITY OF DEFIANCE
DEFIANCE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

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Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report

Members of Council and Mayor
City of Defiance
631 Perry Street
Defiance, OH 43512

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, as of and for the year ended December 31, 2007, which collectively comprise the City of Defiance's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Defiance'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 obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Defiance, as of December 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the respective 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 June 11, 2008, on our consideration of the City of Defiance's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Members of Council and Mayor
City of Defiance
Page Two

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Defiance's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the City of Defiance. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, 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 "Julian & Grube, Inc." with a stylized flourish at the end.

Julian & Grube, Inc.
June 11, 2008

CITY OF DEFIANCE, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2007

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, 2007. 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 2007 are as follows:

- The total net assets of the City increased \$1,863,979. Net assets of governmental activities increased \$1,027,075 or 4.35% over 2006 and net assets of business-type activities increased \$836,904 or 5.80% over 2006.
- General revenues accounted for \$10,759,555, or 75.25%, of total governmental activities revenue. Program specific revenues accounted for \$3,539,373, or 24.75%, of total governmental activities revenue.
- The City had \$13,215,141 in expenses related to governmental activities; \$3,539,373 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$9,675,768 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$10,759,555.
- The City has two major governmental funds, the general fund and capital improvements fund. The general fund had revenues and other financing sources of \$9,904,378 in 2007. This represents a decrease of \$109,418 from 2006. The expenditures and other financing uses of the general fund which totaled \$9,347,089 in 2007, increased \$347,224 from 2006. The net increase in fund balance for the general fund was \$557,289 or 14.52%.
- The capital improvements fund had revenues and other financing sources of \$1,835,480 in 2007. This represents a decrease of \$447,320 from 2006 revenues. The expenditures of the capital improvements fund, which totaled \$1,710,007 in 2007, decreased \$258,370 from 2006. The net increase in fund balance for the capital improvements fund was \$125,473 or 15.31%.
- Net assets for the business-type activities, which are made up of the Water, Sewer, Refuse and Utility Deposit enterprise funds, increased in 2007 by \$836,904. This increase in net assets was due primarily to adequate charges for services revenue to cover operating expenses.
- In the general fund, the actual revenues came in \$838,886 higher than they were in the final budget and actual expenditures and other financing uses were \$898,595 lower than the amount in the final budget. These positive variances are the result of the City's conservative budgeting. Budgeted revenues increased \$78,742 from the original to the final budget. Budgeted expenditures and other financing uses increased \$710,275 from the original to the final budget due primarily to an increase in the cost of general government and security of persons and property expenditures.

Using this Annual Financial Report

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

CITY OF DEFIANCE, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2007

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 2007?" 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, 2007

Governmental Funds

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

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental funds are the general fund and capital improvements fund. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 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 25-28 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 29 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 30-62 of this report.

CITY OF DEFIANCE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Government-Wide Financial Analysis

The table below provides a summary of the City's net assets at December 31, 2007 and 2006:

	Net Assets					
	Governmental	Business-type	Governmental	Business-type	2007	2006
	Activities	Activities	Activities	Activities	Total	Total
	<u>2007</u>	<u>2007</u>	<u>2006</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
<u>Assets</u>						
Current and other assets	\$ 12,866,397	\$ 5,201,409	\$ 12,018,728	\$ 5,581,632	\$ 18,067,806	\$ 17,600,360
Capital assets	<u>14,517,782</u>	<u>43,583,935</u>	<u>14,590,303</u>	<u>35,444,752</u>	<u>58,101,717</u>	<u>50,035,055</u>
Total assets	<u>27,384,179</u>	<u>48,785,344</u>	<u>26,609,031</u>	<u>41,026,384</u>	<u>76,169,523</u>	<u>67,635,415</u>
<u>Liabilities</u>						
Long-term liabilities outstanding	1,154,702	32,259,798	1,634,665	25,948,577	33,414,500	27,583,242
Other liabilities	<u>1,605,169</u>	<u>1,257,234</u>	<u>1,377,133</u>	<u>646,399</u>	<u>2,862,403</u>	<u>2,023,532</u>
Total liabilities	<u>2,759,871</u>	<u>33,517,032</u>	<u>3,011,798</u>	<u>26,594,976</u>	<u>36,276,903</u>	<u>29,606,774</u>
<u>Net Assets</u>						
Invested in capital assets, net of related debt	13,799,408	11,696,962	13,549,449	9,780,309	25,496,370	23,329,758
Restricted	5,998,386	-	6,109,432	-	5,998,386	6,109,432
Unrestricted	<u>4,826,514</u>	<u>3,571,350</u>	<u>3,938,352</u>	<u>4,651,099</u>	<u>8,397,864</u>	<u>8,589,451</u>
Total net assets	<u>\$ 24,624,308</u>	<u>\$ 15,268,312</u>	<u>\$ 23,597,233</u>	<u>\$ 14,431,408</u>	<u>\$ 39,892,620</u>	<u>\$ 38,028,641</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2007, the City's assets exceeded liabilities by \$39,892,620. At year-end, net assets were \$24,624,308 and \$15,268,312 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 76.28% 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, 2007, were \$13,799,408 and \$11,696,962 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, 2007, 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, \$5,998,386, 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 \$4,826,514 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, 2007**

The table below shows the changes in net assets for fiscal year 2007 and 2006.

	Change in Net Assets					
	Governmental Activities <u>2007</u>	Business-type Activities <u>2007</u>	Governmental Activities <u>2006</u>	Business-type Activities <u>2006</u>	2007 Total	2006 Total
Revenues						
Program revenues:						
Charges for services	\$ 1,927,921	\$ 8,851,036	\$ 2,191,432	\$ 7,993,458	\$ 10,778,957	\$ 10,184,890
Operating grants and contributions	1,409,456	23,077	1,697,228	326,154	1,432,533	2,023,382
Capital grants and contributions	<u>201,996</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>201,996</u>	<u>-</u>
Total program revenues	<u>3,539,373</u>	<u>8,874,113</u>	<u>3,888,660</u>	<u>8,319,612</u>	<u>12,413,486</u>	<u>12,208,272</u>
General revenues:						
Property taxes	1,028,633	-	934,809	-	1,028,633	934,809
Income taxes	8,168,968	-	7,455,373	-	8,168,968	7,455,373
Unrestricted grants and entitlements	949,213	-	1,124,495	-	949,213	1,124,495
Investment earnings	404,382	229,311	346,052	196,364	633,693	542,416
Miscellaneous	<u>208,359</u>	<u>327,942</u>	<u>380,086</u>	<u>31,901</u>	<u>536,301</u>	<u>411,987</u>
Total general revenues	<u>10,759,555</u>	<u>557,253</u>	<u>10,240,815</u>	<u>228,265</u>	<u>11,316,808</u>	<u>10,469,080</u>
Total revenues	<u>14,298,928</u>	<u>9,431,366</u>	<u>14,129,475</u>	<u>8,547,877</u>	<u>23,730,294</u>	<u>22,677,352</u>
Expenses:						
General government	3,438,927	-	2,493,160	-	3,438,927	2,493,160
Security of persons and property	5,559,839	-	5,118,991	-	5,559,839	5,118,991
Public health and welfare	253,008	-	213,337	-	253,008	213,337
Transportation	2,149,203	-	1,556,748	-	2,149,203	1,556,748
Community environment	523,893	-	424,583	-	523,893	424,583
Leisure time activity	961,329	-	897,522	-	961,329	897,522
Economic development	275,686	-	274,914	-	275,686	274,914
Other	4,908	-	4,732	-	4,908	4,732
Interest and fiscal charges	48,348	-	79,072	-	48,348	79,072
Water	-	3,827,063	-	3,830,920	3,827,063	3,830,920
Sewer	-	4,193,689	-	3,178,453	4,193,689	3,178,453
Other entrprise fund	<u>-</u>	<u>630,422</u>	<u>-</u>	<u>608,056</u>	<u>630,422</u>	<u>608,056</u>
Total expenses	<u>13,215,141</u>	<u>8,651,174</u>	<u>11,063,059</u>	<u>7,617,429</u>	<u>21,866,315</u>	<u>18,680,488</u>
Transfers	<u>(56,712)</u>	<u>56,712</u>	<u>(605,176)</u>	<u>605,176</u>	<u>-</u>	<u>-</u>
Change in net assets	1,027,075	836,904	2,461,240	1,535,624	1,863,979	3,996,864
Net assets, beg. of year	<u>23,597,233</u>	<u>14,431,408</u>	<u>21,135,993</u>	<u>12,895,784</u>	<u>38,028,641</u>	<u>34,031,777</u>
Net assets, end of year	<u>\$ 24,624,308</u>	<u>\$ 15,268,312</u>	<u>\$ 23,597,233</u>	<u>\$ 14,431,408</u>	<u>\$ 39,892,620</u>	<u>\$ 38,028,641</u>

CITY OF DEFIANCE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Governmental Activities

Governmental activities net assets increased \$1,027,075 in 2007. This increase is a result of an increase in municipal income tax revenue.

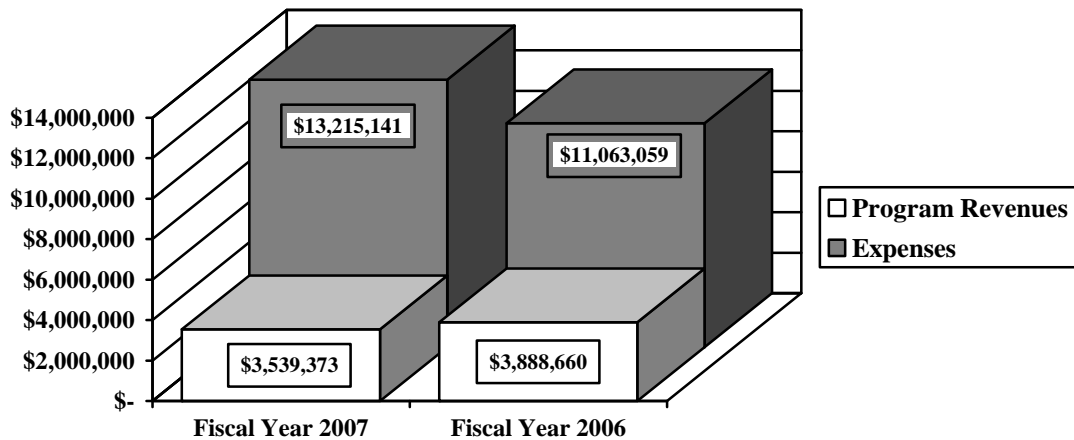
Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$5,559,839 of the total expenses of the City. These expenses were partially funded by \$1,180,003 in direct charges to users of the services. Transportation expenses totaled \$2,149,203. Transportation expenses were partially funded by \$815,142 in operating grants and contributions.

The state and federal government contributed to the City a total of \$1,409,456 in operating grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions, \$432,596 subsidized general government programs.

General revenues totaled \$10,759,555, and amounted to 75.25% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$9,197,601. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government and local government revenue assistance, making up \$949,213.

