



**Auditor of State
Betty Montgomery**

DEFIANCE COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Defiance County
500 Court Street, Suite A
Defiance, Ohio 43512-2171

To the Board of Commissioners:

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 Defiance County (the County), as of and for the year ended December 31, 2004, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Defiance County, Ohio, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General Fund, Mental Retardation and Developmental Disabilities Fund, Job and Family Services Fund, Motor Vehicle and Gas Tax Fund, Emergency 911 Fund, and Senior Center Fund and 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 27, 2005, on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

Betty Montgomery
Auditor of State

June 27, 2005

DEFIANCE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2004

The management's discussion and analysis of Defiance County's (the County) financial performance provides an overall review of the County's financial activities for the year ended December 31, 2004. The intent of this discussion and analysis is to look at the County's financial performance as a whole; readers should also review the notes to the basic financial statements and the basic financial statements to enhance their understanding of the County's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- The total net assets of the County increased \$5,572,837. Net assets of governmental activities increased \$4,703,968, which represents a 7.11% increase over fiscal year 2003. Net assets of business-type activities increased \$868,869 or 5.15% from fiscal year 2003.
- General revenues accounted for \$13,096,704 or 43.66% of total governmental activities revenue. Program specific revenues accounted for \$16,898,575 or 56.34% of total governmental activities revenue.
- The County had \$25,291,311 in expenses related to governmental activities; \$16,898,575 of these expenses was offset by program specific charges for services, grants, or contributions. General revenues (primarily taxes) of \$13,096,704 were adequate to provide for these programs.
- The general fund, the County's largest major governmental fund, had revenues and other financing sources of \$10,213,383 in 2004, an increase of \$413,561 or 4.22% from 2003 revenues. The general fund, had expenditures and other financing uses of \$10,430,102 in 2004, an increase of \$1,526,341 or 17.14% from 2003. The larger increase in expenditures and the smaller increase in revenues contributed to the general fund balance decrease of \$216,719 from 2003 to 2004.
- The mental retardation and developmental disabilities (MR/DD) fund, a major governmental fund, had revenues of \$4,140,195 in 2004, an increase of \$102,201 or 2.53% from 2003 revenues. The MR/DD fund, had expenditures of \$3,896,803 in 2004, an increase of \$238,034 or 6.51% from 2003. The increase in revenues contributed to the MR/DD fund balance increase of \$243,392 from 2003 to 2004.
- The Job and Family Services fund, a major governmental fund, had revenues and other financing sources of \$2,793,255 in 2004, a decrease of \$255,337 or 8.37% from 2003 revenues. The job and family services fund, had expenditures of \$2,522,606 in 2004, a decrease of \$446,446 or 15.04% from 2003. The increase in revenues and the decrease in expenditures contributed to the job and family services fund balance increase of \$270,649 from 2003 to 2004.
- The Motor Vehicle License and Gas Tax fund, a major governmental fund, had revenues and other financing sources of \$3,803,296 in 2004, a decrease of \$75,409 or 1.94% from 2003 revenues. The motor vehicle license and gas tax fund, had expenditures of \$4,141,354 in 2004, an increase of \$981,905 or 31.08% from 2003. The larger increase in expenditures and the decrease in revenues contributed to the Motor Vehicle License and Gas Tax fund balance decrease of \$338,058 from 2003 to 2004.
- The Emergency 911 fund, a major governmental fund, had revenues of \$427,523 in 2004, a decrease of \$66,974 or 13.54% from 2003 revenues. The emergency 911 fund, had expenditures of \$569,781 in 2004, an increase of \$67,485 or 13.44% from 2003. The decrease in revenues and the increase in expenditures contributed to the emergency 911 fund balance decrease of \$142,258 from 2003 to 2004.
- The Senior Center fund, a major governmental fund, had revenues of \$1,223,344 in 2004, an increase of \$4,709 or 0.39% from 2003 revenues. The senior center fund, had expenditures of \$1,089,589 in 2004, a decrease of

DEFIANCE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2004 (Continued)

\$121,170 or 10.01% from 2003. The increase in revenues and the decrease in expenditures contributed to the senior center fund balance increase of \$133,755 from 2003 to 2004.

- The County East Side Campus fund, a major governmental fund, had revenues of \$59,649 in 2004. The county east side camp fund, had expenditures of \$1,385,473 in 2004. The county east side camp fund ended 2004 with a deficit balance of \$1,325,824.
- The County Improvement fund, a major governmental fund, had revenues of \$261,887 in 2004. The County Improvement fund, had expenditures of \$134,167 in 2004. The County Improvement fund balance increased \$127,720 from 2003 to 2004.
- Net assets for the business-type activities, which are made up of the Landfill and Sewer enterprise funds, increased in 2004 by \$868,869. This increase in net assets was mainly due to adequate charges for services revenue to cover operating expenses.
- In the general fund, the actual revenues came in \$2,631,065 higher than they were originally budgeted and actual expenditures were \$2,992,764 less than the amount in the original budget. These positive variances are a result of the County's conservative budgeting process.

Using these Basic Financial Statements (BFS)

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

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole County, presenting both an aggregate view of the County'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 County's most significant funds with all other nonmajor funds presented in total in one column. In the case of the County, there are eight major governmental funds. The general fund is the largest major fund.

Reporting the County as a Whole

Statement of Net Assets and the Statement of Activities

The Statement of Net Assets and the Statement of Activities answer the question, "How did we do financially during 2004?" 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 County's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the County as a whole, the financial position of the County 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 County's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, and other factors.

In the Statement of Net Assets and the Statement of Activities, the County is divided into two distinct kinds of activities:

DEFIANCE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2004 (Continued)

Governmental Activities - Most of the County's programs and services are reported here including human services, health, public safety, public works, and general government. These services are funded primarily by 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 County's statement of net assets and statement of activities can be found on pages 19-21 of this report.

Reporting the County'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 County, 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 County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Fund financial reports provide detailed information about the County's major funds. The County uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the County's most significant funds. The County's major governmental funds are the general fund, Mental Retardation and Developmentally Disabled (MR/DD), Job and Family Services, Motor Vehicle and Gas Tax, Emergency 911, Senior Center, County East Side Campus and County Improvement. The County's major enterprise funds are the Landfill and Sewer funds. The analysis of the County's major governmental and proprietary funds begins on page 11.

Governmental Funds

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

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

The County maintains a multitude of individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances for the major funds, which were identified earlier. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary Funds

The County maintains proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses enterprise funds to account for its landfill and sewer operations. Internal service funds are an accounting device used to accumulate and allocate costs internally

DEFIANCE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)

among the County's various functions. The County's internal service fund accounts for medical/surgical and dental self-insurance.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the County. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Agency funds are the County's only fiduciary fund type.

Notes to the 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.

Government-Wide Financial Analysis

The Statement of Net Assets provides the perspective of the County as a whole. The table below provides a summary of the County's net assets for 2004 and 2003.

	Net Assets					
	(restated)					
	Governmental Activities 2004	Business-type Activities 2004	Governmental Activities 2003	Business-type Activities 2003	2004 Total	2003 Total
<u>Assets</u>						
Current and other assets	\$ 38,615,143	\$ 12,823,731	\$ 35,313,783	\$ 12,156,469	\$ 51,438,874	\$ 47,470,252
Capital assets, net	<u>46,927,070</u>	<u>8,076,882</u>	<u>43,873,582</u>	<u>7,678,994</u>	<u>55,003,952</u>	<u>51,552,576</u>
Total assets	<u>85,542,213</u>	<u>20,900,613</u>	<u>79,187,365</u>	<u>19,835,463</u>	<u>106,442,826</u>	<u>99,022,828</u>
<u>Liabilities</u>						
Long-term liabilities outstanding	9,093,829	167,487	7,855,755	96,656	9,261,316	7,952,411
Other liabilities	<u>5,619,399</u>	<u>3,009,158</u>	<u>5,206,593</u>	<u>2,883,708</u>	<u>8,628,557</u>	<u>8,090,301</u>
Total liabilities	<u>14,713,228</u>	<u>3,176,645</u>	<u>13,062,348</u>	<u>2,980,364</u>	<u>17,889,873</u>	<u>16,042,712</u>
<u>Net Assets</u>						
Invested in capital assets, net of related debt	44,376,826	7,714,237	41,167,864	7,082,320	52,091,063	48,250,184
Restricted	21,583,772	1,502,940	18,207,735	1,725,118	23,086,712	19,932,853
Unrestricted	<u>4,868,387</u>	<u>8,506,791</u>	<u>6,749,418</u>	<u>8,047,661</u>	<u>13,375,178</u>	<u>14,797,079</u>
Total net assets	<u>\$ 70,828,985</u>	<u>\$ 17,723,968</u>	<u>\$ 66,125,017</u>	<u>\$ 16,855,099</u>	<u>\$ 88,552,953</u>	<u>\$ 82,980,116</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2004, the County's assets exceeded liabilities by \$88,552,953. This amounts to \$70,828,985 in governmental activities and \$17,723,968 in business-type activities.

Capital assets reported on the government-wide statements represent the largest portion of the County's assets. At year-end, capital assets represented 51.67% of total governmental and business-type assets. Capital assets include land, buildings and improvements, equipment, vehicles, construction in progress and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2004, were \$52,091,063. These capital assets are used to provide

DEFIANCE COUNTY

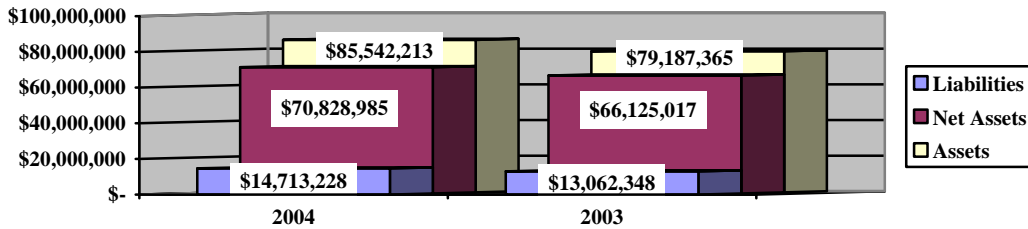
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)

services to citizens and are not available for future spending. Although the County'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.

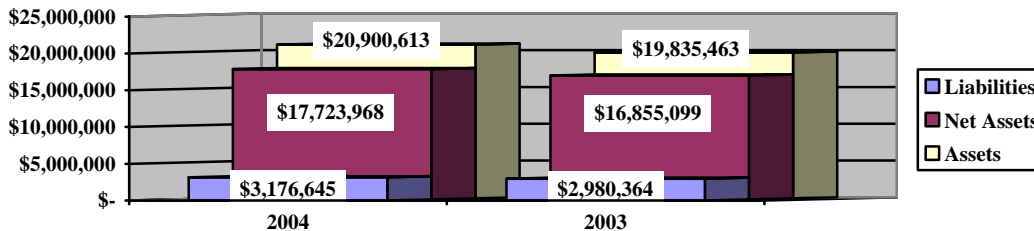
As of December 31, 2004, the County is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

A portion of the County's net assets, \$23,086,712 or 26.07%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of governmental activities unrestricted net assets of \$4,868,387 may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental Activities



Business-Type Activities



The table below shows the changes in net assets for fiscal year 2004 and 2003.

DEFIANCE COUNTY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

	Change in Net Assets					
	Governmental	Business-type	Governmental	Business-type	Total	Total
	Activities	Activities	Activities	Activities	Total	Total
	2004	2004	2003	2003	2004	2003
Revenues						
Program revenues:						
Charges for services and sales	\$ 3,909,227	\$ 3,166,202	\$ 4,149,102	\$ 2,912,712	\$ 7,075,429	\$ 7,061,814
Operating grants and contributions	11,126,145	-	10,928,958	92,278	11,126,145	11,021,236
Capital grants and contributions	<u>1,863,203</u>	<u>178,778</u>	<u>3,639,153</u>	<u>1,172</u>	<u>2,041,981</u>	<u>3,640,325</u>
Total program revenues	<u>16,898,575</u>	<u>3,344,980</u>	<u>18,717,213</u>	<u>3,006,162</u>	<u>20,243,555</u>	<u>21,723,375</u>
General revenues:						
Property taxes	5,124,667	-	4,656,186	-	5,124,667	4,656,186
Payment in lieu of taxes	-	-	80,000	-	-	80,000
Sales tax	4,482,195	-	4,254,885	-	4,482,195	4,254,885
Unrestricted grants	1,156,167	-	1,054,052	-	1,156,167	1,054,052
Investment earnings	958,763	10,160	786,024	-	968,923	786,024
Other	<u>1,374,912</u>	<u>72,194</u>	<u>1,477,565</u>	<u>-</u>	<u>1,447,106</u>	<u>1,477,565</u>
Total general revenues	<u>13,096,704</u>	<u>82,354</u>	<u>12,308,712</u>	<u>-</u>	<u>13,179,058</u>	<u>12,308,712</u>
Total revenues	<u>29,995,279</u>	<u>3,427,334</u>	<u>31,025,925</u>	<u>3,006,162</u>	<u>33,422,613</u>	<u>34,032,087</u>
Expenses						
Program Expenses:						
General government						
Legislative and executive	5,585,512	-	5,075,779	-	5,585,512	5,075,779
Judicial	1,373,983	-	1,536,525	-	1,373,983	1,536,525
Public safety	3,969,517	-	4,240,681	-	3,969,517	4,240,681
Public works	4,532,330	-	4,446,043	-	4,532,330	4,446,043
Health	3,835,788	-	3,830,688	-	3,835,788	3,830,688
Human services	5,236,075	-	5,813,439	-	5,236,075	5,813,439
Conservation and recreation	9,874	-	66,819	-	9,874	66,819
Economic development	511,613	-	28,714	-	511,613	28,714
Intergovernmental	-	-	30,718	-	-	30,718
Internal service - external portion	-	-	183,122	-	-	183,122
Interest and fiscal charges	236,619	-	222,100	-	236,619	222,100
Landfill	-	2,212,651	-	1,510,622	2,212,651	1,510,622
Sewer	-	<u>345,814</u>	-	<u>351,633</u>	<u>345,814</u>	<u>351,633</u>
Total expenses	<u>25,291,311</u>	<u>2,558,465</u>	<u>25,474,628</u>	<u>1,862,255</u>	<u>27,849,776</u>	<u>27,336,883</u>
Transfers	-	-	(985,134)	985,134	-	-
Change in net assets	4,703,968	868,869	4,566,163	2,129,041	5,572,837	6,695,204
Net assets at beginning of year	<u>66,125,017</u>	<u>16,855,099</u>	<u>61,558,854</u>	<u>14,726,058</u>	<u>82,980,116</u>	<u>76,284,912</u>
Net assets at end of year	<u>\$ 70,828,985</u>	<u>\$ 17,723,968</u>	<u>\$ 66,125,017</u>	<u>\$ 16,855,099</u>	<u>\$ 88,552,953</u>	<u>\$ 82,980,116</u>

DEFIANCE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)

Governmental Activities

Governmental net assets increased by \$4,703,968 or 7% in 2004 over 2003. Governmental revenues decreased by \$1,030,646 or 3% and expenses decreased \$183,317 or 1%.

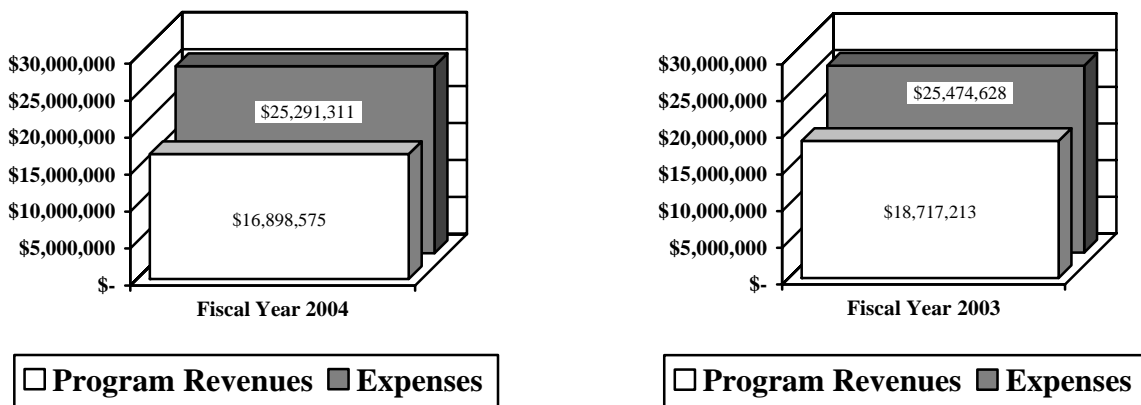
Human services expenses support the operations of the Job and Family Services (Public Assistance), Veteran Services, and the Children Services Board, accounts for \$5,236,075 of expenses, or 20.70% of total governmental expenses of the County. These expenses were funded by \$3,796,769 in operating grants and contributions in 2004. General government expenses which includes legislative and executive and judicial programs, accounted for \$6,959,495 or 27.52% of total governmental expenses. General government expenses were covered by \$2,181,041 of direct charges to users in 2004.

The state and federal government contributed to the County revenues of \$11,126,145 in operating grants and contributions and \$1,863,203 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the total, operating grants and contributions, \$3,796,769, or 34.12%, subsidized human services programs.

General revenues totaled \$13,096,704, and amounted to 43.66% of total revenues. These revenues primarily consist of property and sales tax revenue of \$9,606,862, or 73.35% of total general revenues in 2004. The other primary source of general revenues is grants and entitlements not restricted to specific programs, with local government and local government revenue assistance making up \$1,156,167, or 8.83% of the total. In August 2003, the state placed a freeze on local government and local government revenue assistance to be distributed to local governments in 2004.

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 for 2004 and 2003. That is, it identifies the cost of these services supported by general revenues (such as tax revenue and unrestricted state grants and entitlements). As can be seen in the graph below, the County is reliant upon general revenues to finance operations as program revenues are not sufficient to cover total expenses.

Governmental Activities – Program Revenues vs. Total Expenses



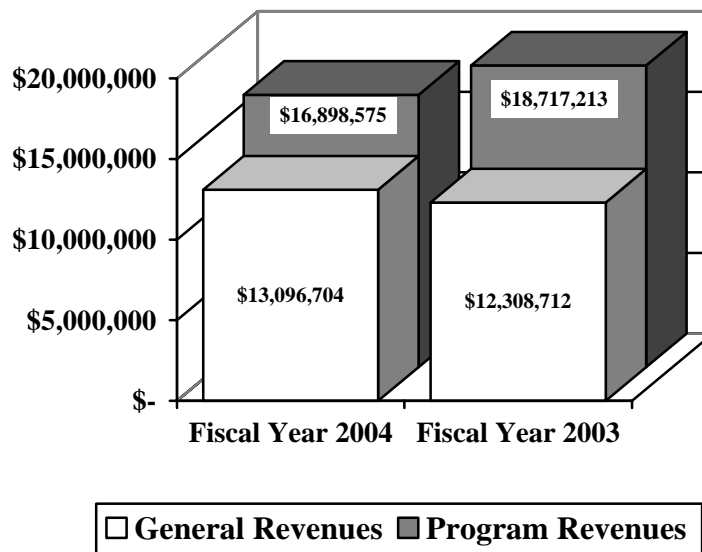
DEFIANCE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)

Governmental Activities				
	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>	Total Cost of Services <u>2003</u>	Net Cost of Services <u>2003</u>
Program Expenses:				
General government				
Legislative and executive	\$ 5,585,512	\$ 3,773,948	\$ 5,075,779	\$ 3,277,778
Judicial	1,373,983	752,051	1,536,525	677,000
Public safety	3,969,517	3,247,632	4,240,681	3,408,830
Public works	4,532,330	(2,119,153)	4,446,043	(3,920,102)
Health	3,835,788	1,781,315	3,830,688	1,938,204
Human services	5,236,075	1,278,441	5,813,439	1,100,874
Conservation and recreation	9,874	9,874	66,819	16,478
Economic development	511,613	(567,991)	28,714	2,372
Intergovernmental	-	-	30,718	30,718
Internal service - external portion	-	-	183,122	3,163
Interest and fiscal charges	<u>236,619</u>	<u>236,619</u>	<u>222,100</u>	<u>222,100</u>
Total	<u>\$ 25,291,311</u>	<u>\$ 8,392,736</u>	<u>\$ 25,474,628</u>	<u>\$ 6,757,415</u>

The dependence upon general revenues for governmental activities is apparent, with 33.18% of expenses supported through taxes and other general revenues during 2004. The graph below illustrates the County's reliance upon general revenues.

Governmental Activities – General and Program Revenues



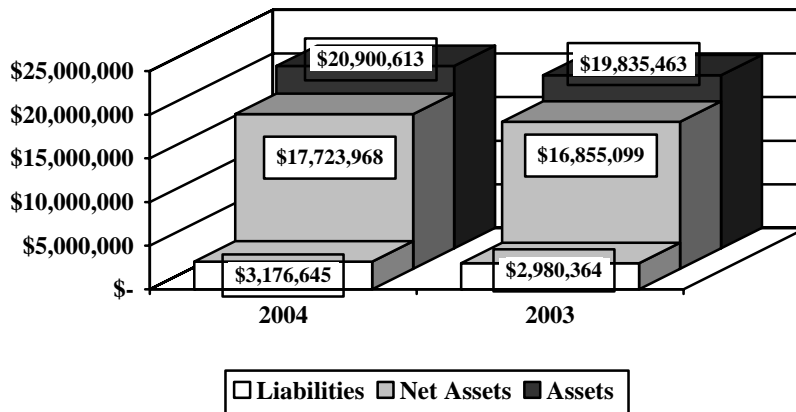
DEFIANCE COUNTY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

Business-Type Activities

The Landfill and Sewer are the County's enterprise funds. These operations had program revenues of \$3,344,980, general revenues of \$82,354, and expenses of \$2,558,465 for fiscal year 2004. The net assets of the enterprise funds increased \$868,869 or 5.15% during 2004. The following graph illustrates the assets, liabilities and net assets of the County's business-type activities at December 31, 2004:

Net Assets in Business – Type Activities



Financial Analysis of the Government's Funds

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

Governmental Funds

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

The County's governmental funds (as presented on the balance sheet on pages 22-23) reported a combined fund balance of \$22,792,043, which is \$1,323,448 under last year's total of \$24,115,491. The schedule below indicates the fund balance and the total change in fund balance as of December 31, 2004 for all major and nonmajor governmental funds.

DEFIANCE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)

	Fund Balance <u>December 31, 2004</u>	Fund Balance <u>December 31, 2003</u>	Increase <u>(Decrease)</u>
Major Funds:			
General	\$ 8,246,065	\$ 8,462,784	\$ (216,719)
Mental Retardation and Developmental Disabilities	1,816,486	1,573,094	243,392
Job and Family Services	482,572	211,923	270,649
Motor Vehicle License and Gas Tax	1,612,511	1,950,569	(338,058)
Emergency 911	72,559	214,817	(142,258)
Senior Center	627,744	493,989	133,755
County East Side Camp	(1,325,824)	-	(1,325,824)
County Improvement	6,364,975	6,237,255	127,720
Other Nonmajor Governmental Funds	<u>4,894,955</u>	<u>4,971,060</u>	<u>(76,105)</u>
Total	<u>\$ 22,792,043</u>	<u>\$ 24,115,491</u>	<u>\$ (1,323,448)</u>

General Fund

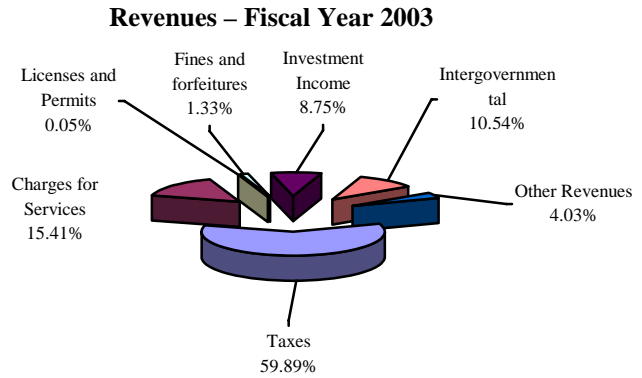
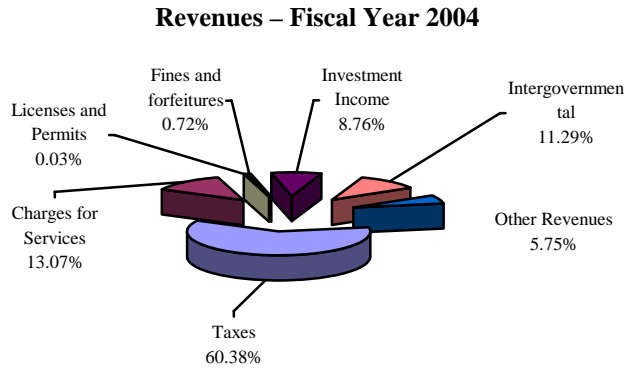
The County's general fund balance decreased \$216,719, primarily due to expenditures increasing faster than revenues. The table that follows assists in illustrating the revenues of the general fund.

	<u>2004 Amount</u>	<u>2003 Amount</u>	<u>Percentage Change</u>
<u>Revenues</u>			
Taxes	\$ 6,160,598	\$ 5,870,803	4.94 %
Charges for services	1,333,612	1,509,832	(11.67) %
Licenses and permits	3,370	4,926	(31.59) %
Fines and forfeitures	73,682	129,896	(43.28) %
Intergovernmental	1,151,984	1,032,609	11.56 %
Investment income	893,471	857,096	4.24 %
Other	<u>586,924</u>	<u>394,660</u>	48.72 %
Total	<u>\$ 10,203,641</u>	<u>\$ 9,799,822</u>	4.12 %

Tax revenue represents 60.38% of all general fund revenue. Tax revenue increased slightly by 4.94% over prior year. The decrease in charges for services revenue is primarily due to less fees collected by the recorder's office. The increase in intergovernmental is primarily due the County aggressively seeking state and federal grants. The County received more of these grant in 2004 than in 2003. The increase in other revenue is primarily due to an increase in reimbursements received during the year coupled with an increase in activity related to segregated bank accounts of the following departments: recorder's office, prosecuting attorney, clerk of courts, probate court and juvenile court and probation. The decrease in fines and forfeitures is due to less activity related to this revenue sources than in the prior year. All other revenue remained comparable to 2003.

DEFIANCE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)



The table that follows assists in illustrating the expenditures of the general fund. Certain 2003 amounts have been restated to conform to 2004 presentation.

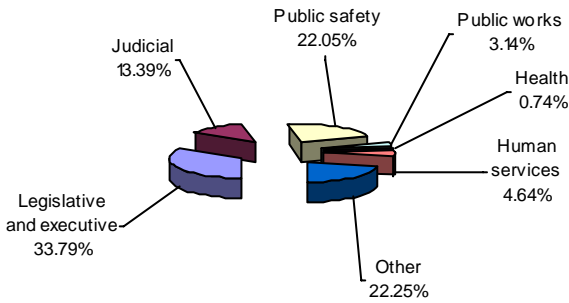
<u>Expenditures</u>	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
General government			
Legislative and executive	\$ 2,864,912	\$ 2,955,448	(3.06) %
Judicial	1,135,595	1,243,906	(8.71) %
Public safety	1,869,169	1,750,377	6.79 %
Public works	265,876	240,069	10.75 %
Health	62,523	22,165	182.08 %
Human services	393,320	346,835	13.40 %
Other	<u>1,886,494</u>	<u>1,221,104</u>	54.49 %
Total	<u>\$ 8,477,889</u>	<u>\$ 7,779,904</u>	8.97 %

The most significant increases were in the areas of Health, Human Services, and other expenditures. Human services expenditures relate to the following services: county home, children services, soldier's relief, and veteran's services. These services saw an overall increase in contractual services related expenditures in 2004. The increase in Health expenditures is primarily due to crippled children activity, an account within the general fund, being reported as a Health expenditure function in 2004 versus a Human services expenditure function in 2003. The increase in other expenditures is attributable to increases in health insurance costs, matching funds related to grants, and to interest paid to other funds. All other expenditures remained comparable to 2003.

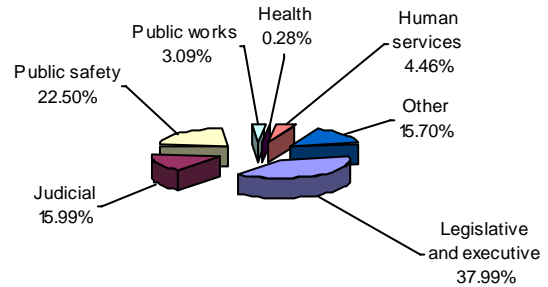
DEFIANCE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)

Expenditures - Fiscal Year 2004



Expenditures - Fiscal Year 2003



Mental Retardation and Developmental Disabilities (MR/DD) Fund

The mental retardation and developmental disabilities (MR/DD) fund, a major governmental fund, had revenues of \$4,140,195 in 2004, an increase of \$102,201 or 2.53% from 2003 revenues, due to an increase in tax collections and state reimbursements. The MR/DD fund, had expenditures of \$3,896,803 in 2004, an increase of \$238,034 or 6.51% from 2003, due to an increase in insurance and grant expenses. The MR/DD fund balance increased \$243,392 from 2003 to 2004.

Job and Family Services Fund

The Job and Family Services fund, a major governmental fund, had revenues and other financing sources of \$2,793,255 in 2004, a decrease of \$255,237 or 8.37% from 2003 revenues, due to a decrease in grant revenues. The job and family services fund, had expenditures of \$2,522,606 in 2004, a decrease of \$446,446 or 15.04% from 2003. The decrease in expenditures was a result of a decrease in salaries, WIA program expenses, and purchase services. The job and family services fund balance increased \$270,649 from 2003 to 2004.

Motor Vehicle License and Gas Tax Fund

The Motor Vehicle License and Gas Tax fund, a major governmental fund, had revenues and other financing sources of \$3,803,296 in 2004, an increase of \$75,409 or 1.94% from 2003 revenues, due an increase in the gas tax collections. The motor vehicle license and gas tax fund, had expenditures of \$4,141,354 in 2004, an increase of \$981,905 or 31.08% from 2003. The bridge replacements projects in 2004 accounted for the additional expenses. Motor Vehicle License and Gas Tax fund balance decreased \$338,058 from 2003 to 2004.

Emergency 911 Fund

The Emergency 911 fund, a major governmental fund, had revenues of \$427,523 in 2004, an increase of \$66,974 or 13.54% from 2003 revenues, due to an increase in the property tax rate. The emergency 911 fund, had expenditures of \$569,781 in 2004, an increase of \$67,485 or 13.44% from 2003, due to an increase in salary expenses. The emergency 911 fund balance decreased \$142,258 from 2003 to 2004.

DEFIANCE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2004 (Continued)

Senior Center Fund

The Senior Center fund, a major governmental fund, had revenues of \$1,223,344 in 2004, an increase of \$4,709 or 0.39% from 2003 revenues, due to an increase in tax collections. The senior center fund, had expenditures of \$1,089,589 in 2004, a decrease of \$121,170 or 10.01% from 2003, due to a decrease in salary expenses. The senior center fund balance increased \$133,755 from 2003 to 2004.