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

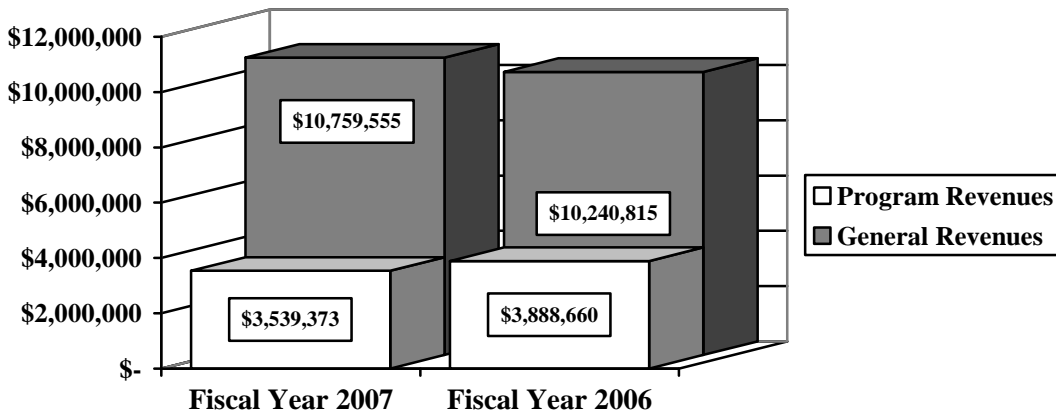
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Governmental Activities

	Total Cost of Services <u>2007</u>	Net Cost of Services <u>2007</u>	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>
Program Expenses:				
General government	\$ 3,438,927	\$ 2,541,883	\$ 2,493,160	\$ 1,527,807
Security of persons and property	5,559,839	4,292,029	5,118,991	3,917,621
Public health and welfare	253,008	186,303	213,337	159,438
Transportation	2,149,203	1,132,065	1,556,748	674,710
Community environment	523,893	344,559	424,583	191,555
Leisure time activity	961,329	924,188	897,522	865,436
Economic development	275,686	201,485	274,914	(245,972)
Other	4,908	4,908	4,732	4,732
Interest and fiscal charges	48,348	48,348	79,072	79,072
Total	\$ <u>13,215,141</u>	\$ <u>9,675,768</u>	\$ <u>11,063,059</u>	\$ <u>7,174,399</u>

The dependence upon general revenues for governmental activities is apparent, with 73.22% of expenses supported through taxes and other general revenues.

Governmental Activities – General and Program Revenues



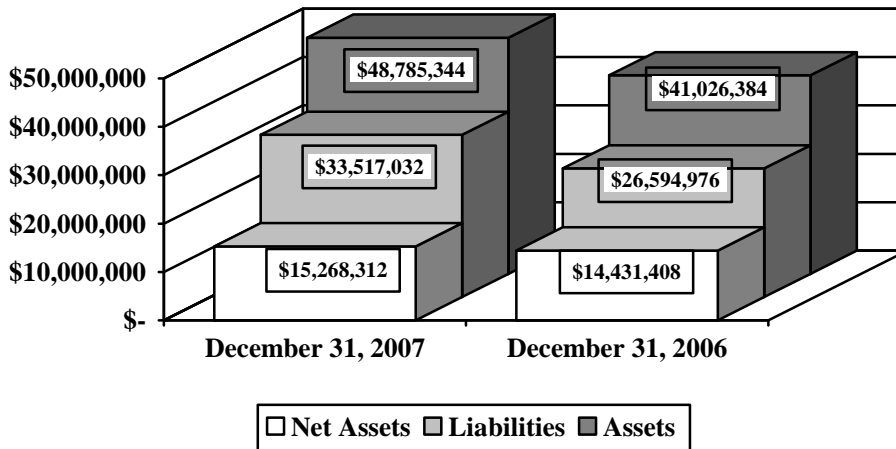
CITY OF DEFIANCE, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007

Business-type Activities

Business-type activities include the water, sewer, refuse and utility deposit enterprise funds. These programs had program revenues of \$8,874,113, general revenues of \$557,253, transfers in of \$56,712 and expenses of \$8,651,174 for 2007. 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 (as presented on the balance sheet on page 20) reported a combined fund balance of \$9,899,734 which is \$574,976 above last year's total of \$9,324,758. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2007 for all major and nonmajor governmental funds.

	Fund Balances 12/31/07	Fund Balances 12/31/06	Increase/ (Decrease)
Major funds:			
General	\$ 4,395,917	\$ 3,838,628	\$ 557,289
Capital improvements	944,825	819,352	125,473
Other nonmajor governmental funds	<u>4,558,992</u>	<u>4,666,778</u>	<u>(107,786)</u>
Total	<u>\$ 9,899,734</u>	<u>\$ 9,324,758</u>	<u>\$ 574,976</u>

CITY OF DEFIANCE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007**

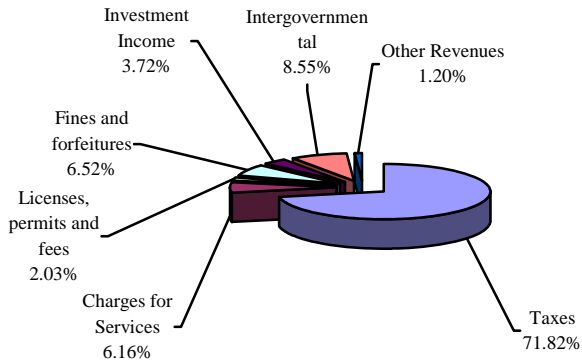
General Fund

The City's general fund balance increased \$557,289. The table that follows assists in illustrating the revenues of the general fund.

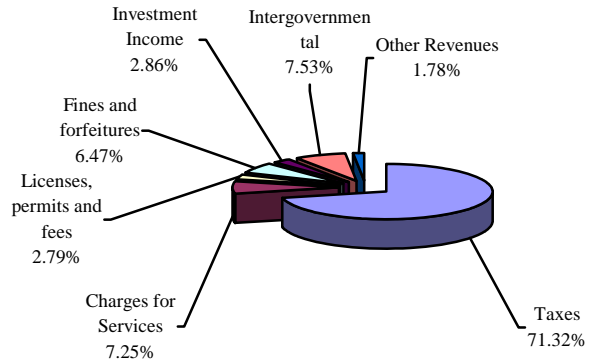
	<u>2007</u> <u>Amount</u>	<u>2006</u> <u>Amount</u>	<u>Increase/ Decrease</u>	<u>Percentage Change</u>
Revenues				
Taxes	\$ 7,110,749	\$ 6,594,196	\$ 516,553	7.83 %
Charges for services	610,120	671,008	(60,888)	(9.07) %
Licenses, permits and fees	200,697	257,903	(57,206)	(22.18) %
Fines and forfeitures	645,114	598,283	46,831	7.83 %
Investment income	368,532	264,380	104,152	39.39 %
Intergovernmental	846,329	696,405	149,924	21.53 %
Other	<u>118,366</u>	<u>164,192</u>	<u>(45,826)</u>	<u>(27.91) %</u>
Total	<u>\$ 9,899,907</u>	<u>\$ 9,246,367</u>	<u>\$ 653,540</u>	<u>7.07 %</u>

Tax revenue represents 71.82% of all general fund revenue. Tax revenue increased by \$516,533 or 7.83% from the prior year. This increase is due mainly to increased collections of income taxes. The increase of \$149,924 or 21.53% in the area of intergovernmental revenues can be attributed to an increase in estate taxes being available for advance at year end. The increase in investment income is due to additional investments held by the City during the year. Charges for services decreased \$60,888 or 9.07%. All other revenue remained comparable to 2006.

Revenues – Fiscal Year 2007



Revenues – Fiscal Year 2006



CITY OF DEFIANCE, OHIO

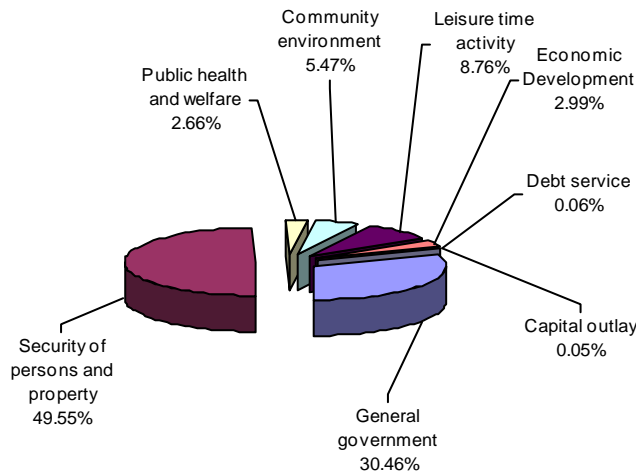
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007**

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

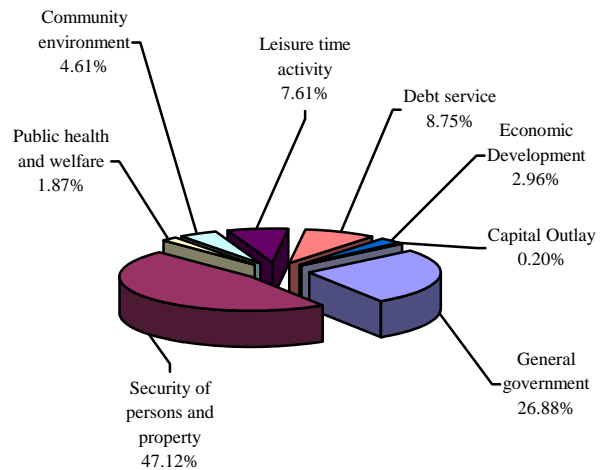
	<u>2007</u> <u>Amount</u>	<u>2006</u> <u>Amount</u>	<u>Increase/ Decrease</u>	<u>Percentage Change</u>
<u>Expenditures</u>				
General government	\$ 2,726,528	\$ 2,286,166	\$ 440,362	19.26 %
Security of persons and property	4,437,296	4,007,710	429,586	10.72 %
Public health and welfare	237,907	159,148	78,759	49.49 %
Community environment	489,268	392,490	96,778	24.66 %
Leisure time activity	783,809	647,025	136,784	21.14 %
Economic development	267,381	251,835	15,546	6.17 %
Capital outlay	4,471	17,429	(12,958)	(74.35) %
Debt service	5,429	744,062	(738,633)	(99.27) %
Total	<u>\$ 8,952,089</u>	<u>\$ 8,505,865</u>	<u>\$ 446,224</u>	5.25 %

Expenditures of the general fund increased \$446,224 or 5.25%. The largest expenditure of the City, security of persons and property, increased \$429,586 or 10.72%. This increase is primarily due to an increase in wages and benefits paid by the City to police and fire. General government expenditures increased \$440,362 or 19.26%. This increase can be attributed to an increase in wages and benefits paid by the City. Debt service expenditures decreased \$738,633 or 99.27%. This decrease is due to the City retiring a bond anticipation note of \$722,000 out of the general fund during 2006. All other expenditures remained comparable to 2006.

Expenditures - Fiscal Year 2007



Expenditures - Fiscal Year 2006



Capital Improvements Fund

The capital improvements fund had revenues and other financing sources of \$1,835,480 in 2007. This represents a decrease of \$447,320 from 2006 revenues. The expenditures of the capital improvements fund, which totaled \$1,710,007 in 2007, decreased \$258,370 from 2006. The net increase in fund balance for the capital improvements fund was \$125,473 or 15.31%.