County East Side Campus Fund

The County East Side Camp fund, a major governmental fund, had revenues of \$59,649 in 2004. The county east side camp fund, had expenditures of \$1,385,473 in 2004. The county east side camp fund ended 2004 with a deficit balance of \$1,325,824.

County Improvement Fund

The County Improvement fund, a major governmental fund, had revenues of \$261,887 in 2004, an increase of \$201,887 from 2003 revenues due to a transfer-in during 2004. The County Improvement fund, had expenditures of \$134,167 in 2004, an increase of \$76,057 or 30.88%. The County Improvement fund balance increased \$127,720 from 2003 to 2004.

Budgeting Highlights - General Fund

The County's budgeting process is prescribed by the Ohio Revised Code (ORC). Essentially the budget is the County's appropriations which are restricted by the amounts of anticipated revenues certified by the Budget Commission in accordance with the ORC. Therefore, the County'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, MR/DD, job and family services, motor vehicle license and gas tax, emergency 911 and senior center. In the general fund, the original budgeted revenues were \$7,519,753 these were increased to \$10,103,609 in the final budget. Actual revenues of \$10,150,818 exceeded final budgeted revenues by \$47,209 or 0.47%. This increase is due to greater than anticipated receipts in investment income revenue. In the general fund, the original budgeted appropriations were \$13,749,720 these were increased to \$16,333,576 in the final budget. Actual expenditures and other financing uses of \$10,756,956 were less than final budgeted appropriations by \$5,576,620 or 34.14%. Actual expenditures being lower than final budgeted expenditures are a result of the County's conservative budgeting practices.

Proprietary Funds

The County's proprietary funds provide the same type of information found in the government-wide financial statements for business-type activities, but in more detail.

Capital Assets and Debt Administration

Capital Assets

At the end of 2004, the County had \$55,003,952 (net of accumulated depreciation) invested in land, buildings and improvements, furniture and equipment, vehicles, construction in progress, sewer mains and infrastructure. Of this total, \$46,927,070 was reported in governmental activities and \$8,076,882 was reported in business-type activities. The following table shows fiscal 2004 balances compared to 2003:

DEFIANCE COUNTY

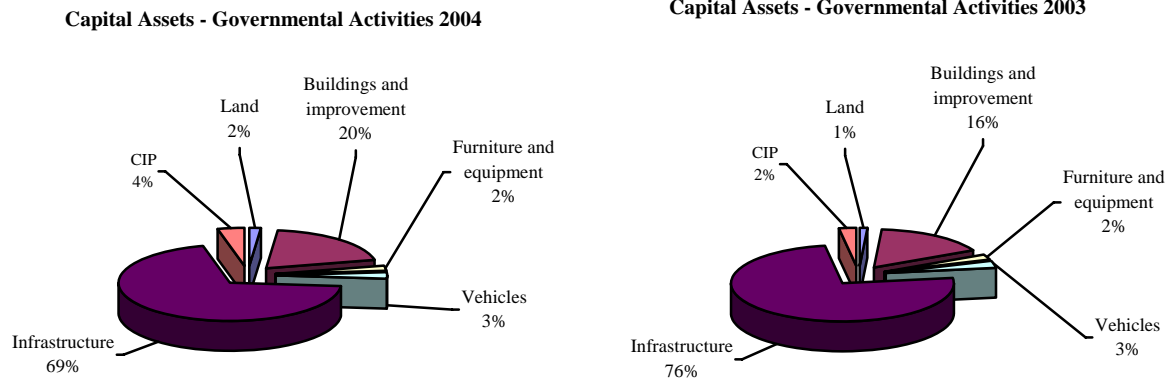
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)

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

	Governmental Activities		Business-Type Activities		Total	
	2004	(restated) 2003	2004	2003	2004	2003
Land	\$ 811,071	\$ 543,271	\$ 1,671,207	\$ 721,484	\$ 2,482,278	\$ 1,264,755
Building and improvements	9,473,318	7,152,978	257,947	269,773	9,731,265	7,422,751
Furniture and equipment	1,032,465	958,369	1,556,207	1,788,356	2,588,672	2,746,725
Vehicles	1,352,372	1,369,874	71,651	68,226	1,424,023	1,438,100
Infrastructure	32,402,471	32,753,314	-	-	32,402,471	32,753,314
Sewer lines	-	-	2,735,717	2,813,457	2,735,717	2,813,457
Construction in progress	1,855,373	1,095,776	1,784,153	2,017,698	3,639,526	3,113,474
Total	\$ 46,927,070	\$ 43,873,582	\$ 8,076,882	\$ 7,678,994	\$ 55,003,952	\$ 51,552,576

See Note 10 to the basic financial statements for detail on governmental activities and business-type activities capital assets.

The following graphs show the breakdown of governmental capital assets by category for 2004 and 2003.



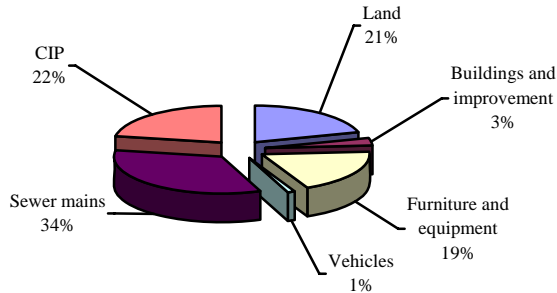
The County's largest capital asset category is infrastructure which includes roads, bridges, and culverts. These items are immovable and of value only to the County, however, the annual cost of purchasing these items is quite significant. The net book value of the County's infrastructure (cost less accumulated depreciation) represents approximately 69% of the County's total governmental capital assets.

The following graphs show the breakdown of business-type capital assets by category for 2004 and 2003.

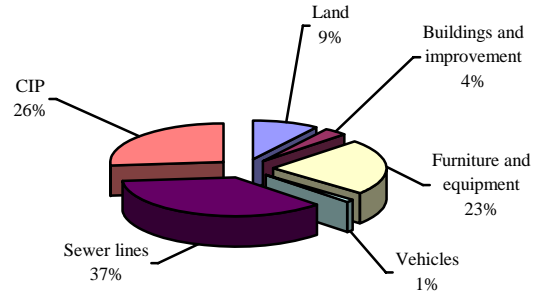
DEFIANCE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)

Capital Assets - Business-Type Activities 2004



Capital Assets - Business-Type Activities 2003



The County's largest business-type capital asset category is sewer mains. These items play a vital role in the income producing ability of the business-type activities. The net book value of the County's sewer mains (cost less accumulated depreciation) represents approximately 34% of the County's total business-type capital assets.

Debt Administration

At December 31, 2004 the County had \$2,220,000 in general obligation bonds, \$1,218,200 in special assessment bonds, loans of \$229,389, OPWC loans of \$339,335, OWDA loans of \$958,781, GMAC commercial mortgage of \$94,000 and closure and post-closure of \$2,586,896 outstanding. Of this total, \$460,985 is due within one year and \$7,185,616 is due within greater than one year. The following table summarizes the bonds and loans outstanding.

Outstanding Debt, at Year End

	Governmental Activities <u>2004</u>	Business-Type Activities <u>2004</u>	Governmental Activities <u>2003</u>	Business-Type Activities <u>2003</u>
Long-Term Obligations				
General obligation bonds:	\$ 2,165,000	\$ 55,000	\$ 2,260,000	\$ 65,000
Special assessment bonds	1,218,200	-	821,400	-
Loans payable	15,744	213,645	30,789	433,674
OPWC loans	339,335	-	362,738	-
OWDA loans	958,781	-	757,087	-
GMAC commercial mortgage	-	94,000	-	98,000
Closure and postclosure	-	<u>2,586,896</u>	-	<u>2,235,056</u>
Total	<u>\$ 4,697,060</u>	<u>\$ 2,949,541</u>	<u>\$ 4,232,014</u>	<u>\$ 2,831,730</u>

See Note 19 to the basic financial statements for detail on governmental activities and business-type activities long-term obligations.

DEFIANCE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2004 (Continued)

Economic Factors and Next Year's Budgets and Rates

The County's current population as of the 2000 census is 39,500.

As of December 31, 2004, the County's unemployment rate was 5.3%, compared to the 5.7% state average and the 5.1% national average.

These economic factors were considered in preparing the County's budget for fiscal year 2004. Budgeted revenues and other financing sources in the general fund for fiscal year 2005 budget are \$7,656,178.

Contacting the County's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Honorable Marlene J. Goodwin, Defiance County Auditor, 221 Clinton Street, Defiance, Ohio 43512.

DEFIANCE COUNTY

STATEMENT OF NET ASSETS
DECEMBER 31, 2004

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 24,902,007	\$ 8,787,547	\$ 33,689,554
Cash and cash equivalents in segregated accounts	132,433	-	132,433
Cash and cash equivalents with fiscal agent	2,161	-	2,161
Investments	-	3,872,814	3,872,814
Receivables (net of allowances for uncollectibles):			
Sales taxes	738,151	-	738,151
Real estate and other taxes	5,227,135	-	5,227,135
Accounts	120,153	302,056	422,209
Intergovernmental	4,730,120	-	4,730,120
Special assessments	1,599,254	-	1,599,254
Accrued interest	72,386	22,493	94,879
Loans	393,601	-	393,601
Internal balances	209,408	(209,408)	-
Prepayments	99,367	36,274	135,641
Materials and supplies inventory	388,967	11,955	400,922
Capital assets:			
Land and construction in progress	2,666,444	3,455,360	6,121,804
Depreciable capital assets, net	44,260,626	4,621,522	48,882,148
Total assets	<u>85,542,213</u>	<u>20,900,613</u>	<u>106,442,826</u>
Liabilities:			
Accounts payable	395,820	121,491	517,311
Accrued wages and benefits	182,597	6,600	189,197
Due to other governments	292,112	39,166	331,278
Accrued interest payable	45,535	230	45,765
Notes payable	3,059,440	-	3,059,440
Claims payable	232,021	-	232,021
Deferred revenue	4,886,304	-	4,886,304
Long-term liabilities:			
Due within one year	611,543	251,568	863,111
Due in more than one year	5,007,856	2,757,590	7,765,446
Total liabilities	<u>14,713,228</u>	<u>3,176,645</u>	<u>17,889,873</u>
Net assets:			
Invested in capital assets, net of related debt	44,376,826	7,714,237	52,091,063
Restricted for:			
Debt service	1,134,932	-	1,134,932
Capital projects	8,330,468	-	8,330,468
Other purposes	3,405,403	-	3,405,403
Human services programs	1,162,540	-	1,162,540
Public works projects	3,200,350	-	3,200,350
Public safety programs	2,408,922	-	2,408,922
Health Services	1,941,157	-	1,941,157
Closure and postclosure	-	1,502,940	1,502,940
Unrestricted	4,868,387	8,506,791	13,375,178
Total net assets	<u>\$ 70,828,985</u>	<u>\$ 17,723,968</u>	<u>\$ 88,552,953</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

DEFIANCE COUNTY

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Expenses</u>
Governmental Activities:	
General government:	
Legislative and executive	\$ 5,585,512
Judicial	1,373,983
Public safety	3,969,517
Public works	4,532,330
Health	3,835,788
Human services	5,236,075
Conservation and recreation	9,874
Economic development	511,613
Interest and fiscal charges	236,619
Total governmental activities	<u>25,291,311</u>
Business-Type Activities:	
Landfill	2,212,651
Sewer	345,814
Total business-type activities	<u>2,558,465</u>
Total	<u><u>\$ 27,849,776</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
\$ 1,811,564	\$ -	\$ -	\$ (3,773,948)	\$ -	\$ (3,773,948)
369,477	252,455	-	(752,051)	-	(752,051)
365,556	356,329	-	(3,247,632)	-	(3,247,632)
1,104,205	3,684,075	1,863,203	2,119,153	-	2,119,153
92,085	1,962,388	-	(1,781,315)	-	(1,781,315)
160,865	3,796,769	-	(1,278,441)	-	(1,278,441)
-	-	-	(9,874)	-	(9,874)
5,475	1,074,129	-	567,991	-	567,991
-	-	-	(236,619)	-	(236,619)
<u>3,909,227</u>	<u>11,126,145</u>	<u>1,863,203</u>	<u>(8,392,736)</u>	<u>-</u>	<u>(8,392,736)</u>
2,737,517	-	-	-	524,866	524,866
428,685	-	178,778	-	261,649	261,649
<u>3,166,202</u>	<u>-</u>	<u>178,778</u>	<u>-</u>	<u>786,515</u>	<u>786,515</u>
<u>\$ 7,075,429</u>	<u>\$ 11,126,145</u>	<u>\$ 2,041,981</u>	<u>(8,392,736)</u>	<u>786,515</u>	<u>(7,606,221)</u>

General Revenues:

Property taxes levied for:

General fund	1,795,417	-	1,795,417
Public safety - Emergency 911	401,821	-	401,821
Human services - County Board of MR/DD	2,171,982	-	2,171,982
Human services - Senior center	755,447	-	755,447
Sales taxes	4,482,195	-	4,482,195
Grants and entitlements not restricted to specific programs	1,156,167	-	1,156,167
Investment earnings	958,763	10,160	968,923
Miscellaneous	1,374,912	72,194	1,447,106
Total general revenues	<u>13,096,704</u>	<u>82,354</u>	<u>13,179,058</u>
Change in net assets	4,703,968	868,869	5,572,837
Net assets at beginning of year - See Note 3	<u>66,125,017</u>	<u>16,855,099</u>	<u>82,980,116</u>
Net assets at end of year	<u>\$ 70,828,985</u>	<u>\$ 17,723,968</u>	<u>\$ 88,552,953</u>

DEFIANCE COUNTY

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	<u>General</u>	<u>Mental Retardation and Developmental Disabilities</u>	<u>Job and Family Services</u>	<u>Motor Vehicle and Gas Tax</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 5,686,058	\$ 1,884,017	\$ 321,564	\$ 1,722,871
Cash and cash equivalents in segregated accounts	128,480	-	3,953	-
Cash and cash equivalents with fiscal agent	-	2,161	-	-
Receivables (net of allowance for uncollectibles):				
Sales taxes	738,151	-	-	-
Real estate and other taxes	1,573,110	2,108,390	-	-
Accounts	84,563	-	588	-
Intergovernmental	552,153	143,661	265,034	1,815,554
Special assessments	-	-	-	-
Accrued interest	72,386	-	-	-
Loans	-	-	-	-
Interfund loans	1,998,997	-	-	-
Due from other funds	781	-	800	-
Prepayments	48,487	24,376	5,717	2,643
Materials and supplies inventory	47,822	6,683	10,973	291,870
Restricted assets:				
Equity in pooled cash and cash equivalents	83,374	-	-	-
Total assets	\$ 11,014,362	\$ 4,169,288	\$ 608,629	\$ 3,832,938
Liabilities:				
Accounts payable	\$ 85,722	\$ 9,332	\$ 50,663	\$ 99,480
Accrued wages and benefits	59,285	41,681	23,404	21,885
Compensated absences payable	-	12,793	-	-
Due to other funds	-	-	-	-
Due to other governments	125,824	39,020	51,027	28,183
Interfund loan payable	-	-	-	-
Accrued interest payable	-	-	-	4,875
Notes payable	-	-	-	539,500
Deferred revenue	2,497,466	2,249,976	963	1,526,504
Total liabilities	2,768,297	2,352,802	126,057	2,220,427
Fund Balances:				
Reserved for encumbrances	66,235	95,970	17,096	671,406
Reserved for unclaimed monies	106,263	-	-	-
Reserved for prepayments	48,487	24,376	5,717	2,643
Reserved for materials and supplies inventory	47,822	6,683	10,973	291,870
Reserved for interfund loans	1,998,997	-	-	-
Reserved for loans	-	-	-	-
Unreserved:				
Designated for retirement	-	-	-	-
Undesignated (deficit), reported in:				
General fund	5,978,261	-	-	-
Special revenue funds	-	1,689,457	448,786	646,592
Debt service funds	-	-	-	-
Capital projects funds	-	-	-	-
Total fund balances	8,246,065	1,816,486	482,572	1,612,511
Total liabilities and fund balances	\$ 11,014,362	\$ 4,169,288	\$ 608,629	\$ 3,832,938

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Emergency 911	Senior Center	County East Side Campus	County Improvement	Other Governmental Funds	Total Governmental Funds
\$ 227,536	\$ 658,380	\$ 416,602	\$ 6,340,975	\$ 6,812,542	\$ 24,070,545
-	-	-	-	-	132,433
-	-	-	-	-	2,161
-	-	-	-	-	738,151
774,133	771,502	-	-	-	5,227,135
-	427	-	-	34,575	120,153
38,891	95,592	-	-	1,819,235	4,730,120
-	-	-	-	1,599,254	1,599,254
-	-	-	-	-	72,386
-	-	-	-	393,601	393,601
-	-	-	24,000	54,777	2,077,774
-	-	-	-	-	1,581
13,366	976	-	-	3,802	99,367
1,098	11,853	-	-	18,668	388,967
-	-	-	-	-	83,374
\$ 1,055,024	\$ 1,538,730	\$ 416,602	\$ 6,364,975	\$ 10,736,454	\$ 39,737,002
\$ 2,134	\$ 37,834	\$ 26,963	\$ -	\$ 83,692	\$ 395,820
8,124	7,941	-	-	20,277	182,597
-	-	-	-	-	12,793
-	-	-	-	1,581	1,581
9,569	11,560	-	-	26,929	292,112
150,000	-	-	-	1,720,197	1,870,197
-	-	15,463	-	10,013	30,351
-	-	1,700,000	-	819,940	3,059,440
812,638	853,651	-	-	3,158,870	11,100,068
982,465	910,986	1,742,426	-	5,841,499	16,944,959
7,788	10,394	-	63,179	307,020	1,239,088
-	-	-	-	-	106,263
13,366	976	-	-	3,802	99,367
1,098	11,853	-	-	18,668	388,967
-	-	-	24,000	54,777	2,077,774
-	-	-	-	299,968	299,968
-	-	-	-	60,162	60,162
-	-	-	-	-	5,978,261
50,307	604,521	-	-	4,270,371	7,710,034
-	-	-	-	(231,469)	(231,469)
-	-	(1,325,824)	6,277,796	111,656	5,063,628
72,559	627,744	(1,325,824)	6,364,975	4,894,955	22,792,043
\$ 1,055,024	\$ 1,538,730	\$ 416,602	\$ 6,364,975	\$ 10,736,454	\$ 39,737,002

DEFIANCE COUNTY

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2004

Total governmental fund balances \$ 22,792,043

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 46,927,070

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

Property taxes receivable	\$ 367,009
Sales tax receivable	427,673
Intergovernmental receivable	3,774,185
Special assessments receivable	1,623,420
Accrued interest receivable	<u>21,477</u>

Total 6,213,764

An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets. The net assets of the internal service fund are:

516,067

An interfund receivable is recorded in governmental activities to reflect underpayments to the internal service fund by the business-type activities.

1,831

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

General obligation bonds	(2,165,000)
Special assessment bonds	(1,218,200)
OPWC loan	(339,335)
OWDA loans	(958,781)
Compensated absences	(909,546)
Loans payable	(15,744)
Accrued interest payable	<u>(15,184)</u>

Total (5,621,790)

Net assets of governmental activities \$ 70,828,985

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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DEFIANCE COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

	General	Mental Retardation and Developmental Disabilities	Job and Family Services	Motor Vehicle and Gas Tax
Revenues:				
Property taxes	\$ 1,714,105	\$ 2,055,721	\$ -	\$ -
Sales taxes	4,446,493	-	-	-
Special assessments	-	-	-	-
Charges for services	1,333,612	-	53	17,248
Licenses and permits	3,370	-	-	-
Fines and forfeitures	73,682	-	-	27,311
Intergovernmental	1,151,984	1,962,388	2,679,602	3,709,951
Investment income	893,471	2,035	-	22,197
Other	586,924	120,051	6,402	16,590
Total revenues	10,203,641	4,140,195	2,686,057	3,793,297
Expenditures:				
Current:				
General government:				
Legislative and executive	2,864,912	-	-	-
Judicial	1,135,595	-	-	-
Public safety	1,869,169	-	-	-
Public works	265,876	-	-	3,544,371
Health	62,523	3,896,803	-	-
Human services	393,320	-	2,522,606	-
Economic development	-	-	-	-
Other	1,886,494	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal retirement	-	-	-	584,530
Interest and fiscal charges	-	-	-	12,453
Total expenditures	8,477,889	3,896,803	2,522,606	4,141,354
Excess (deficiency) of revenues over (under) expenditures	1,725,752	243,392	163,451	(348,057)
Other financing sources (uses):				
Proceeds from sale of capital assets	9,742	-	-	-
Proceeds from bonds	-	-	-	-
Proceeds from notes	-	-	-	-
Proceeds from OWDA loans	-	-	-	-
Transfers in	-	-	107,198	9,999
Transfers out	(1,952,213)	-	-	-
Total other financing sources (uses)	(1,942,471)	-	107,198	9,999
Net change in fund balances	(216,719)	243,392	270,649	(338,058)
Fund balances at beginning of year	8,462,784	1,573,094	211,923	1,950,569
Fund balances at end of year	\$ 8,246,065	\$ 1,816,486	\$ 482,572	\$ 1,612,511

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Emergency 911	Senior Center	County East Side Campus	County Improvement	Other Governmental Funds	Total Governmental Funds
\$ 378,794	\$ 719,454	\$ -	\$ -	\$ -	\$ 4,868,074
-	-	-	-	-	4,446,493
-	-	-	-	736,627	736,627
-	-	-	-	1,427,270	2,778,183
-	-	-	-	-	3,370
-	-	-	-	8,114	109,107
48,729	476,528	-	-	3,493,540	13,522,722
-	-	8,186	-	26,439	952,328
-	27,362	51,463	1,887	610,979	1,421,658
<u>427,523</u>	<u>1,223,344</u>	<u>59,649</u>	<u>1,887</u>	<u>6,302,969</u>	<u>28,838,562</u>
-	-	-	-	691,080	3,555,992
-	-	-	-	244,825	1,380,420
569,781	-	-	-	1,487,922	3,926,872
-	-	-	-	107,180	3,917,427
-	-	-	-	92,828	4,052,154
-	1,089,589	-	-	1,472,327	5,477,842
-	-	-	-	512,131	512,131
-	-	-	-	13,776	1,900,270
-	-	1,370,010	134,167	2,362,532	3,866,709
-	-	-	-	2,095,926	2,680,456
-	-	15,463	-	218,537	246,453
<u>569,781</u>	<u>1,089,589</u>	<u>1,385,473</u>	<u>134,167</u>	<u>9,299,064</u>	<u>31,516,726</u>
<u>(142,258)</u>	<u>133,755</u>	<u>(1,325,824)</u>	<u>(132,280)</u>	<u>(2,996,095)</u>	<u>(2,678,164)</u>
-	-	-	-	-	9,742
-	-	-	-	425,000	425,000
-	-	-	-	750,000	750,000
-	-	-	-	369,974	369,974
-	-	-	260,000	1,388,680	1,765,877
-	-	-	-	(13,664)	(1,965,877)
-	-	-	260,000	2,919,990	1,354,716
<u>(142,258)</u>	<u>133,755</u>	<u>(1,325,824)</u>	<u>127,720</u>	<u>(76,105)</u>	<u>(1,323,448)</u>
<u>214,817</u>	<u>493,989</u>	<u>-</u>	<u>6,237,255</u>	<u>4,971,060</u>	<u>24,115,491</u>
<u>\$ 72,559</u>	<u>\$ 627,744</u>	<u>\$ (1,325,824)</u>	<u>\$ 6,364,975</u>	<u>\$ 4,894,955</u>	<u>\$ 22,792,043</u>

DEFIANCE COUNTY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004

Net change in fund balances - total governmental funds \$ (1,323,448)

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

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

Capital outlay	4,450,587	
Depreciation expense	(1,359,920)	
		3,090,667

The effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets. (37,179)

Proceeds of bonds, loans and notes are other financing sources in the governmental funds, but increase long-term liabilities on the statement of net assets:

Special assessment bonds	(425,000)	
Loans	(369,974)	
Notes	(750,000)	
		(1,544,974)

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

Property taxes	256,593	
Sales taxes	35,702	
Intergovernmental	1,031,295	
Special assessments	275,776	
Interest	6,525	
Charges for services	(9,323)	
Fines and forfeitures	(962)	
Other	(5,909)	
		1,589,697

Principal payments are expenditures in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets:

General obligation bonds	95,000	
Special assessment bonds	28,200	
Loans payable	206,728	
Capital lease payable	5,399	
Notes payable	2,345,129	
		2,680,456

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 9,834

(Continued)

DEFIANCE COUNTY

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

(Continued)

Some expenses reported in the statement of activities do not use
require the use of current financial resources and, therefore, are
not reported as expenditures in the governmental funds:

Compensated absences 59,634

The internal service fund used by management to charge the cost of
insurance to individual funds is not reported in the government-wide
statement of activities. Governmental fund expenditures and the
related internal service fund revenues are eliminated. The net
revenue (expense) of the internal service fund is allocated among
the governmental activities.

179,281

Change in net assets of governmental activities

\$ 4,703,968

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

DEFIANCE COUNTY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Property taxes	\$ 1,462,000	\$ 1,715,573	\$ 1,715,573	\$ -
Sales taxes	3,150,000	4,389,065	4,389,065	-
Charges for services	933,875	1,332,854	1,334,517	1,663
Licenses and permits	3,000	3,320	3,370	50
Fines and forfeitures	46,100	68,533	68,533	-
Intergovernmental	1,002,926	1,153,703	1,153,703	-
Investment income	800,000	904,543	941,144	36,601
Other	110,852	454,544	461,311	6,767
Total revenues	7,508,753	10,022,135	10,067,216	45,081
Expenditures:				
Current:				
General government:				
Legislative and executive	2,906,997	3,055,805	2,908,432	147,373
Judicial	1,150,410	1,203,653	1,152,584	51,069
Public safety	2,286,409	2,305,104	1,848,992	456,112
Public works	783,463	780,463	234,378	546,085
Health	64,910	65,910	64,623	1,287
Human services	421,492	421,492	400,180	21,312
Conservation and recreation	13,000	-	-	-
Other	2,985,393	2,848,349	1,851,354	996,995
Total expenditures	10,612,074	10,680,776	8,460,543	2,220,233
Excess (deficiency) of revenues over (under) expenditures	(3,103,321)	(658,641)	1,606,673	2,265,314
Other financing sources (uses):				
Advances in	-	71,732	73,860	2,128
Advances out	-	(344,200)	(344,200)	-
Transfers out	(886,184)	(2,052,940)	(1,952,213)	100,727
Proceeds from the sale of capital assets	11,000	9,742	9,742	-
Contingencies	(2,251,462)	(3,255,660)	-	3,255,660
Total other financing sources (uses)	(3,126,646)	(5,571,326)	(2,212,811)	3,358,515
Net change in fund balance	(6,229,967)	(6,229,967)	(606,138)	5,623,829
Fund balance at beginning of year	6,052,857	6,052,857	6,052,857	-
Prior year encumbrances appropriated	177,110	177,110	177,110	-
Fund balance at end of year	\$ -	\$ -	\$ 5,623,829	\$ 5,623,829

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

DEFIANCE COUNTY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 MENTAL RETARDATION AND DEVELOPMENTAL DISABILITIES FUND
 FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Property taxes	\$ 2,000,000	\$ 2,000,000	\$ 2,057,108	\$ 57,108
Charges for services	4,000	4,000	-	(4,000)
Intergovernmental	1,723,422	1,692,934	1,797,185	104,251
Investment income	1,000	1,000	2,035	1,035
Other	25,000	36,135	120,399	84,264
Total revenues	<u>3,753,422</u>	<u>3,734,069</u>	<u>3,976,727</u>	<u>242,658</u>
Expenditures:				
Current:				
Health	<u>4,600,403</u>	<u>5,416,605</u>	<u>3,994,776</u>	<u>1,421,829</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(846,981)</u>	<u>(1,682,536)</u>	<u>(18,049)</u>	<u>1,664,487</u>
Other financing sources:				
Other financing sources	<u>292,650</u>	<u>292,650</u>	<u>318,742</u>	<u>26,092</u>
Net change in fund balance	(554,331)	(1,389,886)	300,693	1,690,579
Fund balance at beginning of year	1,262,754	1,262,754	1,262,754	-
Prior year encumbrances appropriated	<u>126,937</u>	<u>126,937</u>	<u>126,937</u>	<u>-</u>
Fund balance (deficit) at end of year	<u>\$ 835,360</u>	<u>\$ (195)</u>	<u>\$ 1,690,384</u>	<u>\$ 1,690,579</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

DEFIANCE COUNTY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 JOB AND FAMILY SERVICES FUND
 FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Intergovernmental	\$ 3,789,922	\$ 2,413,654	\$ 2,415,461	\$ 1,807
Other	201,000	444,838	6,146	(438,692)
Total revenues	<u>3,990,922</u>	<u>2,858,492</u>	<u>2,421,607</u>	<u>(436,885)</u>
Expenditures:				
Current:				
Human services	<u>4,420,927</u>	<u>3,283,393</u>	<u>2,607,106</u>	<u>676,287</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(430,005)</u>	<u>(424,901)</u>	<u>(185,499)</u>	<u>239,402</u>
Other financing sources:				
Transfers in	<u>112,302</u>	<u>107,198</u>	<u>107,198</u>	<u>-</u>
Net change in fund balance	(317,703)	(317,703)	(78,301)	239,402
Fund balance at beginning of year	235,654	235,654	235,654	-
Prior year encumbrances appropriated	<u>82,049</u>	<u>82,049</u>	<u>82,049</u>	<u>-</u>
Fund balance at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 239,402</u>	<u>\$ 239,402</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

DEFIANCE COUNTY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 MOTOR VEHICLE AND GAS TAX FUND
 FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Charges for services	\$ 1,000	\$ 1,489	\$ 13,425	\$ 11,936
Fines and forfeitures	10,000	27,070	27,070	-
Intergovernmental	3,550,000	3,688,658	3,688,658	-
Investment income	12,000	22,197	22,197	-
Other	3,000	16,797	16,797	-
Total revenues	<u>3,576,000</u>	<u>3,756,211</u>	<u>3,768,147</u>	<u>11,936</u>
Expenditures:				
Current:				
Public works	5,101,310	5,129,738	4,273,921	855,817
Debt service:				
Principal retirement	593,000	585,422	584,530	892
Interest and fiscal charges	8,000	8,000	7,578	422
Total expenditures	<u>5,702,310</u>	<u>5,723,160</u>	<u>4,866,029</u>	<u>857,131</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,126,310)</u>	<u>(1,966,949)</u>	<u>(1,097,882)</u>	<u>869,067</u>
Other financing sources:				
Proceeds of notes	550,000	455,639	539,500	83,861
Transfers in	74,999	9,999	9,999	-
Total other financing sources	<u>624,999</u>	<u>465,638</u>	<u>549,499</u>	<u>83,861</u>
Net change in fund balance	(1,501,311)	(1,501,311)	(548,383)	952,928
Fund balance at beginning of year	1,339,381	1,339,381	1,339,381	-
Prior year encumbrances appropriated	<u>161,930</u>	<u>161,930</u>	<u>161,930</u>	<u>-</u>
Fund balance at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 952,928</u>	<u>\$ 952,928</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