CITY OF DEFIANCE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Budgeting Highlights

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

Budgetary information is presented for the general fund. In the general fund, the actual revenues came in \$838,886 higher than they were in the final budget and actual expenditures were \$898,595 lower than the amount in the final budget. These positive variances are the result of the City's conservative budgeting. Budgeted revenues increased \$78,742 from the original to the final budget. Budgeted expenditures increased \$710,275 from the original to the final budget due primarily to an increase in the cost of general government and security of persons and property 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, 2007, the City had \$58,101,717 (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, \$14,517,782 was reported in governmental activities and \$43,583,935 was reported in business-type activities. The following table shows December 31, 2007 capital assets compared to December 31, 2006:

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

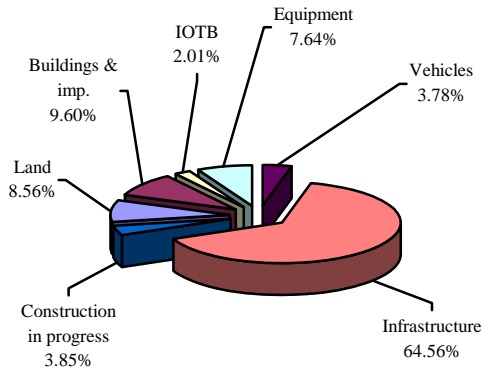
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Land	\$ 1,243,358	\$ 1,243,358	\$ 267,100	\$ 267,100	\$ 1,510,458	\$ 1,510,458
IOTB	291,140	325,668	503,592	369,371	794,732	695,039
Buildings and improvements	1,393,045	1,490,363	20,525,050	21,157,555	21,918,095	22,647,918
Equipment	1,109,585	1,138,164	331,383	241,874	1,440,968	1,380,038
Vehicles	548,738	517,700	96,451	59,082	645,189	576,782
Infrastructure	9,372,844	9,814,066	10,714,581	11,088,099	20,087,425	20,902,165
Construction in progress	<u>559,072</u>	<u>60,984</u>	<u>11,145,778</u>	<u>2,261,671</u>	<u>11,704,850</u>	<u>2,322,655</u>
Totals	<u>\$ 14,517,782</u>	<u>\$ 14,590,303</u>	<u>\$ 43,583,935</u>	<u>\$ 35,444,752</u>	<u>\$ 58,101,717</u>	<u>\$ 50,035,055</u>

CITY OF DEFIANCE, OHIO

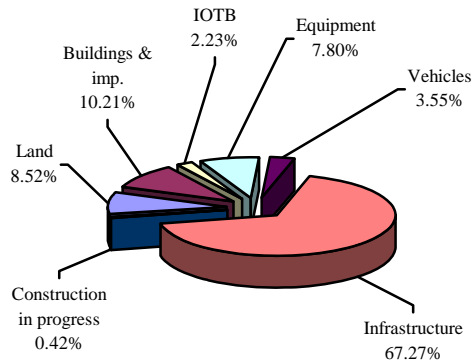
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007**

The following graphs show the breakdown of governmental capital assets by category for 2007 and 2006.

Capital Assets - Governmental Activities 2007



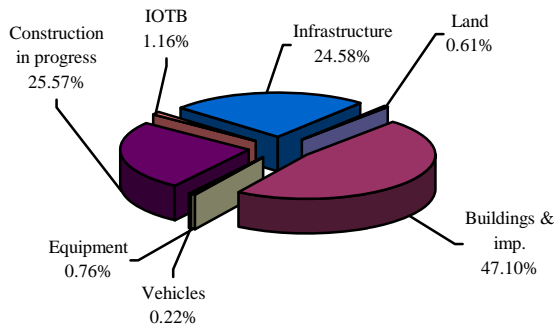
Capital Assets - Governmental Activities 2006



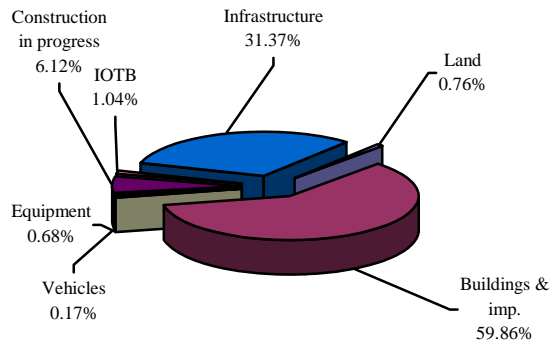
The capital asset category infrastructure includes roads, bridges, culverts, sidewalks and curbs. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 64.56% of the City's total governmental capital assets.

The following graphs show the breakdown of business-type capital assets by category for 2007 and 2006.

Capital Assets - Business-Type Activities 2007



Capital Assets - Business-Type Activities 2006



The City's second largest business-type capital asset category is infrastructure that primarily includes water and sewer lines. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 24.58% of the City's total business-type capital assets.

CITY OF DEFIANCE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007**

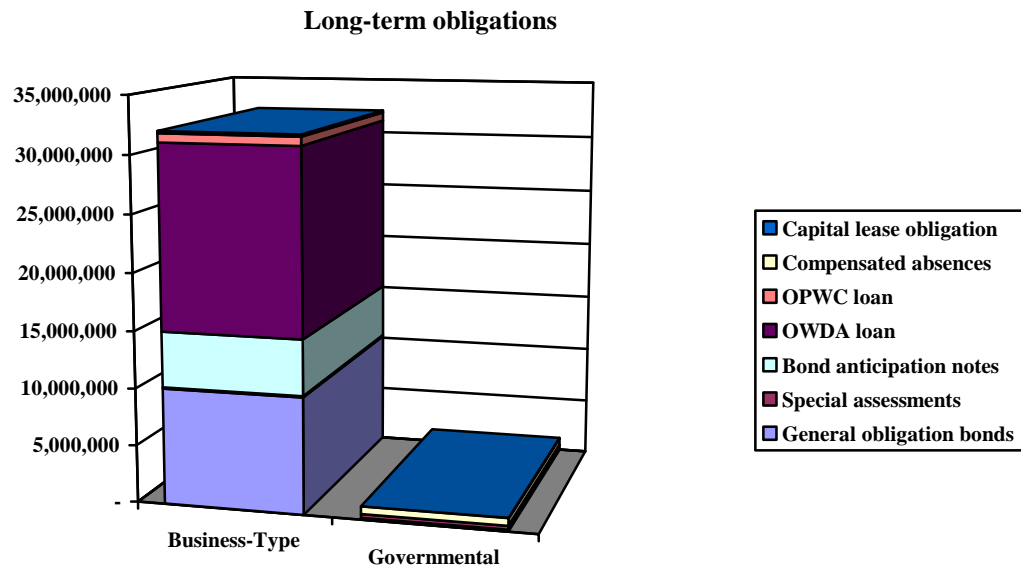
Debt Administration

The City had the following long-term obligations outstanding at December 31, 2007 and 2006:

	Governmental Activities	
	<u>2007</u>	<u>2006</u>
Compensated absences	\$ 661,328	\$ 593,811
General obligation bonds	160,000	195,000
Special assessment bonds	317,284	395,252
Capital lease obligation	16,090	15,602
Bond anticipation notes	<u>-</u>	<u>435,000</u>
Total long-term obligations	<u>\$ 1,154,702</u>	<u>\$ 1,634,665</u>

	Business-type Activities	
	<u>2007</u>	<u>2006</u>
General obligation bonds	\$ 10,155,000	\$ 10,750,000
Special assessment bonds	113,596	119,377
OWDA loan	16,026,896	10,094,686
OPWC loan	757,486	830,084
Bond anticipation notes	4,819,000	3,850,000
Capital lease obligation	14,996	20,296
Compensated absences	<u>177,966</u>	<u>188,442</u>
Total long-term obligations	<u>\$ 32,064,940</u>	<u>\$ 25,852,885</u>

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



CITY OF DEFIANCE, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007

Economic Conditions and Outlook

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

Ranked in the Top 100 U.S. Small Towns according to "Site Selection" magazine, the City of Defiance has taken a proactive approach to developing new industry. In particular, R & L Enterprise Park on the west side of Defiance offers an excellent site for manufacturing, warehousing, service business or office needs. It consists of 750 acres of flat to gently rolling land which has access to two gas service providers as well as feasibility of two railroads servicing the site. Additionally, the north corridor of the City and the Elliott Road area has been primed for development. The City and Defiance County have worked together for funding for roadway improvements and installation of a waterline. The City continues to attract interest by introducing new incentives through tax increment financing, enterprise zone agreements, and revolving loans in cooperation with the Defiance County Economic Development Office.

Recently, the Ohio Department of Transportation (ODOT) has engineered plans to provide a connector road from West High Street to Ralston Avenue as part of the U.S. 24 improvements that they anticipate will take place over the next 3 to 5 years. Also, ODOT is making the necessary provisions for an interchange at St. Rt. 281 and U.S. 24. Once this interchange is complete, ODOT will be working with City officials on the expansion of the overpass at St. Rt. 66 and U.S. 24. The City and ODOT have already agreed to engineering, Right of Way and construction issues for this overpass expansion as part of the 2009-2010 ODOT plan. In preparation for the U.S. 24 project which will widen the current two-lane roadway to a four-lane expressway from Toledo, Ohio to Ft. Wayne, Indiana, the City of Defiance and ODOT have been planning for upgrades to the downtown signalization system. These upgrades are necessary in order to handle the detoured traffic during the construction of the U.S. 24 project.

In addition to the above roadway improvements, planning for the construction of an above ground 120 day reservoir continues.

Public and private cooperation and support is widespread as demonstrated by the City making an application to become part of the Main Street USA program.

The City of Defiance is poised for significant positive economic changes. The City voters passed a two-tenths percent income tax in May 2005 which became effective June 2005. Additionally, the City Council is approved rate increases for its water and sewer customers which became effective in 2006.

The difficult economic conditions that surround local governments in the State of Ohio are well known, but City government believes it is taking the steps necessary to ensure a future of continued economic growth.

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 Seele, Finance Director, City of Defiance, 631 Perry Street, Defiance, Ohio 43512.

**BASIC
FINANCIAL STATEMENTS**

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CITY OF DEFIANCE, OHIO

STATEMENT OF NET ASSETS
DECEMBER 31, 2007

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets:			
Equity in pooled cash and cash equivalents.	\$ 7,976,634	\$ 4,141,955	\$ 12,118,589
Investments	220,732	-	220,732
Cash with escrow agent	-	76,645	76,645
Receivables (net of allowances for uncollectibles):			
Income taxes	874,948	-	874,948
Property and other local taxes	912,926	-	912,926
Accounts	274,343	383,391	657,734
Loans.	1,454,768	-	1,454,768
Special assessments	338,964	131,926	470,890
Due from other governments	792,979	-	792,979
Materials and supplies inventory	17,940	37,519	55,459
Internal balance.	2,163	(2,163)	-
Unamortized bond issuance costs	-	194,859	194,859
Restricted assets:			
Equity in pooled cash and cash equivalents	-	237,277	237,277
Capital assets:			
Land and construction-in-progress	1,802,430	11,412,878	13,215,308
Depreciable capital assets, net	12,715,352	32,171,057	44,886,409
Total capital assets.	<u>14,517,782</u>	<u>43,583,935</u>	<u>58,101,717</u>
Total assets.	<u>27,384,179</u>	<u>48,785,344</u>	<u>76,169,523</u>
Liabilities:			
Accounts payable	207,130	63,799	270,929
Contracts payable	-	595,367	595,367
Accrued wages and benefits	111,229	40,830	152,059
Retainage payable	-	76,645	76,645
Due to other governments.	235,281	63,407	298,688
Due to claimants.	28,553	-	28,553
Accrued interest payable.	8,976	179,909	188,885
Payable from restricted assets:			
Refundable deposits	-	237,277	237,277
Unearned revenue.	789,000	-	789,000
Bond anticipation notes payable.	225,000	-	225,000
Long-term liabilities:			
Due within one year.	388,686	6,425,651	6,814,337
Due in more than one year	766,016	25,834,147	26,600,163
Total liabilities.	<u>2,759,871</u>	<u>33,517,032</u>	<u>36,276,903</u>
Net assets:			
Invested in capital assets, net of related debt	13,799,408	11,696,962	25,496,370
Restricted for:			
Capital projects	967,504	-	967,504
Debt service.	1,194,515	-	1,194,515
Transportation projects	706,547	-	706,547
Safety projects.	400,250	-	400,250
Special projects.	551,384	-	551,384
Community environment projects.	130,221	-	130,221
Economic development projects	1,826,439	-	1,826,439
Health projects	19,564	-	19,564
Parks and recreations projects.	34,995	-	34,995
Other purposes	166,967	-	166,967
Unrestricted	<u>4,826,514</u>	<u>3,571,350</u>	<u>8,397,864</u>
Total net assets	<u>\$ 24,624,308</u>	<u>\$ 15,268,312</u>	<u>\$ 39,892,620</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF DEFIANCE, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General government	\$ 3,438,927	\$ 464,448	\$ 432,596	\$ -
Security of persons and property	5,559,839	1,180,003	87,807	-
Public health and welfare	253,008	66,705	-	-
Transportation	2,149,203	-	815,142	201,996
Community environment	523,893	179,334	-	-
Leisure time activity	961,329	37,141	-	-
Economic development	275,686	290	73,911	-
Other	4,908	-	-	-
Interest and fiscal charges	48,348	-	-	-
Total governmental activities	<u>13,215,141</u>	<u>1,927,921</u>	<u>1,409,456</u>	<u>201,996</u>
Business-type Activities:				
Water	3,827,063	4,020,403	11,311	-
Sewer	4,193,689	4,158,792	11,766	-
Refuse	<u>630,422</u>	<u>671,841</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>8,651,174</u>	<u>8,851,036</u>	<u>23,077</u>	<u>-</u>
Total primary government	<u>\$ 21,866,315</u>	<u>\$ 10,778,957</u>	<u>\$ 1,432,533</u>	<u>\$ 201,996</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	
Miscellaneous	
Total general revenues	
Transfers	
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
\$ (2,541,883)	\$ -	\$ (2,541,883)
(4,292,029)	-	(4,292,029)
(186,303)	-	(186,303)
(1,132,065)	-	(1,132,065)
(344,559)	-	(344,559)
(924,188)	-	(924,188)
(201,485)	-	(201,485)
(4,908)	-	(4,908)
(48,348)	-	(48,348)
<u>(9,675,768)</u>	<u>-</u>	<u>(9,675,768)</u>
-	204,651	204,651
-	(23,131)	(23,131)
-	41,419	41,419
<u>-</u>	<u>222,939</u>	<u>222,939</u>
(9,675,768)	222,939	(9,452,829)
6,502,751	-	6,502,751
27,315	-	27,315
1,638,902	-	1,638,902
664,808	-	664,808
363,825	-	363,825
949,213	-	949,213
404,382	229,311	633,693
208,359	327,942	536,301
<u>10,759,555</u>	<u>557,253</u>	<u>11,316,808</u>
(56,712)	56,712	-
1,027,075	836,904	1,863,979
23,597,233	14,431,408	38,028,641
<u>\$ 24,624,308</u>	<u>\$ 15,268,312</u>	<u>\$ 39,892,620</u>