DEFIANCE COUNTY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 EMERGENCY 911 FUND
 FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Property taxes	\$ 350,774	\$ 362,230	\$ 362,230	\$ -
Intergovernmental	44,226	48,728	48,728	-
Total revenues	<u>395,000</u>	<u>410,958</u>	<u>410,958</u>	<u>-</u>
Expenditures:				
Current:				
Public safety	<u>586,810</u>	<u>752,768</u>	<u>565,747</u>	<u>187,021</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(191,810)</u>	<u>(341,810)</u>	<u>(154,789)</u>	<u>187,021</u>
Other financing sources:				
Advances in	<u>-</u>	<u>150,000</u>	<u>150,000</u>	<u>-</u>
Net change in fund balance	(191,810)	(191,810)	(4,789)	187,021
Fund balance at beginning of year	186,062	186,062	186,062	-
Prior year encumbrances appropriated	<u>5,748</u>	<u>5,748</u>	<u>5,748</u>	<u>-</u>
Fund balance at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 187,021</u>	<u>\$ 187,021</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

DEFIANCE COUNTY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 SENIOR CENTER FUND
 FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 753,500	\$ 720,003	\$ 720,003	\$ -
Intergovernmental	435,159	474,429	474,429	-
Other	12,000	26,836	26,936	100
Total revenues	<u>1,200,659</u>	<u>1,221,268</u>	<u>1,221,368</u>	<u>100</u>
Expenditures:				
Current:				
Human services	<u>1,740,614</u>	<u>1,761,223</u>	<u>1,182,727</u>	<u>578,496</u>
Net change in fund balance	(539,955)	(539,955)	38,641	578,596
Fund balance at beginning of year	451,630	451,630	451,630	-
Prior year encumbrances appropriated	<u>88,325</u>	<u>88,325</u>	<u>88,325</u>	<u>-</u>
Fund balance at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 578,596</u>	<u>\$ 578,596</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

DEFIANCE COUNTY

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2004

	<u>Business-Type Activities - Enterprise Funds</u>			Governmental
	<u>Landfill</u>	<u>Sewer</u>	<u>Total</u>	Activity - Internal Service Fund
Assets:				
Current assets:				
Equity in pooled cash and cash equivalents	\$ 7,821,728	\$ 771,290	\$ 8,593,018	\$ 748,088
Receivables (net of allowance for uncollectibles):				
Accounts	248,212	53,844	302,056	-
Prepayments	33,060	3,214	36,274	-
Materials and supplies inventory	10,450	1,505	11,955	-
Total current assets	<u>8,113,450</u>	<u>829,853</u>	<u>8,943,303</u>	<u>748,088</u>
Noncurrent assets:				
Restricted assets:				
Equity in pooled cash and cash equivalents	194,529	-	194,529	-
Investments	3,872,814	-	3,872,814	-
Accrued interest receivable	22,493	-	22,493	-
Capital assets:				
Land and construction in progress	1,665,839	1,789,521	3,455,360	-
Depreciable capital assets, net	1,566,024	3,055,498	4,621,522	-
Total noncurrent assets	<u>7,321,699</u>	<u>4,845,019</u>	<u>12,166,718</u>	<u>-</u>
Total assets	<u>15,435,149</u>	<u>5,674,872</u>	<u>21,110,021</u>	<u>748,088</u>
Liabilities:				
Current liabilities:				
Accounts payable	98,834	22,657	121,491	-
Accrued wages and benefits	4,808	1,792	6,600	-
Compensated absences payable	15,411	8,512	23,923	-
Due to other governments	36,902	2,264	39,166	-
Interfund payable	-	207,577	207,577	-
Accrued interest payable	-	230	230	-
Claims payable	-	-	-	232,021
General obligation bonds payable	-	10,000	10,000	-
Loans payable	213,645	-	213,645	-
GMAC commercial mortgage payable	-	4,000	4,000	-
Total current liabilities	<u>369,600</u>	<u>257,032</u>	<u>626,632</u>	<u>232,021</u>
Long-term liabilities:				
Liabilities payable from restricted assets:				
Closure and postclosure payable	2,586,896	-	2,586,896	-
General obligation bonds payable	-	45,000	45,000	-
GMAC commercial mortgage payable	-	90,000	90,000	-
Compensated absences	30,779	4,915	35,694	-
Total long-term liabilities	<u>2,617,675</u>	<u>139,915</u>	<u>2,757,590</u>	<u>-</u>
Total liabilities	<u>2,987,275</u>	<u>396,947</u>	<u>3,384,222</u>	<u>232,021</u>

(Continued)

DEFIANCE COUNTY

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2004
 (Continued)

	<u>Business-Type Activities - Enterprise Funds</u>			Governmental Activity - Internal Service Fund
	<u>Landfill</u>	<u>Sewer</u>	<u>Total</u>	<u>Fund</u>
Net assets:				
Invested in capital assets, net of related debt	3,018,218	4,696,019	7,714,237	-
Restricted for closure and postclosure	1,502,940	-	1,502,940	-
Unrestricted	<u>7,926,716</u>	<u>581,906</u>	<u>8,508,622</u>	<u>516,067</u>
Total net assets	<u>\$ 12,447,874</u>	<u>\$ 5,277,925</u>	<u>\$ 17,725,799</u>	<u>\$ 516,067</u>

Net assets reported for business-type activities on the statement of net assets is different because it includes a proportionate share of the balance of the internal service fund

	<u>(1,831)</u>
Net assets of business-type activities	<u>\$ 17,723,968</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

DEFIANCE COUNTY

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Business-Type Activities - Enterprise Funds</u>			Governmental
	<u>Landfill</u>	<u>Sewer</u>	<u>Total</u>	Activity - Internal Service Fund
Operating revenues:				
Charges for services	\$ 2,746,130	\$ 433,357	\$ 3,179,487	\$ 1,652,013
Other	60,453	11,741	72,194	-
Total operating revenues	<u>2,806,583</u>	<u>445,098</u>	<u>3,251,681</u>	<u>1,652,013</u>
Operating expenses:				
Personal services	662,933	136,173	799,106	-
Contract services	679,286	8,210	687,496	-
Materials and supplies	202,956	40,727	243,683	-
Other	81,717	46,397	128,114	-
Claims	-	-	-	1,687,848
Closure and postclosure	351,840	-	351,840	-
Depreciation	214,726	106,359	321,085	-
Total operating expenses	<u>2,193,458</u>	<u>337,866</u>	<u>2,531,324</u>	<u>1,687,848</u>
Operating income (loss)	<u>613,125</u>	<u>107,232</u>	<u>720,357</u>	<u>(35,835)</u>
Nonoperating revenues (expenses):				
Intergovernmental	-	178,778	178,778	-
Interest revenue	10,160	-	10,160	-
Loss on disposal of capital assets	(16,380)	-	(16,380)	-
Interest expense and fiscal charges	(1,626)	(7,304)	(8,930)	-
Total nonoperating revenues (expenses)	<u>(7,846)</u>	<u>171,474</u>	<u>163,628</u>	<u>-</u>
Net income (loss) before transfers	<u>605,279</u>	<u>278,706</u>	<u>883,985</u>	<u>(35,835)</u>
Transfers in	-	-	-	200,000
Change in net assets	<u>605,279</u>	<u>278,706</u>	<u>883,985</u>	<u>164,165</u>
Net assets at beginning of year	<u>11,842,595</u>	<u>4,999,219</u>		<u>351,902</u>
Net assets at end of year	<u>\$ 12,447,874</u>	<u>\$ 5,277,925</u>		<u>\$ 516,067</u>

The change in net assets reported for business-type activities on the statement of activities is different because it includes a proportionate share of the net income of the internal service fund

	<u>(15,116)</u>
Change in net assets of business-type activities	<u>\$ 868,869</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

DEFIANCE COUNTY

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Business-Type Activities - Enterprise Funds			Governmental Activity -
	Landfill	Sewer	Total	Internal Service Fund
Cash flows from operating activities:				
Cash received from sales/service charges	\$ 2,711,040	\$ 485,900	\$ 3,196,940	\$ 1,652,013
Cash received from other operating revenue	60,453	11,741	72,194	-
Cash payments for personal services	(653,940)	(132,579)	(786,519)	-
Cash payments for contract services	(704,326)	-	(704,326)	-
Cash payments for materials and supplies	(183,599)	(35,464)	(219,063)	-
Cash payments for claims	-	-	-	(1,717,119)
Cash payments for other expenses	(46,158)	(44,601)	(90,759)	-
Net cash provided by (used for) operating activities	<u>1,183,470</u>	<u>284,997</u>	<u>1,468,467</u>	<u>(65,106)</u>
Cash flows from noncapital financing activities:				
Cash received from advances in	-	3,000	3,000	-
Cash received from transfers in	-	-	-	200,000
Net cash provided by noncapital financing activities	<u>-</u>	<u>3,000</u>	<u>3,000</u>	<u>200,000</u>
Cash flows from capital and related financing activities:				
Cash received from capital grants	-	178,778	178,778	-
Acquisition of capital assets	(477,864)	(257,489)	(735,353)	-
Principal payments on loans	(220,029)	-	(220,029)	-
Interest payments on loans	(1,626)	-	(1,626)	-
Principal payments on bonds	-	(10,000)	(10,000)	-
Interest payments on bonds	-	(3,250)	(3,250)	-
Principal payments on GMAC commercial mortgage	-	(4,000)	(4,000)	-
Interest payments on GMAC commercial mortgage	-	(4,900)	(4,900)	-
Net cash provided by (used in) capital and related financing activities	<u>(699,519)</u>	<u>(100,861)</u>	<u>(800,380)</u>	<u>-</u>
Cash flows from investing activities:				
Cash received from interest	67,779	-	67,779	-
Net cash provided by sales and maturities of investments	1,349,805	-	1,349,805	-
Net cash payments for purchases and maturities of investments	<u>(1,450,000)</u>	<u>-</u>	<u>(1,450,000)</u>	<u>-</u>
Net cash provided by investing activities	<u>(32,416)</u>	<u>-</u>	<u>(32,416)</u>	<u>-</u>
Net increase in cash and cash equivalents	451,535	187,136	638,671	134,894
Cash and cash equivalents at beginning of year	<u>7,564,722</u>	<u>584,154</u>	<u>8,148,876</u>	<u>613,194</u>
Cash and cash equivalents at end of year	<u>\$ 8,016,257</u>	<u>\$ 771,290</u>	<u>\$ 8,787,547</u>	<u>\$ 748,088</u>

(Continued)

DEFIANCE COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)

	<u>Business-Type Activities - Enterprise Funds</u>			Governmental Activity -
	<u>Landfill</u>	<u>Sewer</u>	<u>Total</u>	<u>Internal Service Fund</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 613,125	\$ 107,232	\$ 720,357	\$ (35,835)
Adjustments:				
Depreciation	214,726	106,359	321,085	-
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	(35,485)	52,543	17,058	-
(Increase) in prepayments	(32,092)	(3,214)	(35,306)	-
Decrease in due from other funds	395	-	395	-
(Increase) in inventories	14,572	124	14,696	-
Increase in accounts payable	39,152	19,333	58,485	-
Increase in accrued wages and benefits	1,950	739	2,689	-
Increase in landfill closure and postclosure care liability	351,840	-	351,840	-
(Decrease) in due to other funds	-	(974)	(974)	-
(Decrease) in claims payable	-	-	-	(29,271)
Increase in due to other governments	10,048	455	10,503	-
Increase in compensated absences payable	5,239	2,400	7,639	-
Net cash provided by (used in) operating activities	<u>\$ 1,183,470</u>	<u>\$ 284,997</u>	<u>\$ 1,468,467</u>	<u>\$ (65,106)</u>

Non-Cash Investing Activity:

In 2004, there was an increase in the fair value of investments in the Landfill enterprise fund, in the amount of \$61,909

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

DEFIANCE COUNTY

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
DECEMBER 31, 2004

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 8,172,548
Cash in segregated accounts	248,667
Receivables:	
Real estate and other taxes	27,930,838
Due from other governments	2,128,669
Accounts	16,917
Special assessments	<u>457,593</u>
Total assets	<u>\$ 38,955,232</u>
Liabilities:	
Due to other governments	\$ 32,266,290
Undistributed monies	<u>6,688,942</u>
Total liabilities	<u>\$ 38,955,232</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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DEFIANCE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 1 - DESCRIPTION OF DEFIANCE COUNTY AND THE REPORTING ENTITY

A. The County

Defiance County, Ohio (the "County") was created in 1845. The County is governed by a board of three Commissioners elected by the voters of the County. Other officials elected by the voters of the County that manage various segments of the County's operations are the Auditor, Treasurer, Recorder, a Common Pleas Court Judge, a Juvenile/Probate Court Judge, Engineer, Clerk of Courts, Coroner, Prosecuting Attorney, and Sheriff. Although the elected officials manage the internal operations of their respective departments, the County Commissioners authorize expenditures as well as serve as the budget and taxing authority, contracting body, and chief administrators of public services for the entire County.

B. Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading.

The primary government of the County consists of all funds, departments, boards, and agencies that are not legally separate from the County. For Defiance County, this includes the Board of Mental Retardation and Developmental Disabilities, the Job and Family Services Department, and all departments and activities that are operated directly by the elected County officials.

Component units are legally separate organizations for which the County is financially accountable. The County is financially accountable for an organization if the County appoints a voting majority of the organization's governing board and (1) the County is able to significantly influence the programs or services performed or provided by the organization; or (2) the County is legally entitled to or can otherwise access the organization's resources; the County is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the County is obligated for the debt of the organization. Component units may also include organizations for which the County approves the budget, the issuance of debt, or the levying of taxes. The County does not have any component units.

The County participates in eight jointly governed organizations, the Northwest Ohio Juvenile Detention, Training, and Rehabilitation Center; Four County Board of Alcohol, Drug Addiction, and Mental Health Services; Corrections Commission of Northwest Ohio; Four County Solid Waste District; Multi-Area Narcotics Task Force; Quadco Rehabilitation Center; Maumee Valley Planning Organization; and the Community Improvement Corporation of Defiance County (See Note 21).

The County participates in two insurance pools, the County Commissioners Association Service Corporation and the Northern Buckeye Education Council Employee Insurance Benefits Program (See Note 22).

The County is associated with one related organization, the Defiance County Regional Airport Authority (See Note 23).

DEFIANCE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004 (Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Defiance County have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The County 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 enterprise funds provided they do not conflict with or contradict GASB pronouncements. The County has elected not to apply FASB Statements and Interpretations issued after November 30, 1989, to its business-type activities and enterprise funds. Following are the more significant of the County's accounting policies.

A. Basis of Presentation

The County's basic financial statements consist of government-wide financial 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 County as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the County that are governmental in nature and those that are considered business-type activities. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses.

The statement of net assets presents the financial condition of the governmental and business-type activities of the County at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the County's governmental activities and business-type activities. 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 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 County, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the County.

Fund Financial Statements - During the year, the County segregates transactions related to certain County 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 County 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 proprietary fund financial statements. Fiduciary funds are reported by type.

DEFIANCE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004 (Continued)

B. Fund Accounting

The County 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. The funds of the County are reported in three categories: governmental, proprietary, and fiduciary.

Governmental Funds - Governmental funds are those through which most governmental functions of the County 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 purpose 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 County's major governmental funds:

General Fund - The General Fund accounts for all financial resources, except those required to be accounted for in another fund. The General Fund balance is available to the County for any purpose provided it is expended or transferred according to the general laws of Ohio.

Mental Retardation and Developmental Disabilities Fund - This fund accounts for state monies and tax levy monies used to support Good Samaritan School and help the mentally disabled within the County in a residential and group home environment. It also provides aid to families who have mentally disabled family members with challenges such as providing handicap accessibility and associated programs.

Job and Family Services Fund - This fund accounts for various federal, state, and local revenues as well as transfers from the General Fund used to provide general relief and to pay providers of medical assistance and social services.

Motor Vehicle and Gas Tax Fund - This fund accounts for revenues derived from the sale of motor vehicle licenses, gasoline taxes, and interest which are restricted by State law to county road and bridge repair/improvement programs. This fund also accounts for court fines collected for the county engineer for road and bridge improvements.

Emergency 911 Fund - This fund accounts for tax levy monies used for the operation and maintenance of the County's 911 system.

Senior Center Fund - This fund accounts for tax levy monies, donations, federal, state and local monies used for senior citizen programs.

County East Side Campus Fund - This fund accounts for note proceeds, interest, and local money for the purchase and renovations of the East Side Campus building.

County Improvement Fund - This fund accounts for monies used for various capital projects throughout the County.

DEFIANCE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004 (Continued)

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

Proprietary Funds - Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

Enterprise Funds - 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 County's major enterprise funds:

Landfill Fund - This fund accounts for operations of the landfill.

Sewer Fund - This fund accounts for the provision of wastewater treatment services to residential and commercial users within the County.

Internal Service Fund - The internal service fund accounts for the financing of services provided by one department to other departments of the County on a cost reimbursement basis. The County's internal service fund accounts for the activities of the self insurance program for employee health care benefits.

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 County under a trust agreement for individuals, private organizations, or other governments and are not available to support the County's own programs. The County did not have any trust funds in 2004. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The County's agency funds account for assets held by the County for political subdivisions in which the County acts as fiscal agent and for taxes, state-levied shared revenues, and fines and forfeitures collected and distributed to other political subdivisions.

C. Measurement Focus

Government-Wide Financial Statements - The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the County are included on the statement of net assets. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total 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 are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reflects 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 financial statements and the fund financial statements for governmental funds.

DEFIANCE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004 (Continued)

Like the government-wide financial statements, the proprietary funds are accounted for using 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 fund net assets. The statement of revenues, expenses, and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows reflects how the County finances and meets the cash flow needs of its proprietary activities.

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

Revenues - Exchange and Nonexchange Transactions - Revenues 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 the modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the County, available means expected to be received within thirty-one days after year end.

Nonexchange transactions, in which the County receives value without directly giving equal value in return, include property taxes, sales taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from sales taxes is recognized in the year in which the sales are made. 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 County must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the County on a reimbursement basis. On the 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 both measurable and available at year end: sales taxes, charges for services, fines and forfeitures, state-levied locally shared taxes (including gasoline tax and motor vehicle license tax), grants, and interest.

Deferred Revenues - Deferred revenues arise when assets are recognized before the revenue recognition criteria have been satisfied.

Property taxes for which there was an enforceable legal claim at December 31, 2004, but were levied to finance 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements were met have also been recorded as deferred revenue.

On governmental fund financial statements, receivables that were not collected within the available period are recorded as deferred revenue.

DEFIANCE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004 (Continued)

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

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

E. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. Budgetary information for the juvenile probation accounts and an account held for a child in custodial care are not reported in the General Fund or the Job and Family Services special revenue fund because they are not included in the entity for which the “appropriated budget” is adopted. The major documents prepared are the certificate of estimated resources and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources establishes a limit on the amount the County Commissioners may appropriate. The appropriations resolution is the County Commissioners' authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the County Commissioners. The legal level of control has been established by the County Commissioners at the fund, program, department, and object level for all funds.

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

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

F. Cash and Investments

To improve cash management, cash received by the County is pooled and invested. Individual fund integrity is maintained through County records. Interest in the pool is presented as “Equity in Pooled Cash and Cash Equivalents”.

Cash and cash equivalents that are held separately within departments of the County, and not included in the county treasury, are recorded as “Cash and Cash Equivalents in Segregated Accounts”. Cash and cash equivalents that are held by a trustee for the payment of bonds and coupons are recorded as “Cash and Cash Equivalents with Fiscal Agent”.

DEFIANCE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004 (Continued)

During 2004, the County invested in nonnegotiable certificates of deposit, federal agency securities, U.S. Treasury notes, and STAR Ohio. Investments are reported at fair value, except for nonnegotiable certificates of deposit which are reported at cost. Fair value is based on quoted market prices. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2004.

Interest earnings are allocated to County funds according to State statutes, grant requirements, or debt related restrictions. Interest revenue credited to the General Fund during 2004 was \$893,471, which includes \$765,485 assigned from other County funds.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2004, 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.

H. Inventory

Inventory is presented at cost on a first-in, first-out basis and is expended/expensed when used. Inventory consists of expendable supplies held for consumption.

I. Loans Receivable

Loans receivable represent the right to receive repayment for certain loans made by the County. These loans are based upon written agreements between the County and the various loan recipients. Reported loans receivable is offset by a fund balance reserve in the governmental fund types for the long-term portion. This indicates that it does not constitute available expendable resources even though it is a component of current net assets.

J. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by enabling legislation. Restricted assets in the General Fund represent unclaimed monies and in the Landfill Fund represent amounts required by the EPA to be set aside for closure and postclosure costs.

K. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in governmental funds. General capital assets are reported in the governmental activities column on the government-wide statement of net assets but are not reported on the fund financial statements. Capital assets used by the proprietary funds are reported in both the business-type activities column on the government-wide statement of net assets and in the respective funds.

DEFIANCE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The County maintains a capitalization threshold of five thousand dollars. 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 enterprise fund capital assets is also capitalized.

All 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 County's historical records of necessary improvements and replacement. 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>
Buildings	50 - 150 years	50 years
Roads and Bridges	15 - 100 years	N/A
Machinery and equipment	5 - 20 years	5 - 20 years
Vehicles	8 - 15 years	8 - 15 years
Sewer Lines	N/A	50 years

L. Interfund Receivables/Payables

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "Interfund Receivables/Payables". Interfund balances are eliminated on the statement of net assets, except for any net residual amounts due between governmental and business-type activities. These amounts are presented as "Internal Balances".

M. 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 the County will compensate the employees for the benefits through paid time off or some other means. The County records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the County has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee wage rates at year end taking into consideration any limits specified in the County's union contracts or departmental personnel policies. The County records a liability for accumulated unused sick leave for any employee with ten years of service with the County.

N. Accrued Liabilities and Long-Term Obligations

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

DEFIANCE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004 (Continued)

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, compensated absences and contractually required pension contributions that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current year. General obligation bonds, special assessment bonds, various loans, and capital leases are recognized as liabilities on the fund financial statements when due.

O. 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 balance 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 constitutional provisions or enabling legislation adopted or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The County's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

P. Fund Balance Reserves and Designations

The County reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Fund balance reserves have been established for encumbrances, prepayments, unclaimed monies, interfund loans, inventories, and loans receivable.

A designation of fund balance represents a self-imposed limitation on the use of available expendable resources by the County. The designation for retirement represents monies set aside by the County for the future payment of termination benefits.

Q. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the County, these revenues are charges for services for landfill and sewer services, as well as charges for health insurance in the internal service fund. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating.

R. Capital Contributions

Capital contributions on the proprietary fund financial statements arise from contributions from governmental activities, from outside contributions of capital assets, from grants, or from outside contributions of resources restricted to capital acquisition and construction.

S. Interfund Transactions

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

DEFIANCE COUNTY

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

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

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 management and are either unusual in nature or infrequent in occurrence. Neither of these transactions occurred in 2004.

U. Estimates

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

NOTE 3 - ACCOUNTING CHANGE

The beginning balance of capital assets was restated to more accurately reflect the historical cost of buildings. This had the following effect on the Net Assets as they were previously reported:

	<u>Total Governmental Activities</u>
Governmental Activities Net Assets of December 31, 2003	\$ 64,977,694
Adjustment to Capital Assets	<u>1,147,323</u>
Restated Governmental Activities Net Assets at December 31, 2003	<u><u>\$ 66,125,017</u></u>

DEFIANCE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE

Deficit Fund Balances

	<u>Deficit</u>
<u>Major Funds</u>	
County East Side Campus Fund	\$ 1,325,824
<u>Nonmajor Governmental Funds</u>	
Auglaize Sewer capital projects fund	54,598
Airport capital projects fund	34,338
DMP Sewer capital projects fund	14,739
Green Acres Sewer capital projects fund	37,369
Express Sewer capital projects fund	101,409
Peterson Ditch capital projects fund	30,947
Hardy Tile debt service fund	11,603
Auglaize Sewer debt service fund	239,482
DMP Sewer debt service fund	179,173
Airport Hanger debt service fund	133,776
Ditches debt service fund	412,414

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The deficit fund balances resulted from reporting notes payable and advances from other funds as fund liability. These deficits will be alleviated when sufficient revenues are received to retire the notes and repay the advances.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

While 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 Statements of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - for the General Fund, Mental Retardation and Development Disabilities, Job and Family Services, Motor Vehicle and Gas Tax, Emergency 911, and Senior Center special revenue funds are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and the GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

DEFIANCE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)

3. Outstanding year end encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

Adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis are as follows:

Change in Fund Balance						
	<u>General</u>	Mental Retardation and Developmental <u>Disabilities</u>	Job and Family <u>Services</u>	Motor Vehicle and Gas Tax	Emergency 911	Senior Center
Budget basis	\$(606,138)	\$ 300,693	\$ (78,301)	\$(548,383)	\$ (4,789)	\$ 38,641
Net adjustment for revenue accruals	136,425	163,468	264,450	25,150	16,565	1,976
Net adjustment for expenditure accruals	(146,864)	(7,329)	2,338	(45,268)	(12,564)	45,281
Net adjustment for other sources/(uses)	270,340	(318,742)	-	(539,500)	(150,000)	-
Adjustment for encumbrances	<u>129,518</u>	<u>105,302</u>	<u>82,162</u>	<u>769,943</u>	<u>8,530</u>	<u>47,857</u>
GAAP basis	<u><u>\$(216,719)</u></u>	<u><u>\$ 243,392</u></u>	<u><u>\$ 270,649</u></u>	<u><u>\$(338,058)</u></u>	<u><u>\$(142,258)</u></u>	<u><u>\$ 133,755</u></u>

NOTE 6 - DEPOSITS AND INVESTMENTS

Monies held by the County are classified by State statute into two categories. The first classification consists of active monies, the amount of public monies necessary to meet current demands upon the County treasury. Active monies must be maintained either as cash in the County treasury, in commercial accounts payable or withdrawal on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Monies held by the County which are not considered active are classified as inactive. Inactive monies can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, 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 obligation or security 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;

DEFIANCE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004 (Continued)

3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, or its political subdivisions, provided that such political subdivisions are located wholly or partly within the County;
5. Time certificates of deposit, or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which the County lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed 10 percent of the County's total average portfolio; and
10. Bankers acceptances for a period not to exceed one hundred eighty days and in an amount not to exceed 10 percent of the County's total average portfolio.

Protection of the County's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public 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 County, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on hand: At year-end, the County had \$157,259 in undeposited cash on hand which is included on the financial statements as part of "Equity in Pooled Cash and Cash Equivalents".

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

DEFIANCE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)

Deposits: At year-end, the carrying amount of the County's deposits was \$35,406,027 and the bank balance was \$37,717,866. Of the bank balance \$1,093,944 was covered by federal depository insurance. The remaining amount of \$36,623,922 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the County to a successful claim by the FDIC.

Investments: The County's investments are categorized to give an indication of the level of risk assumed by the County at year end. Category 1 includes investments that are insured or registered for which the securities are held by the County or its agent in the County's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the County's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the County's name. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	Category 1	Carrying and Fair Values
Federal agency securities	\$ 8,232,564	\$ 8,232,564
U.S. Treasury notes	127,797	127,797
	\$ 8,360,361	
Not subject to categorization: STAR Ohio		2,194,530
Total investments		\$ 10,554,891

The classification of cash and cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting". A reconciliation between the classification of cash and cash equivalents and investments on the financial statements and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$ 42,245,363	\$ 3,872,814
Investments of the cash management pool:		
STAR Ohio	(2,194,530)	2,194,530
Federal agency securities	(6,937,547)	6,937,547
Certificates of deposit	2,450,000	(2,450,000)
Cash on hand	(157,259)	-
GASB Statement No. 3	\$ 35,406,027	\$10,554,891

DEFIANCE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)

NOTE 7 - RECEIVABLES

Receivables at December 31, 2004, consisted of accounts (billings for user charged services); sales taxes; accrued interest; intergovernmental receivables arising from grants, entitlements, and shared revenues; interfund; property taxes; loans; and special assessments. All receivables are considered collectible in full and within one year, except for loans and special assessments. Special assessments, in the amount of \$1,155,868, will not be received within one year.

Loans receivable represent low interest loans for housing and development projects granted to eligible County property owners and businesses under the Federal Community Block Grant program. The loans have an annual interest rate of 0 to 8.5 percent and are to be repaid over periods ranging from five to fifteen years. During 2004, new loans, in the amount of \$40,000, were issued and principal, in the amount of \$69,606, was repaid. Loans outstanding at December 31, 2004, were \$393,601. Loans receivable, in the amount of \$299,968, will not be received within one year.

A summary of the principal items of intergovernmental receivables follows:

Governmental Activities:

Major Funds

General Fund	
Fines and forfeitures	\$ 4,990
Local government	446,431
Homestead and rollback	89,449
Indigent defense	10,074
Charges for services	<u>1,209</u>
Total general fund	<u>552,153</u>
Mental Retardation and Developmental Disabilities	
Homestead and rollback	103,195
Grants	<u>40,466</u>
Total mental retardation and developmental disabilities	<u>143,661</u>
Job and Family Services	
Grants	<u>265,034</u>

DEFIANCE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)

Major Funds (Continued)

Motor Vehicle and Gas Tax	
Charges for services	\$ 3,823
Fines and forfeitures	1,574
Permissive motor vehicle license	213,465
Motor vehicle license tax	662,834
Gasoline tax	<u>933,858</u>
Total motor vehicle and gas tax	<u>1,815,554</u>
Emergency 911	
Homestead and rollback	<u>38,891</u>
Senior Center	
Homestead and rollback	37,229
Grants	<u>58,363</u>
Total senior center	<u>95,592</u>
Total Major Funds	<u>2,910,885</u>
<u>Nonmajor Funds</u>	
Regional jail	76,252
DARE	13,481
Children services	170,620
Community development block grant	678,850
Terrorism planning	165,802
Sarah's house	41,110
FEMA certification	12,968
Child support enforcement	8,101
WIA	27,429
Engineer's construction	390,186
Issue II	158,371
Airport	73,113
Evergreen care project	<u>2,952</u>
Total Nonmajor funds	<u>1,819,235</u>
Total governmental activities	<u>\$ 4,730,120</u>

DEFIANCE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)

Agency Funds

Law library	\$ 2,582
Library local government	740,657
Local government	505,694
Local governmental revenue assistance	166,360
Permissive motor vehicle license	110,447
Emergency planning	5,439
Motor vehicle license tax	188,938
Gasoline tax	<u>408,552</u>
 Total agency funds	 <u>\$ 2,128,669</u>

NOTE 8 - PERMISSIVE SALES AND USE TAX

In 1987, the County Commissioners, by resolution, imposed a one percent sales tax on all retail sales made in the County, except sales of motor vehicles, and on the storage, use, or consumption of tangible personal property, including motor vehicles not subject to the sales tax. As required by State statute, the County Commissioners established how the sales tax proceeds would be allocated prior to the election. The collection of the sales tax went into effect on January 1, 1988, and the proceeds of the tax were credited entirely to the general fund.