CITY OF DEFIANCE, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2007

	<u>General</u>	<u>Capital Improvements</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents.	\$ 3,674,258	\$ 959,462	\$ 2,914,947	\$ 7,548,667
Investments	220,732	-	-	220,732
Receivables (net of allowance for uncollectibles):				
Income taxes.	669,672	201,911	3,365	874,948
Property and other local taxes.	693,657	-	219,269	912,926
Accounts.	215,301	-	59,042	274,343
Loans	-	-	1,454,768	1,454,768
Special assessments	-	-	338,964	338,964
Due from other governments.	392,022	51,700	349,257	792,979
Materials and supplies inventory.	-	-	17,940	17,940
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 5,865,642</u>	<u>\$ 1,213,073</u>	<u>\$ 5,357,552</u>	<u>\$ 12,436,267</u>
Liabilities:				
Accounts payable.	\$ 185,320	\$ 14,237	\$ 7,573	\$ 207,130
Accrued wages and benefits	96,957	-	14,272	111,229
Due to other governments	196,140	-	39,141	235,281
Accrued interest payable	-	6,332	-	6,332
Bond anticipation note payable.	-	225,000	-	225,000
Due to claimants	28,553	-	-	28,553
Deferred revenue.	347,755	22,679	563,574	934,008
Unearned revenue.	615,000	-	174,000	789,000
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	<u>1,469,725</u>	<u>268,248</u>	<u>798,560</u>	<u>2,536,533</u>
Fund balances:				
Reserved for encumbrances	303,666	618,478	54,011	976,155
Reserved for materials and supplies inventory.	-	-	17,940	17,940
Reserved for loans	-	-	1,454,768	1,454,768
Reserved for debt service	-	-	858,195	858,195
Reserved for noncurrent investments	220,732	-	-	220,732
Unreserved undesignated, reported in:				
General fund	3,871,519	-	-	3,871,519
Special revenue funds.	-	-	2,174,078	2,174,078
Capital projects funds.	-	326,347	-	326,347
	<hr/>	<hr/>	<hr/>	<hr/>
Total fund balances.	<u>4,395,917</u>	<u>944,825</u>	<u>4,558,992</u>	<u>9,899,734</u>
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	<u>\$ 5,865,642</u>	<u>\$ 1,213,073</u>	<u>\$ 5,357,552</u>	<u>\$ 12,436,267</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, 2007

Total governmental fund balances	\$	9,899,734
<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.		14,517,782
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Income tax	\$ 98,277	
Property and other local taxes	75,620	
Special assessments	338,964	
Intergovernmental	421,147	
Total		934,008
An internal service fund is used by management to charge the costs of health care to individual funds. The assets and liabilities of the internal service fund is included in governmental activities on the statement of net assets. The net assets of the internal service fund, including an internal balance of \$2,163, are:		430,130
Accrued interest payable on long-term bonds is not due and payable in the current period and therefore is not reported in the funds.		(2,644)
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	(160,000)	
Special assessment bonds	(317,284)	
Compensated absences	(661,328)	
Capital lease obligation	(16,090)	
Total		(1,154,702)
Net assets of governmental activities	\$	24,624,308

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, 2007

	<u>General</u>	<u>Capital Improvements</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Income taxes	\$ 6,484,161	\$ 1,633,298	\$ 27,222	\$ 8,144,681
Property and other local taxes	626,588	-	363,825	990,413
Charges for services	610,120	-	290	610,410
Licenses, permits and fees	200,697	-	210,498	411,195
Fines and forfeitures	645,114	-	261,202	906,316
Intergovernmental	846,329	201,996	1,282,860	2,331,185
Special assessments	-	-	128,306	128,306
Investment income	368,532	-	94,650	463,182
Donations	52,043	-	40,788	92,831
Other	66,323	-	142,877	209,200
Total revenues.	<u>9,899,907</u>	<u>1,835,294</u>	<u>2,552,518</u>	<u>14,287,719</u>
Expenditures:				
Current:				
General government	2,726,528	-	583,832	3,310,360
Security of persons and property.	4,437,296	-	731,199	5,168,495
Public health and welfare	237,907	-	-	237,907
Transportation	-	-	925,825	925,825
Community environment.	489,268	-	-	489,268
Leisure time activity	783,809	-	-	783,809
Economic development and assistance	267,381	-	8,305	275,686
Other	-	-	4,908	4,908
Capital outlay.	4,471	1,259,886	649,829	1,914,186
Debt service:				
Principal retirement	3,983	435,000	112,968	551,951
Interest and fiscal charges	1,446	15,121	32,657	49,224
Total expenditures	<u>8,952,089</u>	<u>1,710,007</u>	<u>3,049,523</u>	<u>13,711,619</u>
Excess (deficiency) of revenues over (under) expenditures	<u>947,818</u>	<u>125,287</u>	<u>(497,005)</u>	<u>576,100</u>
Other financing sources (uses):				
Premium on notes issued	-	186	-	186
Capital lease transaction	4,471	-	-	4,471
Transfers in	-	-	395,000	395,000
Transfers out	(395,000)	-	(5,781)	(400,781)
Total other financing sources (uses)	<u>(390,529)</u>	<u>186</u>	<u>389,219</u>	<u>(1,124)</u>
Net change in fund balances	557,289	125,473	(107,786)	574,976
Fund balances at beginning of year	<u>3,838,628</u>	<u>819,352</u>	<u>4,666,778</u>	<u>9,324,758</u>
Fund balances at end of year	<u>\$ 4,395,917</u>	<u>\$ 944,825</u>	<u>\$ 4,558,992</u>	<u>\$ 9,899,734</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, 2007

Net change in fund balances - total governmental funds \$ 574,976

*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 depreciation expense exceeded capital outlays in the current period.

Capital asset additions	\$	942,062	
Current year depreciation		<u>(945,021)</u>	
Total			(2,959)

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. (69,562)

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

Income taxes		24,287	
Property and other local taxes		38,220	
Special assessments		(69,182)	
Intergovernmental		2,773	
Interest		<u>(4,894)</u>	
Total			(8,796)

The inception of capital lease transactions are reported as an other financing source in the governmental funds, but the capital lease obligation incurred increases liabilities on the statement of net assets. (4,471)

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		35,000	
Special assessment bonds		77,968	
Bond anticipation notes		435,000	
Capital lease obligations		<u>3,983</u>	
Total			551,951

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 690

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. (67,517)

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 \$40,223, is allocated among the governmental activities. 52,763

Change in net assets of governmental activities \$ 1,027,075

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, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Income taxes.	\$ 6,351,000	\$ 6,351,000	\$ 6,636,039	\$ 285,039
Property and other local taxes	602,000	602,000	627,505	25,505
Charges for services	357,600	357,600	480,181	122,581
Licenses, permits and fees	143,500	143,500	179,334	35,834
Fines and forfeitures	533,000	533,000	641,301	108,301
Intergovernmental	745,000	745,000	817,339	72,339
Investment income	220,000	220,000	368,532	148,532
Other	90,000	168,742	209,497	40,755
Total revenues.	<u>9,042,100</u>	<u>9,120,842</u>	<u>9,959,728</u>	<u>838,886</u>
Expenditures:				
Current:				
General government	2,769,023	3,236,037	2,847,373	388,664
Security of persons and property.	4,675,491	4,813,176	4,616,356	196,820
Public health and welfare	274,797	291,397	262,033	29,364
Community environment.	606,931	641,140	527,465	113,675
Leisure time activity	787,010	837,777	807,991	29,786
Economic development and assistance	305,042	309,042	267,756	41,286
Total expenditures	<u>9,418,294</u>	<u>10,128,569</u>	<u>9,328,974</u>	<u>799,595</u>
Excess (deficiency) of revenues under expenditures.	<u>(376,194)</u>	<u>(1,007,727)</u>	<u>630,754</u>	<u>1,638,481</u>
Other financing uses:				
Transfers out	<u>(494,000)</u>	<u>(494,000)</u>	<u>(395,000)</u>	<u>99,000</u>
Total other financing sources.	<u>(494,000)</u>	<u>(494,000)</u>	<u>(395,000)</u>	<u>99,000</u>
Net change in fund balance.	(870,194)	(1,501,727)	235,754	1,737,481
Fund balance at beginning of year	2,900,789	2,900,789	2,900,789	-
Prior year encumbrances appropriated	<u>312,097</u>	<u>312,097</u>	<u>312,097</u>	<u>-</u>
Fund balance at end of year.	<u>\$ 2,342,692</u>	<u>\$ 1,711,159</u>	<u>\$ 3,448,640</u>	<u>\$ 1,737,481</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF DEFIANCE, OHIO

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2007

	Business-type Activities - Enterprise Funds				Governmental
	Water	Sewer	Nonmajor	Total	Activities - Internal Service Fund
Assets:					
Current assets:					
Equity in pooled cash and cash equivalents	\$ 822,189	\$ 2,918,328	\$ 401,438	\$ 4,141,955	\$ 427,967
Cash with escrow agent	-	76,645	-	76,645	-
Receivables (net of allowance for uncollectibles):					
Accounts	159,860	189,683	33,848	383,391	-
Special assessments.	84,923	47,003	-	131,926	-
Materials and supplies inventory	28,408	9,111	-	37,519	-
Total current assets	<u>1,095,380</u>	<u>3,240,770</u>	<u>435,286</u>	<u>4,771,436</u>	<u>427,967</u>
Noncurrent assets:					
Restricted equity in pooled cash and cash equivalents.	-	-	237,277	237,277	-
Unamortized bond issuance costs.	194,859	-	-	194,859	-
Capital assets:					
Land and construction-in-progress.	6,411,400	5,001,478	-	11,412,878	-
Depreciable capital assets, net	17,311,357	14,859,700	-	32,171,057	-
Total capital assets.	<u>23,722,757</u>	<u>19,861,178</u>	<u>-</u>	<u>43,583,935</u>	<u>-</u>
Total noncurrent assets.	<u>23,917,616</u>	<u>19,861,178</u>	<u>237,277</u>	<u>44,016,071</u>	<u>-</u>
Total assets	<u>25,012,996</u>	<u>23,101,948</u>	<u>672,563</u>	<u>48,787,507</u>	<u>427,967</u>
Liabilities:					
Current liabilities:					
Accounts payable.	49,789	14,010	-	63,799	-
Contracts payable.	-	595,367	-	595,367	-
Accrued wages and benefits	23,827	17,003	-	40,830	-
Retainage payable	-	76,645	-	76,645	-
Due to other governments	35,895	27,512	-	63,407	-
Bond anticipation notes payable.	77,500	4,741,500	-	4,819,000	-
General obligation bonds payable - current.	495,000	-	-	495,000	-
OPWC loans payable - current.	63,347	10,710	-	74,057	-
Special assessment bonds payable - current	-	6,113	-	6,113	-
Accrued interest payable.	38,391	141,518	-	179,909	-
OWDA loans payable - current	-	951,561	-	951,561	-
Compensated absences -current	42,177	32,004	-	74,181	-
Capital lease obligation - current	3,595	2,144	-	5,739	-
Total current liabilities	<u>829,521</u>	<u>6,616,087</u>	<u>-</u>	<u>7,445,608</u>	<u>-</u>
Current liabilities payable from restricted assets:					
Refundable deposit	-	-	237,277	237,277	-
Noncurrent liabilities:					
Compensated absences	59,607	44,178	-	103,785	-
General obligation bonds payable (net of unamortized premium and deferred amount on refunding)	9,854,858	-	-	9,854,858	-
Special assessment bonds payable	-	107,483	-	107,483	-
OPWC loans payable.	560,270	123,159	-	683,429	-
OWDA loans payable.	5,991,233	9,084,102	-	15,075,335	-
Capital lease obligation	6,118	3,139	-	9,257	-
Total noncurrent liabilities	<u>16,472,086</u>	<u>9,362,061</u>	<u>-</u>	<u>25,834,147</u>	<u>-</u>
Total liabilities	<u>17,301,607</u>	<u>15,978,148</u>	<u>237,277</u>	<u>33,517,032</u>	<u>-</u>
Net assets:					
Invested in capital assets, net of related debt	6,865,695	4,831,267	-	11,696,962	-
Unrestricted	845,694	2,292,533	435,286	3,573,513	427,967
Total net assets.	<u>\$ 7,711,389</u>	<u>\$ 7,123,800</u>	<u>\$ 435,286</u>	<u>15,270,475</u>	<u>\$ 427,967</u>
Adjustment to reflect the consolidation of the internal service fund activity related to enterprise funds				(2,163)	
Net assets of business-type activities				<u>\$ 15,268,312</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, 2007

	Business-type Activities - Enterprise Funds				Governmental
	Water	Sewer	Nonmajor	Total	Activities - Internal Service Fund
Operating revenues:					
Charges for services	\$ 3,957,617	\$ 4,158,792	\$ 671,841	\$ 8,788,250	\$ 1,768,862
Tap-in fees	62,786	-	-	62,786	-
Other	-	248,547	-	248,547	-
Total operating revenues	4,020,403	4,407,339	671,841	9,099,583	1,768,862
Operating expenses:					
Personal services	1,443,007	1,271,945	-	2,714,952	-
Contractual services	281,993	1,118,659	-	1,400,652	-
Materials and supplies	701,378	197,262	-	898,640	-
Administrative costs	13,560	14,277	-	27,837	-
Utilities	213,076	296,099	630,422	1,139,597	-
Claims	-	-	-	-	1,776,327
Depreciation	557,226	570,561	-	1,127,787	-
Other	5,694	5,184	-	10,878	-
Total operating expenses	3,215,934	3,473,987	630,422	7,320,343	1,776,327
Operating income (loss)	804,469	933,352	41,419	1,779,240	(7,465)
Nonoperating revenues (expenses):					
Interest revenue	61,507	167,804	-	229,311	20,005
Interest and fiscal charges	(589,429)	(701,179)	-	(1,290,608)	-
Intergovernmental	11,311	11,766	-	23,077	-
Other nonoperating revenue	69,638	9,757	-	79,395	-
Total nonoperating revenues (expenses)	(446,973)	(511,852)	-	(958,825)	20,005
Net income before contributions and transfers	357,496	421,500	41,419	820,415	12,540
Capital Contributions	27,836	23,095	-	50,931	-
Transfers in	11,400	17,181	-	28,581	-
Transfers out	-	-	(22,800)	(22,800)	-
Changes in net assets	396,732	461,776	18,619	877,127	12,540
Net assets at beginning of year	7,314,657	6,662,024	416,667		415,427
Net assets at end of year	\$ 7,711,389	\$ 7,123,800	\$ 435,286		\$ 427,967
Adjustment to reflect the consolidation of the internal service fund activity related to enterprise funds				(40,223)	
Change in net assets of business-type activities				\$ 836,904	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF DEFIANCE, OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Water	Sewer	Nonmajor	Total	
Cash flows from operating activities:					
Cash received from charges for services	\$ 3,953,340	\$ 4,311,172	\$ 702,187	\$ 8,966,699	\$ 1,799,438
Cash received from tap-in fees	62,786	-	-	62,786	-
Cash received from other operations	-	248,547	-	248,547	-
Cash payments for personal services	(1,477,350)	(1,278,556)	-	(2,755,906)	-
Cash payments for contractual services	(285,187)	(1,051,077)	-	(1,336,264)	-
Cash payments for administrative costs	(12,485)	(14,277)	-	(26,762)	-
Cash payments for materials and supplies	(701,226)	(209,931)	-	(911,157)	-
Cash payments for claims	-	-	-	-	(1,776,327)
Cash payments for utilities	(249,981)	(298,298)	(630,422)	(1,178,701)	-
Cash payments for other operations	(5,694)	(5,184)	(16,732)	(27,610)	-
Net cash provided by operating activities	<u>1,284,203</u>	<u>1,702,396</u>	<u>55,033</u>	<u>3,041,632</u>	<u>23,111</u>
Cash flows from noncapital financing activities:					
Cash received from nonoperating revenues	69,638	9,757	-	79,395	-
Cash received from transfers in	11,400	17,181	-	28,581	-
Cash payments for transfers out	-	-	(22,800)	(22,800)	-
Cash received from grants	11,311	11,311	-	22,622	-
Net cash provided by (used in) noncapital financing activities	<u>92,349</u>	<u>38,249</u>	<u>(22,800)</u>	<u>107,798</u>	<u>-</u>
Cash flows from capital and related financing activities:					
Cash payments for the acquisition of capital assets	(6,194,418)	(2,428,772)	-	(8,623,190)	-
Cash received from premium on notes	64	3,706	-	3,770	-
Cash received from issuance of loans	5,958,244	936,159	-	6,894,403	-
Cash received from issuance of notes	77,500	4,741,500	-	4,819,000	-
Cash received from issuance of bonds	5,860,000	-	-	5,860,000	-
Cash payments to refund bond escrow agent	(6,189,282)	-	-	(6,189,282)	-
Cash received from premium on bonds	436,713	-	-	436,713	-
Cash payments for bond issuance costs	(107,431)	-	-	(107,431)	-
Cash payments for principal retirement	(811,192)	(4,679,680)	-	(5,490,872)	-
Cash payments for interest and fiscal charges	(589,776)	(683,225)	-	(1,273,001)	-
Net cash (used in) capital and related financing activities	<u>(1,559,578)</u>	<u>(2,110,312)</u>	<u>-</u>	<u>(3,669,890)</u>	<u>-</u>
Cash flows from investing activities:					
Cash received from interest earned	61,507	167,804	-	229,311	20,005
Net cash provided by investing activities	<u>61,507</u>	<u>167,804</u>	<u>-</u>	<u>229,311</u>	<u>20,005</u>
Net increase (decrease) in cash and cash equivalents	(121,519)	(201,863)	32,233	(291,149)	43,116
Cash and cash equivalents at beginning of year	<u>943,708</u>	<u>3,196,836</u>	<u>606,482</u>	<u>4,747,026</u>	<u>384,851</u>
Cash and cash equivalents at end of year	<u>\$ 822,189</u>	<u>\$ 2,994,973</u>	<u>\$ 638,715</u>	<u>\$ 4,455,877</u>	<u>\$ 427,967</u>

--Continued

CITY OF DEFIANCE, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2007

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Water	Sewer	Nonmajor	Total	Fund
Reconciliation of operating income (loss) to net cash provided by operating activities:					
Operating income (loss)	\$ 804,469	\$ 933,352	\$ 41,419	\$ 1,779,240	\$ (7,465)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation.	557,226	570,561	-	1,127,787	-
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable	(9,585)	121,860	1,321	113,596	30,576
Decrease in special assessments receivable	5,308	30,520	-	35,828	-
(Increase) decrease in materials and supplies inventory.	4,311	(5,262)	-	(951)	-
(Decrease) in accounts payable	(42,728)	(15,042)	-	(57,770)	-
Increase in accrued wages and benefits	4,713	1,049	-	5,762	-
Increase (decrease) in compensated absences payable	(19,911)	9,435	-	(10,476)	-
(Decrease) in due to other governments	(19,600)	(20,722)	-	(40,322)	-
Increase in retainage payable.	-	76,645	-	76,645	-
Increase in utility deposits payable	-	-	12,293	12,293	-
Net cash provided by operating activities.	<u>\$ 1,284,203</u>	<u>\$ 1,702,396</u>	<u>\$ 55,033</u>	<u>\$ 3,041,632</u>	<u>\$ 23,111</u>

Non-cash capital transactions:

At December 31, 2007 and December 31, 2006, the Sewer fund purchased \$595,367 and \$2,518 in capital assets on account, respectively.
 The Water fund received \$27,836 in capital contributions from other funds during 2007.
 The Sewer fund received \$23,095 in capital contributions from other funds during 2007.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF DEFIANCE, OHIO

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
DECEMBER 31, 2007

	<u>Agency</u>
Assets:	
Cash in segregated accounts	\$ 28,714
Total assets	<u>\$ 28,714</u>
Liabilities:	
Due to other governments.	\$ 28,714
Total liabilities	<u>\$ 28,714</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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CITY OF DEFIANCE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007**

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) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The City has the option to also apply FASB Statements and Interpretations 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 Statements and Interpretations. 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, wastewater, water, 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. In 2007, the City paid \$100,775 to MVPO.

CITY OF DEFIANCE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

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.

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

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

JOINT VENTURES WITHOUT EQUITY INTEREST

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

The main source of revenue for the MANTF is from federal grants and local matching shares by the entities. The City has no ongoing financial responsibility to the MANTF. The City has indirect access to the net resources of the MANTF since the City is able to influence the MANTF to use its surplus resources to undertake projects of interest to the City's residents. This access to the net resources of the Board has not been explicitly defined, nor is it currently measurable. The City contributed \$25,000 to the MANTF in 2007. Complete financial statements for the MANTF can be obtained through the Defiance City Sheriff's Office located at 113 Biede Street, Defiance, Ohio.

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

The Defiance County Economic Development Employment Agreement between the Board of Trustees of the Corporation and the Defiance County Director of Economic Development states that the county's Director of Economic Development may serve as executive director of the Corporation, such corporation having agreed to furnish the county with the funds needed to pay his salary. The City of Defiance partially funds the Corporation to pay the salary of the Director of the Defiance County Economic Development. The City made \$200,000 in payments to the Corporation in 2007. The City's degree of control over the Board is limited to its representation on the Board.

CITY OF DEFIANCE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

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

RELATED ORGANIZATION

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

B. Basis of Presentation - Fund Accounting

The City's 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.

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.

CITY OF DEFIANCE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

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

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.

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

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

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

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.

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.

CITY OF DEFIANCE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

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

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 municipal court operations.

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.

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.