Vendor collections of the tax are paid to the State Treasurer by the twenty-third day of the month following collection. The State Tax Commissioner certifies to the State Auditor the amount of the taxes to be returned to the County. The Tax Commissioner's certification must be made within forty-five days after the end of each month.

NOTE 9 - PROPERTY TAXES

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the County. Real property tax revenues received in 2004 represent the collection of 2003 taxes. Real property taxes received in 2004 were levied after October 1, 2003, on the assessed values as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in 2004 represent the collection of 2003 taxes. Public utility real and tangible personal property taxes received in 2004 became a lien on December 31, 2002, were levied after October 1, 2003, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

DEFIANCE COUNTY

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

Tangible personal property tax revenues received in 2004 (other than public utility property) represent the collection of 2004 taxes. Tangible personal property taxes received in 2003 were levied after October 1, 2003, on the true value as of December 31, 2003. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. 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.

The County Treasurer collects property taxes on behalf of all taxing districts within the County. The County Auditor periodically remits to the taxing districts their portion of the taxes collected. The collection and distribution of taxes for all subdivisions within the County, excluding the County itself, is accounted for through agency funds. The amount of the County's tax collections is accounted for within the applicable funds.

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of December 31, 2004, and for which there was an enforceable legal claim. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31 and are not intended to finance 2004 operations.

On the full accrual basis, collectible delinquent real property taxes have been recorded as a receivable and revenue. On the modified accrual basis, the revenue is deferred.

The full tax rate for all County operations for the year ended December 31, 2004, was \$8.41 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2004 property tax receipts were based are as follows:

<u>Category</u>	<u>Amount</u>
Real Property	\$ 527,617,150
Public Utility Property	57,365,130
Tangible Personal Property	<u>95,916,556</u>
Total Assessed Value	<u>\$ 680,898,836</u>

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2004, was as follows:

DEFIANCE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)

	(restated) Balance			Balance
Governmental Activities:	<u>12/31/03</u>	<u>Additions</u>	<u>Disposals</u>	<u>12/31/04</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 543,271	\$ 267,800	\$ -	\$ 811,071
Construction in progress	<u>1,095,776</u>	<u>759,597</u>	<u>-</u>	<u>1,855,373</u>
Total capital assets, not being depreciated	<u>1,639,047</u>	<u>1,027,397</u>	<u>-</u>	<u>2,666,444</u>
<i>Capital assets, being depreciated:</i>				
Buildings	9,204,390	2,565,649	-	11,770,039
Roads and bridges	45,909,408	299,156	-	46,208,564
Machinery and equipment	4,434,548	315,559	(39,808)	4,710,299
Vehicles	<u>2,884,680</u>	<u>242,826</u>	<u>(92,521)</u>	<u>3,034,985</u>
Total capital assets, being depreciated	<u>62,433,026</u>	<u>3,423,190</u>	<u>(132,329)</u>	<u>65,723,887</u>
<i>Less: accumulated depreciation:</i>				
Buildings	(2,051,412)	(245,309)	-	(2,296,721)
Roads and bridges	(13,156,094)	(649,999)	-	(13,806,093)
Machinery and equipment	(3,476,179)	(234,207)	32,552	(3,677,834)
Vehicles	<u>(1,514,806)</u>	<u>(230,405)</u>	<u>62,598</u>	<u>(1,682,613)</u>
Total accumulated depreciation	<u>(20,198,491)</u>	<u>(1,359,920)</u>	<u>95,150</u>	<u>(21,463,261)</u>
Total capital assets being depreciated, net	<u>42,234,535</u>	<u>2,063,270</u>	<u>(37,179)</u>	<u>44,260,626</u>
Governmental activities capital assets, net	<u>\$ 43,873,582</u>	<u>\$ 3,090,667</u>	<u>\$ (37,179)</u>	<u>\$ 46,927,070</u>

The December 31, 2003 balance of capital assets was restated by \$1,147,323 to more accurately reflect the historical cost of buildings.

DEFIANCE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)

<u>Business-Type Activities:</u>	<u>Balance</u>		<u>Balance</u>
	<u>12/31/03</u>	<u>Additions</u>	<u>12/31/04</u>
		<u>Deductions</u>	
<i>Capital assets, not being depreciated:</i>			
Land	\$ 721,484	\$ 949,723	\$ - \$ 1,671,207
Construction in progress	<u>2,017,698</u>	<u>559,132</u>	<u>(792,677)</u> 1,784,153
Total capital assets, not being depreciated	<u>2,739,182</u>	<u>1,508,855</u>	<u>(792,677)</u> 3,455,360
<i>Capital assets, being depreciated:</i>			
Buildings	859,488	-	859,488
Sewer lines	3,886,971	-	3,886,971
Machinery and equipment	2,833,133	6,650	(153,610) 2,686,173
Vehicles	<u>143,482</u>	<u>12,525</u>	<u>(16,781)</u> 139,226
Total capital assets, being depreciated	<u>7,723,074</u>	<u>19,175</u>	<u>(170,391)</u> 7,571,858
<i>Less: accumulated depreciation:</i>			
Buildings	(589,715)	(11,826)	-
Sewer lines	(1,073,514)	(77,740)	-
Machinery and equipment	(1,044,777)	(222,419)	137,230
Vehicles	<u>(75,256)</u>	<u>(9,100)</u>	<u>16,781</u>
Total accumulated depreciation	<u>(2,783,262)</u>	<u>(321,085)</u>	<u>154,011</u> (2,950,336)
Total capital assets, being depreciated net	<u>4,939,812</u>	<u>(301,910)</u>	<u>(16,380)</u> 4,621,522
Business-type activities capital assets, net	<u>\$ 7,678,994</u>	<u>\$ 1,206,945</u>	<u>\$ (809,057)</u> \$ 8,076,882

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

Governmental activities:	
Legislative and executive	\$ 212,107
Conservation and recreation	9,333
Health	56,841
Human services	96,793
Judicial	20,423
Public safety	150,085
Public works	<u>814,338</u>
Total depreciation expense - governmental activities	<u>\$ 1,359,920</u>

DEFIANCE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)

NOTE 11 - INTERFUND TRANSACTIONS

- A.** Interfund transfers for the year ended December 31, 2004, consisted of the following, as reported on the fund financial statements:

Transfers from general fund to:	<u>Amount</u>
Nonmajor governmental funds	\$ 1,635,016
Jobs and Family Services fund	107,198
Motor vehicle and gas tax fund	9,999
Internal service fund	200,000
Transfers from nonmajor governmental funds to:	
Nonmajor governmental funds	<u>13,664</u>
Total	<u>\$ 1,965,877</u>

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

- B.** Due from/to other funds consisted of the following at December 31, 2004, as reported on the fund financial statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 781
Job and family services	Nonmajor governmental funds	<u>800</u>
Total		<u>\$ 1,581</u>

Amounts due from/to other funds represent amounts owed between funds for goods or services provided. The balances resulted from the time lag between the dates that payments between the funds are made.

- C.** Interfund loans payable/receivable consisted of the following at December 31, 2004:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 1,641,420
General	Sewer	207,577
General	E911	150,000
County improvement	Nonmajor governmental funds	24,000
Nonmajor governmental fund	Nonmajor governmental funds	<u>54,777</u>
Total		<u>\$ 2,077,774</u>

DEFIANCE COUNTY

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The interfund loan balances result from resources provided by the receivable fund to the payable fund to provide cash flow resources until anticipated revenues are received. At December 31, 2004, the general fund had an interfund receivable of \$1,998,997.

The County Improvement capital projects fund had an interfund receivable, in the amount of \$24,000, to provide cash flow resources until the receipt of special assessments in the Green Acres/Indian Bridge capital projects fund.

Other governmental funds had an interfund receivable, in the amount of \$54,777 to provide cash flow resources until the receipt of special assessments in other governmental funds.

The entire balance of interfund receivables is reported as reserve fund balances as they are not expected to be received within one year.

NOTE 12 - RISK MANAGEMENT

A. General Liability

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County has contracted with the County Risk Sharing Authority (CORSA) for the following coverage.

Property	\$44,827,362
Equipment Breakdown	100,000
General Liability	1,000,000
Commercial Crime	1,000,000
Excess Liability	7,000,000
Automobile Liability	1,000,000
Law Enforcement Liability	1,000,000

Settled claims have not exceeded this commercial coverage in any of the last three years.

B. Health Benefits

The County has established a limited risk management program for employee health care benefits. A third party administrator processes the claims which the County pays. The Health internal service fund allocates the cost of claims payments by charging a monthly premium to each individual enrolled in the health insurance program. These premiums, along with the premium the County pays for each employee enrolled in the program, are paid into the Health internal service fund. Claims are paid from the Health internal service fund.

Under the health insurance program, the Health internal service fund provides coverage for up to a maximum lifetime benefit of \$2,500,000 per individual. An excess coverage policy covers annual individual claims in excess of \$75,000. Settled claims have not exceeded this commercial coverage in any of the last two years, and there has not been any significant reduction in coverage from the prior year.

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Claims payable is based on the requirements of Governmental Accounting Standards Board Statement No. 30 "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported if information prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount can be reasonably estimated. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Claims payable at December 31, 2004, is estimated by a third party administrator at \$232,021. The changes in the claims liability for 2003 and 2004 were:

	Balance at Beginning of Year	Current Year Claims and Changes in Estimates	Claims Payments	Balance at End of Year
2004	\$ 261,292	\$ 1,687,848	\$ (1,717,119)	\$ 232,021
2003	147,285	1,542,600	(1,428,593)	261,292

C. Workers' Compensation

For 2004, the County participated in the County Commissioners Association Service Corporation (Plan), a workers' compensation insurance purchasing pool. The Plan is intended to achieve lower workers' compensation rates while establishing safer working conditions and environments for the participants. The workers' compensation experience of the participating counties is calculated as one experience and a common premium rate is applied to all participants in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. In order to allocate the savings derived by formation of the Plan, and to maximize the number of participants in the Plan, annually the Plan's executive committee calculates the total savings which accrued to the Plan through its formation. This savings is then compared to the overall savings percentage of the Plan. The Plan's executive committee then collects rate contributions from or pays rate equalization rebates to the various participants.

Participation in the Plan is limited to counties that can meet the Plans' selection criteria. The firm of Comp Management, Inc. provides administrative, cost control, and actuarial services to the Plan. Each year, the County pays an enrollment fee to the Plan to cover the costs of administering the program. The County may withdraw from the Plan if written notice is provided sixty days prior to the prescribed application deadline of the Ohio Bureau of Workers' Compensation. However, the participant is not relieved of the obligation to pay any amounts owed to the Plan prior to withdrawal and any participant leaving the Plan allows representatives of the Plan to access loss experience for three years following the last year of participation.

NOTE 13 - SIGNIFICANT CONTRACTUAL COMMITMENTS

The County has outstanding contracts for professional services and construction. The following amounts remain on these contracts as of December 31, 2004:

DEFIANCE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)

<u>Vendor</u>	<u>Contract Amount</u>	<u>Amount Paid as of 12/31/04</u>	<u>Outstanding Balance</u>
Mannik and Smith Group, Inc.	\$ 278,446	\$ 128,818	\$ 149,628
George Gradel Co.	595,843	-	595,843
Anderzack-Pitzen Construction	819,257	815,960	3,297
Poggemeyer Design Group	200,000	91,439	108,561
Rosengarten Construction, Inc.	351,701	334,785	16,916
Gerken Paving, Inc.	1,280,884	1,225,247	55,637

NOTE 14 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, Ohio 43215-4642 or by calling (614) 222-6701.

For the year ended December 31, 2004, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5% of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1% of their annual covered salary; members in public safety contributed 9%. The County's contribution rate for pension benefits for 2004 was 9.55%, except for those plan members in law enforcement or public safety. For those classifications, the County's pension contributions were 12.7% of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The County's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2004, 2003, and 2002 were \$1,015,169, \$875,637, and \$923,143, respectively; 93.9% has been contributed for 2004 and 100% has been contributed for 2003 and 2002. The unpaid contribution to fund pension obligations for 2004, in the amount of \$61,357, is recorded as a liability.

DEFIANCE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004 (Continued)

B. State Teachers Retirement System

Certified teachers, employed by the school for Mental Retardation and Developmental Disabilities, participate in the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all of their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age fifty and termination of employment. The CP offers features of both the DBP and DCP. In the CP, member contributions are invested by the member and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

A DBP or CP member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DCP who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the year ended December 31, 2004, plan members were required to contribute 10 percent of their annual covered salary and the County was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The County's required contribution for pension obligations for the DBP for the years ended December 31, 2004, 2003, and 2002 was \$104,515, \$99,279, and \$77,187, respectively; 100 percent has been contributed for fiscal years 2004, 2003 and 2002. There were no contributions for the DCP and CP for the fiscal year ended June 30, 2004.

NOTE 15 - POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor

DEFIANCE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004 (Continued)

recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2004 local government employer contribution rate was 13.55% of covered payroll (16.70% for public safety and law enforcement); 4.00% of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8.00%, 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 6.3% based on additional annual pay increases. Health care premiums were assumed to increase 4.00% annually.

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

The number of active contributing participants in the traditional and combined plans was 369,885. Actual employer contributions for 2004 which were used to fund postemployment benefits were \$413,108. The actual contribution and the actuarially required contribution amounts are the same. OPERS' net assets available for payment of benefits at December 31, 2003 (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

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

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

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

DEFIANCE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004 (Continued)

B. State Teachers Retirement System

Comprehensive health care benefits are provided to retired teachers and their dependents through the State Teachers Retirement System (STRS). Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and the obligation to contribute are established by the STRS based on authority granted by State statute. STRS is funded on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the County, this amount was \$8,040.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268.739 million, and STRS had 111,853 eligible benefit recipients.

NOTE 16 - OTHER BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws.

County employees earn and accumulate vacation at varying rates depending on length of service. Current policy credits vacation leave on the employee's anniversary date. Accumulated vacation cannot exceed three times the annual accumulation rate for an employee. Employees are paid for 100 percent of earned unused vacation leave upon termination.

Sick leave is earned at various rates as defined by County policy and union contracts. There is no limit on the amount of sick leave that may be accumulated. Sick leave benefits are paid upon retirement based on various rates and maximums depending on the contract.

B. Health Care Benefits

Health care benefits are provided to most employees through the County's self-insurance program. The employees share the cost of the monthly premium with the County.

The employees paid from the Mental Retardation and Developmental Disabilities special revenue fund are provided health care, vision, and dental benefits through the Northern Buckeye Education Council Employee Insurance Benefits Program.

NOTE 17 - NOTES PAYABLE

The County's notes activity for the year ended December 31, 2004, was as follows:

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	Interest	Balance			Balance
	<u>Rate</u>	<u>12/31/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>12/31/04</u>
Governmental Activities					
Long-Term Notes					
Various Purpose General Obligation					
Notes, Series 2003	3.00-3.35%	\$ 37,775	\$ -	\$ (37,775)	\$ -
Various Purpose General Obligation					
Notes, Series 2003A	1.30%	807,354	-	(807,354)	-
Platter Creek Ditch Improvement	1.25%	750,000	750,000	(1,500,000)	-
Total Long-Term Notes		<u>1,595,129</u>	<u>750,000</u>	<u>(2,345,129)</u>	<u>-</u>
Short-Term Notes					
Doty Run Ditch Improvement	1.50%	365,000	-	(365,000)	-
Doty Run Ditch Improvement	2.00%	-	365,000	-	365,000
St. Rt 6 - 2004 Improvement	2.17%	-	184,940	-	184,940
Bridge repair - 2004 addition	2.17%	-	539,500	-	539,500
Unity East Side Camp	2.18%	-	1,700,000	-	1,700,000
Peterson Ditch	2.15%	-	110,000	-	110,000
Airport Improvement	3.00%	-	160,000	-	160,000
Airport Improvement	2.14%	180,000	-	(180,000)	-
Total Short-Term Notes		<u>545,000</u>	<u>3,059,440</u>	<u>(545,000)</u>	<u>3,059,440</u>
Total governmental activities		<u>\$ 2,140,129</u>	<u>\$ 3,809,440</u>	<u>\$ (2,890,129)</u>	<u>\$ 3,059,440</u>

All of the various purpose notes, Platter Creek notes, Doty Run notes, and Peterson notes were issued for ditch improvements. The Series 2003 and 2003A notes also included sewer and bridge improvements. The Airport Improvement notes were issued for various improvements at the airport. Notes were also issued in 2004 to finance the Unity East Side Campus and various sewer and bridge repairs.