CITY OF DEFIANCE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

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

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned (See Note 7). Revenue from property taxes is recognized in the 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, 2007, but which were levied to finance year 2008 operations, and other revenues received in advance of the fiscal 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, 2007, are recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

CITY OF DEFIANCE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

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

F. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The legal level of budgetary control is at the fund, department and object level. Budgetary modifications may only be made by resolution of the City Council at the legal level of control.

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

Estimated Resources - The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include encumbered cash balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statement reflect the amounts in the original and final amended official certificate of estimated resources issued during 2007.

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

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

CITY OF DEFIANCE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

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

G. Health Care

The Comprehensive Omnibus Budget Reconciliation Act (COBRA) of 1986 required the City to offer and provide terminated or retired employees continued participation in the City's employee health care benefits program, provided that the employees pay the rate established by the plan administrator. The City incurred no expenditures or revenues in providing these services. The participating former employees make premium payments directly to the City's Insurance Provider and the Provider is responsible for all claims.

H. Cash and Investments

To improve cash management, cash received by the City 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.

During fiscal year 2007, 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 fiscal year 2007. 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, 2007.

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 2007 amounted to \$368,532, which included \$255,298 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.

CITY OF DEFIANCE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

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

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

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

Inventory consists of expendable supplies held for consumption.

K. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated 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
Furniture and equipment	10 - 30 years	10 - 30 years
Infrastructure	30 years	50 years
Vehicles	6 - 15 years	6 - 15 years

CITY OF DEFIANCE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

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

L. Compensated Absences

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

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

American Federation of State, County and Municipal Employees (AFSCME) and non-bargaining employees with a minimum of ten years of service are paid one day for every 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.

CITY OF DEFIANCE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007**

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

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. Prepayments

Payments made to vendors for services that will benefit periods beyond December 31, 2007, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed. The City had no material prepayments at December 31, 2007.

O. Interfund Activity

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

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

P. 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.

Q. 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.

CITY OF DEFIANCE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007**

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

R. Contributions of Capital

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

S. 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. Net assets restricted for other purposes consists mainly of monies restricted for the court computerization fund (a nonmajor governmental fund), cable TV franchise fund (a nonmajor governmental fund) and the tax redirection fund (a nonmajor governmental fund).

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

T. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of City Administration and that are either unusual in nature or infrequent in occurrence. During fiscal year 2007, the City did not have any transactions that would be classified as either a special item or an extraordinary item.

U. 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. Unamortized issuance costs are recorded as unamortized bond issue costs on the statement of net assets.

Bond premiums 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.

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. The reconciliation between the bonds face value and the amount reported on the statement of net assets is presented in Note 13.

CITY OF DEFIANCE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 3 - ACCOUNTABILITY

Change in Accounting Principles

For 2007, the City has implemented GASB Statement No. 48 "*Sales and Pledges of Receivables and Intra-Entity Transfers of Assets and Future Revenues*". GASB Statement No. 48 established criteria to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings, as well as disclosure requirements for future revenues that are pledged and sold. The implementation of GASB Statement No. 48 did not have an effect on the financial statements of the City.

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 moneys 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;
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;

CITY OF DEFIANCE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

6. The State Treasurer's investment pool State Treasury Asset Reserve of Ohio (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 \$2,150 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 \$28,714 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.

C. Cash with Escrow Agent

At year-end, the City had \$76,645 on deposit with financial institutions for a retainage escrow account. 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, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

D. Deposits with Financial Institutions

At December 31, 2007, the carrying amount of all City deposits was \$882,142. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of December 31, 2007, \$1,373,312 of the City’s bank balance of \$1,749,957 was exposed to custodial risk as discussed below, while \$376,645 was covered by the Federal Deposit Insurance Corporation.

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.

E. Investments

As of December 31, 2007, the City had the following investments and maturities:

Investment type	Fair Value	Investment Maturities			
		6 months or less	7 to 12 months	19 to 24 months	Greater than 24 months
STAR Ohio	\$ 3,536,270	\$ 3,536,270	\$ -	\$ -	\$ -
Money Market Mutual Fund	8,040,663	8,040,663	-	-	-
City Owned Bonds	220,732	-	24,078	24,433	172,221
	<u>\$ 11,797,665</u>	<u>\$ 11,576,933</u>	<u>\$ 24,078</u>	<u>\$ 24,433</u>	<u>\$ 172,221</u>

The weighted average maturity of investments is 0.03 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, 2007

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, 2007:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 3,536,270	29.98
Money Market Mutual Fund	8,040,663	68.15
City Owned Bonds	<u>220,732</u>	<u>1.87</u>
Total	<u>\$ 11,797,665</u>	<u>100.00</u>

a. Reconciliation of Cash and Investment to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of December 31, 2007:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 882,142
Investments	11,797,665
Cash on hand	<u>2,150</u>
Total	<u>\$ 12,681,957</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 8,197,366
Business-type activities	4,455,877
Agency funds	<u>28,714</u>
Total	<u>\$ 12,681,957</u>

NOTE 5 - INTERFUND TRANSFERS

For 2007, interfund transfers consisted of the following, as reported in the fund statements:

Transfers from General Fund to:	
Nonmajor governmental funds	\$ 395,000
Transfers from nonmajor governmental fund to:	
Sewer	5,781
Transfers from Nonmajor Enterprise Fund to:	
Sewer	11,400
Water	<u>11,400</u>
Total Transfers	<u>\$ 423,581</u>

CITY OF DEFIANCE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007**

NOTE 5 - INTERFUND TRANSFERS - (Continued)

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

The \$5,781 transfer between the nonmajor governmental funds and the sewer fund represents the transfer of debt service payments to the fund that reports the liability.

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.

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Taxes collected from real property taxes (other than public utility) in one calendar year are levied in the preceding calendar year on the assessed value as of 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. 2007 public utility property taxes became a lien December 31, 2006, are levied after October 1, 2007, and are collected in 2008 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in 2007 (other than public utility property) represent the collection of 2007 taxes. Tangible personal property taxes received in 2007 were levied after October 1, 2006, on the true value as of December 31, 2006. Tangible personal property tax is being phased out - the assessment percentage for property, including inventory, is 12.5% for 2007. This percentage will be reduced to 6.25% for 2008 and zero for 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

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 will be 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 2006-2010, the City will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

CITY OF DEFIANCE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 6 - PROPERTY TAXES - (Continued)

The County Treasurer collects property taxes on behalf of all taxing cities in the County, including the City of Defiance. The County Auditor periodically remits to the City its portion of the taxes collected. The full tax rate for all City operations for the year ended December 31, 2007 was \$10.59 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2007 property tax receipts were based are as follows:

Real property tax	\$ 255,608,150
Public utility tangible personal property	11,386,570
Tangible personal property	<u>48,872,920</u>
Total assessed valuation	<u>\$ 315,867,640</u>

Property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2007 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 2007 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.

NOTE 7 - LOCAL INCOME TAX

This locally levied tax of 1.3 percent is applied to gross salaries, wages and other personal service compensation earned by residents both in and out of the City, and to earnings of nonresidents (except certain transients) earned in the City. It also applies to net income of for-profit organizations conducting business within the City. Income tax revenues are reported to the extent that it was measurable and available to finance current operations at December 31. Income tax revenue for 2007 was \$8,144,681 on the modified accrual basis of accounting.

NOTE 8 - RECEIVABLES

Receivables at December 31, 2007, consisted of income and property taxes, accounts (billings for user charged services), 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, 2007. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:

Income taxes	\$ 874,948
Property and other local taxes	912,926
Accounts	274,343
Special assessments	338,964
Due from other governments	792,979
Loans	1,454,768

Business-type Activities:

Accounts	383,391
Special assessments	131,926

CITY OF DEFIANCE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

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 2007:

<u>Governmental Activities:</u>	<u>Balance</u>		<u>Balance</u>
	<u>12/31/06</u>	<u>Additions</u>	<u>12/31/07</u>
		<u>Disposals</u>	
<i>Capital assets, not being depreciated:</i>			
Land	\$ 1,243,358	\$ -	\$ 1,243,358
Construction in progress	<u>60,984</u>	<u>498,088</u>	<u>-</u>
Total capital assets, not being depreciated	<u>1,304,342</u>	<u>498,088</u>	<u>-</u>
<i>Capital assets, being depreciated:</i>			
Buildings	4,517,325	-	4,517,325
Improvements other than buildings	1,031,254	-	(3,320)
Equipment	2,165,554	159,983	(86,156)
Vehicles	2,435,018	205,312	(289,181)
Infrastructure	<u>15,518,351</u>	<u>78,679</u>	<u>-</u>
Total capital assets, being depreciated	<u>25,667,502</u>	<u>443,974</u>	<u>(378,657)</u>
<i>Less: accumulated depreciation:</i>			
Buildings	(3,026,962)	(97,318)	-
Improvements other than buildings	(705,586)	(34,528)	3,320
Equipment	(1,027,390)	(157,523)	55,117
Vehicles	(1,917,318)	(135,751)	250,658
Infrastructure	<u>(5,704,285)</u>	<u>(519,901)</u>	<u>-</u>
Total accumulated depreciation	<u>(12,381,541)</u>	<u>(945,021)</u>	<u>309,095</u>
Total capital assets, being depreciated, net	<u>13,285,961</u>	<u>(501,047)</u>	<u>(69,562)</u>
Governmental activities capital assets, net	<u>\$ 14,590,303</u>	<u>\$ (2,959)</u>	<u>\$ (69,562)</u>
	<u>\$ 14,517,782</u>		<u>\$ 14,517,782</u>

CITY OF DEFIANCE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 9 - CAPITAL ASSETS - (Continued)

<u>Business-type Activities:</u>	<u>Balance</u>			<u>Balance</u>
	<u>12/31/06</u>	<u>Additions</u>	<u>Disposals</u>	<u>12/31/07</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 267,100	\$ -	\$ -	\$ 267,100
Construction in progress	<u>2,261,671</u>	<u>9,039,107</u>	<u>(155,000)</u>	<u>11,145,778</u>
Total capital assets, not being depreciated	<u>2,528,771</u>	<u>9,039,107</u>	<u>(155,000)</u>	<u>11,412,878</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	789,494	176,436	-	965,930
Buildings and improvements	29,481,170	-	-	29,481,170
Equipment	2,338,328	132,844	-	2,471,172
Vehicles	713,928	73,583	-	787,511
Infrastructure	<u>20,631,851</u>	<u>-</u>	<u>-</u>	<u>20,631,851</u>
Total capital assets, being depreciated	<u>53,954,771</u>	<u>382,863</u>	<u>-</u>	<u>54,337,634</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(420,123)	(42,215)	-	(462,338)
Buildings and improvements	(8,323,615)	(632,505)	-	(8,956,120)
Equipment	(2,096,454)	(43,335)	-	(2,139,789)
Vehicles	(654,846)	(36,214)	-	(691,060)
Infrastructure	<u>(9,543,752)</u>	<u>(373,518)</u>	<u>-</u>	<u>(9,917,270)</u>
Total accumulated depreciation	<u>(21,038,790)</u>	<u>(1,127,787)</u>	<u>-</u>	<u>(22,166,577)</u>
Total capital assets being depreciated, net	<u>32,915,981</u>	<u>(744,924)</u>	<u>-</u>	<u>32,171,057</u>
Business-type activities capital assets, net	<u>\$ 35,444,752</u>	<u>\$ 8,294,183</u>	<u>\$ (155,000)</u>	<u>\$ 43,583,935</u>

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

Governmental activities:

General government	\$ 54,197
Security of persons and property	165,201
Public health and welfare	10,048
Community environment	11,535
Leisure time activity	105,654
Transportation	<u>598,386</u>
Total depreciation expense - governmental activities	<u>\$ 945,021</u>

CITY OF DEFIANCE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 9 - CAPITAL ASSETS - (Continued)

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

Business-type activities:

Water	\$ 557,226
Sewer	<u>570,561</u>
Total depreciation expense - business-type activities	<u>\$1,127,787</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 \$330,499 at December 31, 2007. 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 \$508,795 at December 31, 2007. Amounts are recorded as a fund liability and/or on the government-wide financial statements, as applicable.

NOTE 11 - CAPITAL LEASES

During 2007, the City entered into capital lease agreements for the acquisition of copier equipment. 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, 2007 accumulated depreciation was \$10,286, resulting in a net carrying value of \$35,620. A corresponding liability has been recorded in the governmental activities and the water and sewer enterprise funds. Principal payments in fiscal year 2007 were \$3,983 in the general fund, \$3,319 in the water fund and \$1,981 in the sewer fund.

CITY OF DEFIANCE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

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, 2007:

<u>Year Ended December 31</u>	<u>Governmental</u> <u>Activities</u>	<u>Business-Type Activities-</u> <u>Enterprise Funds</u>		<u>Total</u>
	<u>General</u>	<u>Water</u>	<u>Sewer</u>	
2008	\$ 5,539	\$ 4,242	\$ 2,490	\$ 12,271
2009	5,540	4,242	2,490	12,272
2010	5,538	2,292	830	8,660
2011	1,806	-	-	1,806
Total	18,423	10,776	5,810	35,009
Less: amount representing interest	(2,333)	(1,063)	(527)	(3,923)
Present value of net minimum lease payments	<u>\$ 16,090</u>	<u>\$ 9,713</u>	<u>\$ 5,283</u>	<u>\$ 31,086</u>

NOTE 12 - NOTES PAYABLE

The City had the following short-term governmental bond anticipation notes outstanding at December 31, 2007:

	<u>Issue</u>	<u>Maturity</u>	<u>Balance</u>			<u>Balance</u>
	<u>Date</u>	<u>Date</u>	<u>12/31/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/07</u>
Governmental Activities:						
General Obligation Bond <u>Anticipation Notes:</u>						
Capital Improvements Fund - 2007 - 4.125%	4/26/07	4/26/08	\$ -	\$ 225,000	\$ -	\$ 225,000
Total Capital Improvements			<u>\$ -</u>	<u>\$ 225,000</u>	<u>\$ -</u>	<u>\$ 225,000</u>

The bond anticipation notes are recorded as a liability of capital improvements fund, the fund which received the initial proceeds. The bond anticipation notes were repaid on April 17, 2008 (see Note 20).

CITY OF DEFIANCE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 13 - 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:

<u>Governmental Activities:</u>	Balance			Amount	
	12/31/06	Additions	Reductions	12/31/07	Due in One Year
Compensated absences payable	\$ 593,811	\$ 342,070	\$ (274,553)	\$ 661,328	\$ 256,318
General obligation bonds payable	195,000	-	(35,000)	160,000	40,000
Special assessment bonds payable	395,252	-	(77,968)	317,284	87,968
Bond anticipation notes payable	435,000	-	(435,000)	-	-
Capital lease obligation	15,602	4,471	(3,983)	16,090	4,400
Total	<u>\$ 1,634,665</u>	<u>\$ 346,541</u>	<u>\$ (826,504)</u>	<u>\$ 1,154,702</u>	<u>\$ 388,686</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.

On July 13, 2000, the City issued \$760,000 in bond anticipation notes to pay costs of acquiring, remodeling, and renovating a building and site to house municipal functions. During fiscal years 2001-2006, these notes were retired and reissued. During 2007, the City retired \$435,000 of the bond anticipation notes and reissued \$225,000 in bond anticipation notes. The new issue of \$225,000 is not considered a long-term liability since it was retired in full within one year of the date of issuance (see Note 12). The activity related to governmental bond anticipation notes is reported in the capital improvement fund.

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).

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

Year Ending	General Obligation Bonds			Special Assessment Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 40,000	\$ 11,120	\$ 51,120	\$ 87,968	\$ 21,131	\$ 109,099
2009	40,000	8,348	48,348	62,958	15,007	77,965
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 - 2014	-	-	-	27,729	2,410	30,139
Total	<u>\$ 160,000</u>	<u>\$ 27,416</u>	<u>\$ 187,416</u>	<u>\$ 317,284</u>	<u>\$ 58,752</u>	<u>\$ 376,036</u>

CITY OF DEFIANCE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

B. Business-Type Activities Long-Term Obligations

The following activity occurred in the business type activities long-term obligations during 2007:

<u>Business-Type Activities</u>	<u>Interest Rate</u>	<u>Balance 12/31/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/07</u>	<u>Amount Due in One Year</u>
<u>General Obligation Bonds:</u>						
Waterworks - Series 2005 Refunding	4.00-5.00%	\$ 4,390,000	\$ -	\$ (230,000)	\$ 4,160,000	\$ 240,000
Waterworks - Series 1998	Various	6,360,000		(6,105,000)	255,000	255,000
Waterworks - Series 2007 Refunding	4.50-5.25%	-	5,860,000	(120,000)	5,740,000	-
Total general obligation bonds		<u>10,750,000</u>	<u>5,860,000</u>	<u>(6,455,000)</u>	<u>10,155,000</u>	<u>495,000</u>
<u>Special Assessment Bonds</u>						
Sewer street improvements - Series 2000	5.75%	119,377	-	(5,781)	113,596	6,113
<u>Notes Payable</u>						
Water - 2007 bond anticipation note	4.25%	-	77,500	-	77,500	77,500
Water - 2006 bond anticipation note	4.50%	85,000	-	(85,000)	-	-
Sewer - 2007 bond anticipation note	4.125%	-	1,324,000	-	1,324,000	1,324,000
Sewer - 2007 bond anticipation note	4.25%	-	3,417,500	-	3,417,500	3,417,500
Sewer - 2006 bond anticipation note	4.50%	3,765,000	-	(3,765,000)	-	-
		<u>3,850,000</u>	<u>4,819,000</u>	<u>(3,850,000)</u>	<u>4,819,000</u>	<u>4,819,000</u>
<u>Other Long-Term Obligations</u>						
OWDA loans	3.20-7.65%	10,094,686	6,894,403	(962,193)	16,026,896	951,561
OPWC loans	0-4.00%	830,084	-	(72,598)	757,486	74,057
Capital leases		20,296	-	(5,300)	14,996	5,739
Compensated absence payable		188,442	65,069	(75,545)	177,966	74,181
Total other long-term obligations		<u>11,133,508</u>	<u>6,959,472</u>	<u>(1,115,636)</u>	<u>16,977,344</u>	<u>1,105,538</u>
Total business-type activities long-term liabilities		<u>\$ 25,852,885</u>	<u>\$ 17,638,472</u>	<u>\$ (11,426,417)</u>	32,064,940	<u>\$ 6,425,651</u>
Less: Unamortized deferred charge on refunding					(444,928)	
Add: Unamortized bond premium					<u>639,786</u>	
Total on statement of net assets					<u>\$ 32,259,798</u>	

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

On 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.

CITY OF DEFIANCE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

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.

On October 18, 2007, the City issued \$5,860,000 in Series 2007 Waterworks System Improvement Refunding Bonds to advance refund a portion the outstanding Series 1998 Waterworks System Improvement Bonds (principal \$5,860,000; interest rate 5.650%). The refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net assets. The principal balance of the refunded Series 1998 Waterworks System Improvement Bonds at December 31, 2007 was \$5,860,000.

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. This refunding was undertaken to reduce the combined total debt service payments over the next 17 years by \$325,474 and resulted in an economic gain of \$250,965.

On April 26, 2007, the City issued a water improvement note payable in the amount of \$77,500. This note bears an interest rate of 4.25% and matures April 18, 2008.

On April 26, 2007, the City issued a sewer improvement note payable in the amount of \$1,324,000. This note bears an interest rate of 4.125% and matures April 18, 2008.

On April 26, 2007, the City issued a sewer improvement note payable in the amount of \$3,417,500. This note bears an interest rate of 4.25% and matures April 18, 2008.

On May 11, 2001, the City issued \$145,434 in special assessment bonds to finance the costs of sewer improvements to South Jefferson Street. These bonds bear an interest rate of 5.75 percent and mature December 1, 2020. During 2007, the City retired \$5,781 of these bonds, leaving an outstanding balance of \$113,596 at December 31, 2007.

The City constructed a wastewater treatment facility in 1990. The Project was financed through expenditure by the Ohio Water Development Authority (OWDA). In 1999, the City began making major improvements to its wastewater treatment facility, which was also partially financed by OWDA. During 2007, the City borrowed money through the OWDA to finance water reservoir construction and sewer design construction. The water reservoir construction loan, the group 4 sewer design loan, and the sewer design groups 1 & 2 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, 2007

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

At December 31, 2007, the City had the following OWDA loans outstanding:

Purpose	Interest Rate	Maturity Date	Balance Outstanding 12/31/07
Wastewater Facility	7.65%	1/1/2013	\$ 3,382,471
Wastewater Facility Improvements	3.91%	7/1/2020	5,717,033
Group 4 Sewer Design	3.25%	1/29/2029	234,636
Sewer Design Groups 1 & 2	3.20%	7/1/2014	701,523
Water Reservoir Construction	4.09%	7/1/2037	5,991,233
			<u>\$ 16,026,896</u>

Improvements to the City's water treatment facilities were financed through expenditures by the Ohio Public Works Commission (OPWC). At December 31, 2007, the City has the following four loans outstanding with OPWC:

	Interest Rate	Maturity Date	Balance Outstanding 12/31/07
OPWC loan	4.00%	1/1/2014	\$ 133,494
OPWC loan	3.00%	7/1/2017	274,540
OPWC loan	0.00%	7/1/2019	215,583
OPWC loan	0.00%	7/1/2020	133,869
Total			<u>\$ 757,486</u>

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

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

Year Ending	General Obligation Bonds			Sewer Special Assessment Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 495,000	\$ 484,555	\$ 979,555	\$ 6,113	\$ 6,532	\$ 12,645
2009	525,000	463,480	988,480	6,465	6,180	12,645
2010	540,000	441,106	981,106	6,836	5,809	12,645
2011	575,000	415,406	990,406	7,230	5,415	12,645
2012	595,000	389,656	984,656	7,645	5,000	12,645
2013 - 2017	3,440,000	1,486,026	4,926,026	45,348	17,877	63,225
2018 - 2022	3,455,000	606,278	4,061,278	33,959	3,976	37,935
2023	530,000	27,825	557,825	-	-	-
Total	<u>\$ 10,155,000</u>	<u>\$ 4,314,332</u>	<u>\$ 14,469,332</u>	<u>\$ 113,596</u>	<u>\$ 50,789</u>	<u>\$ 164,385</u>

CITY OF DEFIANCE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

Year Ending	OWDA Loans Payable			OPWC Loans Payable		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 951,561	\$ 461,912	\$ 1,413,473	\$ 74,057	\$ 13,204	\$ 87,261
2009	1,010,622	406,624	1,417,246	75,566	11,696	87,262
2010	1,073,660	347,648	1,421,308	77,128	10,134	87,262
2011	1,140,956	284,725	1,425,681	78,745	8,516	87,261
2012	1,212,889	217,501	1,430,390	80,419	6,842	87,261
2013 - 2017	2,436,012	544,534	2,980,546	325,202	12,053	337,255
2018 - 2020	1,273,804	83,629	1,357,433	46,369	-	46,369
Total	<u>\$ 9,099,504</u>	<u>\$ 2,346,573</u>	<u>\$ 11,446,077</u>	<u>\$ 757,486</u>	<u>\$ 62,445</u>	<u>\$ 819,931</u>

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, 2006 (the latest information available), the pool had cash reserves of \$1,142,183, 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, 2006 (latest information available) the pool had cash reserves of \$2,495,854 which, in the opinion of management, is adequate for any claims against the pool.

Premiums are paid to the employee benefits pool at a cost of \$966.97 for family coverage, \$726.18 for two party coverage, and \$335.84 for single party coverage. Life insurance monthly premiums are \$4.72 for family and two party coverage and \$2.60 for single party coverage. During 2007, the City paid \$149,653 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.

CITY OF DEFIANCE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007**

NOTE 14 - RISK MANAGEMENT - (Continued)

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

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

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

NOTE 15 - PENSION PLANS

A. Ohio Public Employees Retirement System

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional 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.

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.

CITY OF DEFIANCE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 15 - PENSION PLANS - (Continued)

For the year ended December 31, 2007, the members of all three plans, except those in law enforcement under the Traditional Pension Plan, were required to contribute 9.5% of their annual covered salaries. Members participating in the Traditional Pension Plan that were in law enforcement contributed 10.1% of their annual covered salary. The City's contribution rate for pension benefits for 2007 was 8.85% for the period January 1, 2007 through June 30, 2007 and 7.85% for the period July 1, 2007 through December 31, 2007, except for those plan members in law enforcement and public safety. For those classifications, the City's pension contributions were 12.17% of covered payroll for the period January 1, 2007 through June 30, 2007 and 11.17% of covered payroll for the period July 1, 2007 through December 31, 2007. The Ohio Revised Code provides statutory authority for member and employer contributions. The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2007, 2006, and 2005 were \$343,477, \$351,701, and \$295,981, respectively; 92.14% has been contributed for 2007 and 100% has been contributed for 2006 and 2005. \$27,001, representing the unpaid pension contribution for 2007, is recorded as a liability within the respective funds. The City and plan members did not make any contributions to the member-directed plan for 2007.

B. Ohio Police and Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to the OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.5% and 24.0% for police officers and firefighters, respectively. 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 \$192,789 and \$199,535, respectively for the year ended December 31, 2007, \$167,258 and \$168,157, respectively for the year ended December 31, 2006, and \$151,740 and \$169,903, respectively for the year ended December 31, 2005. The full amount has been contributed for 2006 and 2005. 91.63% for police officers and 91.62% for firefighters has been contributed for 2007 with the remainder being reported as a liability in the respective funds.

CITY OF DEFIANCE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 16 - POST-EMPLOYMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides post-employment health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the Traditional Pension or Combined Plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the Member-Directed Plan do not qualify for post-employment health care coverage. The health care coverage provided by OPERS is considered an Other Post-employment Benefit as described in GASB Statement No. 12, "Disclosure of Information on Post-employment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to the Traditional Pension or Combined Plans is set aside for the funding of post-employment health care based on authority granted by State statute. The 2007 local government employer contribution rate was 13.85% of covered payroll (17.17% for public safety and law enforcement); 5.00% of covered payroll was the portion that was used to fund health care for the period January 1, 2007 through June 30, 2007 and 6.00% of covered payroll was the portion that was used to fund health care for the period July 1, 2007 through December 31, 2007.

Benefits are advance-funded using the entry age actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2006, include a rate of return on investments of 6.50%, an annual increase in active employee total payroll of 4.00% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.30% based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate (4.00%) plus an additional factor ranging from .50% to 5.00% for the next eight years. In subsequent years, (nine and beyond) health care costs were assumed to increase at 4.00%.

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% corridor.

The number of active contributing participants in the Traditional Pension and Combined Plans was 374,979 as of December 31, 2007. The City's actual employer contributions for 2007 which were used to fund post-employment benefits were \$226,243. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2006 (the latest information available) were \$12.0 billion. At December 31, 2006 (the latest information available), the actuarially accrued liability and the unfunded actuarial accrued liability were \$30.7 billion and \$18.7 billion, respectively.

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

The Ohio Police and Fire Pension Fund (OP&F) provides 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. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a 2/3 basis.

CITY OF DEFIANCE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007**

NOTE 16 - POST-EMPLOYMENT BENEFIT PLANS - (Continued)

The health care coverage provided by OP&F is considered an Other Post-employment Benefit as described in GASB Statement No. 12, "Disclosure of Information on Post-employment Benefits other than Pension Benefits by State and Local Government Employers". The Ohio Revised Code provides the authority allowing the OP&F's Board of Trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll, of which 6.75% of covered payroll was applied to the post-employment health care program during 2007. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2007 that were used to fund post-employment benefits were \$101,995 for police officers and \$77,983 for firefighters. The OP&F's total health care expense for the year ended December 31, 2006 (the latest information available) was \$120.374 million, which was net of member contributions of \$58.533 million. The number of OP&F participants eligible to receive health care benefits as of December 31, 2006 (the latest information available), was 14,120 for police officers and 10,563 for firefighters.

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).
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, 2007

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	\$ 235,754
Net adjustment for revenue accruals	(59,821)
Net adjustment for expenditure accruals	(69,465)
Net adjustment for other sources and uses	4,471
Adjustment for encumbrances	<u>446,350</u>
GAAP basis	<u>\$ 557,289</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>12/31/06</u>	Loans Disbursed	Principal Received	Balance Outstanding <u>12/31/07</u>
CDBG loans	<u>\$ 1,131,569</u>	<u>\$ 525,000</u>	<u>\$ (201,801)</u>	<u>\$ 1,454,768</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, 2007.

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, 2007

NOTE 20 - SIGNIFICANT SUBSEQUENT EVENT

On April 17, 2008, the City retired \$5,044,000 in general obligation bond anticipation notes and issued \$4,774,000 in new notes with an interest rate of 2.50% and a maturity date of April 16, 2009. The following table summarizes the activity.

<u>Note Issuance</u>	<u>Original Issue Date</u>	<u>Retired</u>	<u>Issued</u>
Sewer	09/13/07	\$ 1,324,000	\$ 1,624,000
Sewer	04/26/07	3,417,500	3,087,000
Water	04/26/07	77,500	63,000
Capital Improvements	04/26/07	<u>225,000</u>	<u>-</u>
<i>Total Notes</i>		<u>\$ 5,044,000</u>	<u>\$ 4,774,000</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
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(A),(F) CASH FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASSED THROUGH THE OHIO DEPARTMENT OF DEVELOPMENT			
HOME Investment Partnerships Program	14.239	A-C-05-111-2	\$ 200,377
(B) HOME Investment Partnerships Program	14.239	N/A	167,889
Total HOME Investment Partnerships Program			<u>368,266</u>
Community Development Block Grants/State's Program	14.228	A-F-06-111-1	65,000
Community Development Block Grants/State's Program	14.228	A-C-05-111-1	34,925
(C) Community Development Block Grants/State's Program	14.228	N/A	705,268
(D) Community Development Block Grants/State's Program	14.228	N/A	42,044
(E) Community Development Block Grants/State's Program	14.228	N/A	13,164
Total Community Development Block Grants/State's Program			<u>860,401</u>
Total U.S. Department of Housing and Urban Development			<u>1,228,667</u>
Total Federal Financial Assistance			<u>\$ 1,228,667</u>

- (A) This schedule was prepared on the cash basis of accounting.
- (B) At December 31, 2007, the City had a cash balance of \$127,566 which is subject to compliance requirements set forth by the awarding agency. The City incurred \$40,323 in program and administrative costs.
- (C) The City has established a revolving loan program to provide low-interest loans to businesses to create jobs for persons from low-moderate income households. The Federal Department of Housing and Urban Development (HUD) grants money for these loans to the City passed through the Ohio Department of Development. The initial loan of this money is recorded as a disbursement on this schedule. Loans repaid, including interest, are used to make additional loans. Such subsequent loans are subject to certain compliance requirements imposed by HUD, but are not included as disbursements on the schedule. These loans are collateralized by mortgages on the property. The City incurred \$8,304 in administrative and other costs during 2007.

Activity in the Community Development Block Grant revolving loan fund during 2007 is as follows:

Beginning loans receivable balance as of January 1, 2007	\$ 1,128,128
Loans Disbursed	510,000
Loan Repayments	(210,860)
Ending loans receivable balance as of December 31, 2007	<u>\$ 1,427,268</u>

Cash balance on hand as of December 31, 2007	\$ 186,964
Delinquent amounts due as of December 31, 2007	\$ -

- (D) The City has established a revolving loan program to provide low-interest loans to businesses to create jobs for persons from low-moderate income households. The Federal Department of Housing and Urban Development (HUD) grants money for these loans to the City passed through the Ohio Department of Development. The initial loan of this money is recorded as a disbursement on this schedule. Loans repaid, including interest, are used to make additional loans. Such subsequent loans are subject to certain compliance requirements imposed by HUD, but are not included as disbursements on the schedule. These loans are collateralized by mortgages on the property. The City incurred \$0 administrative and other costs during 2007.

Activity in the Community Development Block Grant revolving loan fund during 2007 is as follows:

Beginning loans receivable balance as of January 1, 2007	\$ 30,466
Loans Disbursed	15,000
Loan Repayments	(17,966)
Ending loans receivable balance as of December 31, 2007	<u>\$ 27,500</u>

Cash balance on hand as of December 31, 2007	\$ 27,044
Delinquent amounts due as of December 31, 2007	\$ -

- (E) At December 31, 2007, the City had a cash balance of \$6,744 which is subject to compliance requirements set forth by the awarding agency. The City incurred \$6,420 in program and administrative costs.
- (F) Certain federal programs require that the City contribute non-Federal funds (matching funds) to support the Federally-funded programs. The City has complied with the matching requirements. The expenditures of non-Federal matching funds are not included on the Schedule.



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**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

Members of Council and Mayor
City of Defiance
631 Perry Street
Defiance, OH 43512

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, Ohio, as of and for the year ended December 31, 2007, which collectively comprise the City of Defiance's basic financial statements and have issued our report thereon dated June 11, 2008. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Defiance's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Defiance's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the City of Defiance's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Defiance's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Defiance's financial statements that is more than inconsequential will not be prevented or detected by the City of Defiance's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Defiance's internal control.

Members of Council and Mayor
City of Defiance

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Defiance's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of the City of Defiance in a separate letter dated June 11, 2008.

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



Julian & Grube, Inc.
June 11, 2008



Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Report on Compliance With Requirements Applicable to Each
Major Program and Internal Control Over Compliance In
Accordance With *OMB Circular A-133***

Members of Council and Mayor
City of Defiance
631 Perry Street
Defiance, OH 43512

Compliance

We have audited the compliance of the City of Defiance, Defiance County, Ohio, with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2007. The City of Defiance's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Defiance's management. Our responsibility is to express an opinion on the City of Defiance's compliance based on our audit.

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

Members of Council and Mayor
City of Defiance

In our opinion, the City of Defiance complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2007.

Internal Control Over Compliance

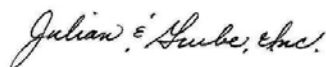
The management of the City of Defiance is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Defiance's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Defiance's internal control over compliance.

A control deficiency in the City of Defiance's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Defiance's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City of Defiance's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City of Defiance's internal control.

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 that might be 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.

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



Julian & Grube, Inc.
June 11, 2008

**CITY OF DEFIANCE
DEFIANCE COUNTY, OHIO**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
DECEMBER 31, 2007**

1. SUMMARY OF AUDITORS' RESULTS		
<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unqualified
<i>(d)(1)(ii)</i>	<i>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(ii)</i>	<i>Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iii)</i>	<i>Was there any reported material noncompliance at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any material internal control weaknesses reported for major federal programs?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any significant deficiencies in internal control reported for major federal programs?</i>	No
<i>(d)(1)(v)</i>	<i>Type of Major Programs' Compliance Opinion</i>	Unqualified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under §.510?</i>	No
<i>(d)(1)(vii)</i>	<i>Major Programs (listed):</i>	Community Development Block Grants/State's Program; CFDA #14.228 and HOME Investment Partnership Program; CFDA #14.239
<i>(d)(1)(viii)</i>	<i>Dollar Threshold: Type A/B Programs</i>	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	<i>Low Risk Auditee?</i>	No

**CITY OF DEFIANCE
DEFIANCE COUNTY, OHIO**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
DECEMBER 31, 2007**

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

None.

3. FINDINGS FOR FEDERAL AWARDS AND QUESTIONED COSTS

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 18, 2008**