All of the County's bond anticipation notes are backed by the full faith and credit of the Defiance County and have a maturity of one year.

NOTE 18 - CAPITALIZED LEASES - LESSEE DISCLOSURE

The County has entered into a capitalized lease for equipment. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures on the basic financial statements for the governmental funds. These expenditures are reflected as program/object expenditures on a budgetary basis.

Assets acquired by lease have been capitalized, in the amount of \$12,802, which equals the present value of the future minimum lease payments at the time of acquisition. The equipment has a carrying value of \$4,695. Principal payments in 2004 were \$5,399. The lease was paid in full in 2004.

DEFIANCE COUNTY

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NOTE 19 - LONG-TERM OBLIGATIONS

The original issue date, interest rate, original issue amount, and balance at December 31, 2004 for the County's long-term obligations are as follows:

	<u>Original Issue Date</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>	<u>Balance 12/31/04</u>
General Obligation Bonds:				
Various Purpose Improvement	1999	3.9 - 5.6%	\$2,675,000	\$2,220,000
Special Assessment Bonds:				
Brunersburg Sewer	2002	4.75	837,531	793,200
Platter Creek	2004	2.25 - 5.0	425,000	425,000
Loans Payable:				
Caterpillar Tractor	2001	5.50	78,528	15,744
Caterpillar Tractor	2003	3.75	433,674	213,645
OPWC Loans:				
Evansport Water	1999	0.0	468,050	339,335
OWDA Loans:				
Express Sewer	2002	1.5	1,076,846	958,781
GMAC Commercial Mortgage:				
Sewer	1980	5.0	146,300	94,000

The above amounts include long-term obligations of both the governmental and business-type activities.

The County's long-term obligations activity for the year ended December 31, 2004, was as follows:

DEFIANCE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)

Governmental Activities:	<u>Balance</u> <u>12/31/03</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/04</u>	<u>Due Within</u> <u>One Year</u>
<u>General obligation bonds:</u>					
Varous purpose improvement	\$ 2,260,000	\$ -	\$ (95,000)	\$ 2,165,000	\$ 95,000
Total general obligation bonds	<u>2,260,000</u>	<u>-</u>	<u>(95,000)</u>	<u>2,165,000</u>	<u>95,000</u>
<u>Special assessment bonds:</u>					
Brunersburg sewer	821,400	-	(28,200)	793,200	29,700
Platter creek	<u>-</u>	<u>425,000</u>	<u>-</u>	<u>425,000</u>	<u>10,000</u>
Total special assessment bonds	<u>821,400</u>	<u>425,000</u>	<u>(28,200)</u>	<u>1,218,200</u>	<u>39,700</u>
<u>Other long-term obligations:</u>					
Loans payable	30,789	-	(15,045)	15,744	15,744
OPWC loans payable	362,738	-	(23,403)	339,335	23,403
OWDA loans payable	757,087	369,974	(168,280)	958,781	59,493
Capital lease payable	5,399	-	(5,399)	-	-
Compensated absences	<u>969,180</u>	<u>438,906</u>	<u>(485,747)</u>	<u>922,339</u>	<u>378,203</u>
Total other long-term obligations	<u>2,125,193</u>	<u>808,880</u>	<u>(697,874)</u>	<u>2,236,199</u>	<u>476,843</u>
Total governmental activities long-term obligations	<u>\$ 5,206,593</u>	<u>\$ 1,233,880</u>	<u>\$ (821,074)</u>	<u>\$ 5,619,399</u>	<u>\$ 611,543</u>
Business-Type Activities:	<u>Balance</u> <u>12/31/03</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/04</u>	<u>Due Within</u> <u>One Year</u>
<u>General obligation bonds:</u>					
Varous purpose improvement	\$ 65,000	\$ -	\$ (10,000)	\$ 55,000	\$ 10,000
Total general obligation bonds	<u>65,000</u>	<u>-</u>	<u>(10,000)</u>	<u>55,000</u>	<u>10,000</u>
<u>Other long-term obligations:</u>					
Loans payable	433,674	-	(220,029)	213,645	213,645
GMAC commercial mortgage	98,000	-	(4,000)	94,000	4,000
Closure and postclosure liability	2,235,056	351,840	-	2,586,896	-
Compensated absences	<u>51,978</u>	<u>28,184</u>	<u>(20,545)</u>	<u>59,617</u>	<u>23,923</u>
Total other long-term obligations	<u>2,818,708</u>	<u>380,024</u>	<u>(244,574)</u>	<u>2,954,158</u>	<u>241,568</u>
Total business-type activities long-term obligations	<u>\$ 2,883,708</u>	<u>\$ 380,024</u>	<u>\$ (254,574)</u>	<u>\$ 3,009,158</u>	<u>\$ 251,568</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)

General Obligation Bonds: The general obligation bonds were issued to provide funds for the renovation of County buildings, improvement of the sanitary sewer system, and construction of the Evansport water lines. General obligation bonds are direct obligations of the County for which its full faith and credit are pledged for repayment. The general obligation bonds reported as governmental activities obligations are payable from rental charges, sewer charges, and special assessments to the extent these resources are available. The general obligation bonds reported as business-type activities obligations are payable from unvoted property tax revenues to the extent operating resources of the Sewer enterprise fund are not available to meet the annual debt service requirements. The County expects that all of the debt service on the Sewer enterprise fund bonds will be paid from the revenues of that fund.

The general obligation bonds of the County are subject to mandatory sinking redemption requirements, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the authorizing legislation. That mandatory redemption is to occur on December 1 in each year, at a redemption price equal to 100 percent of the principal amount plus accrued interest to the redemption date.

The term bonds maturing on December 1, 2019, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the County. The mandatory redemption is to occur on December 1 in each of the years 2010 through 2018 (with the balance of \$120,000 to be paid at stated maturity on December 1, 2019), at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the redemption date, according to the following schedule:

Year	Amount	Year	Amount
2010	\$75,000	2015	\$100,000
2011	80,000	2016	105,000
2012	85,000	2017	110,000
2013	90,000	2018	115,000
2014	90,000		

The term bonds maturing on December 1, 2024, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the County. The mandatory redemption is to occur on December 1 in each of the years 2020 through 2023 (with the balance of \$140,000 to be paid at stated maturity on December 1, 2024), at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the redemption date, according to the following schedule:

Year	Amount
2020	\$115,000
2021	120,000
2022	125,000
2023	135,000

The general obligation bonds are also subject to prior redemption on or after December 1, by and at the sole option of the County, either in whole or in part on any date, in integral multiples of \$5,000 plus accrued interest to the redemption date. The date each bond may be called and the redemption prices, expressed as percentages of the principal amount redeemed, are set forth below:

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(Continued)

Redemption Dates	Various Purpose Improvements
December 1, 2009 to November 30, 2010	101%
December 1, 2010 to November 30, 2011	100.5
December 1, 2011 and thereafter	100

Special Assessment Bonds:

The special assessment bonds are backed by the full faith and credit of the County. In the event that an assessed property owner fails to make payments or insufficient amounts are assessed to fund the debt, the County will be required to pay the related debt. Special assessment bonds are paid from Brunersburg Sewer debt service fund (a nonmajor governmental fund). During 2004, a new bond in the amount of \$425,000 was issued to finance Platter Creek improvements. No payments were made on this bond in 2004.

Loans Payable:

The County entered into loan agreements in 2001 and 2003 for the purchase of heavy equipment, in the amount of \$78,528 and \$433,674, respectively. The loans will be paid from the Ditch Maintenance special revenue fund (a nonmajor governmental fund) and Landfill enterprise fund, respectively.

OPWC Loans Payable:

In 1999, the County obtained an Ohio Public Works Commission interest free loan, in the amount of \$468,050, for the construction of the Evansport Water system. The loan will be repaid from the Evansport Water debt service fund (a nonmajor governmental fund).

OWDA Loans Payable:

The County has authorized Ohio Water Development Authority loans, in the amount of \$1,356,000, for the construction of wastewater facilities. The County has drawn down \$1,076,846 as of December 31, 2004. The remaining available balance to be drawn down, in the amount of \$279,154, is still authorized but not issued. The loans will be repaid from the Express Sewer debt service fund (a nonmajor governmental fund).

GMAC Commercial Mortgage Payable:

In 1980, the County obtained a loan through the GMAC Commercial Mortgage Corporation, in the amount of \$146,300, for the Evansport sewer system. The loan will be repaid from the Sewer enterprise fund with charges for sewer service.

Compensated Absences Payable:

The compensated absences liability will be paid from the fund from which the employees' salaries are paid. These funds include the General Fund; Dog and Kennel, Mental Retardation and Developmental Disabilities, Job and Family Services, Real Estate Assessment, Motor Vehicle and Gas Tax, DARE, Economic Development, Child Support Enforcement Agency, Emergency 911, Joint Solid Waste, Senior Center, Certificate of Administration, Sarah's House, and Felony Delinquent Care and Custody special revenue funds; and the Landfill and Sewer enterprise funds.

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FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)

The Ohio Revised Code provides that the net general obligation debt of the County, exclusive of certain exempt debt, issued without a vote of the electors should not exceed 1 percent of the total assessed valuation of the County. The Revised Code further provides that the total voted and unvoted net debt of the County less the same exempt debt should not exceed a sum equal to 3 percent of the first \$100,000,000, plus 1.5 percent of such valuation in excess of \$100,000,000 and not in excess of \$300,000,000, plus 2.5 percent of such valuation in excess of \$300,000,000.

The effect of the debt limitations described above is an overall debt margin of \$12,084,271 at December 31, 2004.

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

<u>Governmental Activities</u>						
<u>Year Ended</u>	<u>General Obligation Bonds</u>			<u>Special Assessment Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 95,000	\$ 118,423	\$ 213,423	\$ 39,700	\$ 61,279	\$ 100,979
2006	110,000	114,005	224,005	46,000	54,839	100,839
2007	110,000	108,780	218,780	47,500	52,973	100,473
2008	120,000	102,070	222,070	49,000	51,054	100,054
2009	125,000	96,130	221,130	50,700	48,816	99,516
2010 - 2014	420,000	404,600	824,600	303,000	206,350	509,350
2015 - 2019	550,000	273,000	823,000	379,600	127,530	507,130
2020 - 2024	635,000	110,320	745,320	302,700	33,679	336,379
Total	<u>\$2,165,000</u>	<u>\$ 1,327,328</u>	<u>\$ 3,492,328</u>	<u>\$1,218,200</u>	<u>\$ 636,520</u>	<u>\$1,854,720</u>

<u>Governmental Activities</u>				
<u>Year Ended</u>	<u>Loans</u>			<u>OPWC</u>
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Loans</u>
				<u>Principal</u>
2005	\$ 15,744	\$ 953	\$ 16,697	\$ 23,403
2006	-	-	-	23,403
2007	-	-	-	23,403
2008	-	-	-	23,403
2009	-	-	-	23,403
2010 - 2014	-	-	-	117,015
2015 - 2019	-	-	-	105,305
Total	<u>\$ 15,744</u>	<u>\$ 953</u>	<u>\$ 16,697</u>	<u>\$ 339,335</u>

DEFIANCE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)

Amortization schedule for \$958,781 of the Ohio Water Development Authority loans payable is not available due to the project not being finalized; however, the County has made semi-annual payments on these loans and an estimate was determined on the amount the County will pay within one year on these loans.

The County's future annual debt service requirements, including mandatory sinking fund requirements, payable from the enterprise funds are as follows:

<u>Business-Type Activities</u>									
Year Ended	General Obligation Bonds			Loans			GMAC Commercial Mortgage		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 10,000	\$ 2,795	\$ 12,795	\$ 213,645	\$ 8,965	\$ 222,610	\$ 4,000	\$ 4,700	\$ 8,700
2006	10,000	2,300	12,300	-	-	-	4,000	4,500	8,500
2007	10,000	1,855	11,855	-	-	-	4,000	4,300	8,300
2008	10,000	1,245	11,245	-	-	-	5,000	4,100	9,100
2009	15,000	780	15,780	-	-	-	5,000	3,850	8,850
2010 - 2014	-	-	-	-	-	-	28,000	15,350	43,350
2015 - 2019	-	-	-	-	-	-	36,000	7,650	43,650
2020	-	-	-	-	-	-	8,000	400	8,400
Total	\$ 55,000	\$ 8,975	\$ 63,975	\$ 213,645	\$ 8,965	\$ 222,610	\$ 94,000	\$44,850	\$ 138,850

Conduit Debt:

In 2001, the County issued \$2,325,000 in Adjustable Rate Demand Economic Development Revenue Refunding Bonds. The proceeds were used for the refunding of economic development revenue bonds issued in 1982 to acquire and construct a supermarket. The County is not obligated in any way to pay the debt charges on the bonds from any of its funds, and therefore, the debt has been excluded entirely from the County's debt presentation. As of December 31, 2004, \$2,325,000 of these bonds was outstanding.

In 2002, the County entered into a lease-purchase agreement, in the amount of \$2,000,000, for the purchase of a CT scanner, MR system, and related medical equipment. The County is not obligated in any way to pay the debt charges on the lease-purchase agreement from any of its funds, and therefore, the debt has been excluded entirely from the County's debt presentation. As of December 31, 2004, \$1,177,909 of this debt was outstanding.

NOTE 20 - CLOSURE AND POSTCLOSURE CARE COSTS

State and federal laws and regulations require the County to place a final cover on the landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date the landfill stops accepting waste, the County reports a portion of these costs as an operating expense in each period based on landfill capacity used as of each balance sheet date.

DEFIANCE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004 (Continued)

The \$2,586,896 reported as landfill closure and postclosure costs payable at December 31, 2004, represents the cumulative amount reported to date based on the use of 85.65 percent of the estimated capacity of the landfill. The County will recognize the remaining estimated costs of closure and postclosure care of \$433,567 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2004. For financial assurance purposes, Ohio EPA requires closure and postclosure costs to be reported based on the worst case scenario of when closure will occur. For 2004, these costs total \$3,020,463. The County expects to close the landfill in 2008. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The County is required by state and federal laws and regulations to either make annual contributions to an EPA controlled trust fund or demonstrate financial assurance through the "Local Government Financial Test". For 2004, the County met the Local Government Financial Test requirements.

The County expects to set aside monies for closure and post closure care obligations at a rate in line with the daily waste consumption of the Landfill. The County expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations), these costs may need to be covered by charges to future landfill users or from future tax revenue.

NOTE 21 - JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Juvenile Detention, Training, and Rehabilitation Center

The Northwest Ohio Juvenile Detention, Training, and Rehabilitation Center (Center) is a jointly governed organization among Defiance, Fulton, Henry, and Williams Counties. The Center's board of trustees consists of thirteen members; three from each County and one at-large member. The board of trustees exercises total control over the operation of the Center including budgeting, contracting, and designating management. The County has no ongoing financial interest or responsibility for the Center. In 2004, Defiance County contributed \$295,304 for the Center's operations which represents 31.6 percent of total contributions. Information can be obtained from Nancy J. Yackee, Fulton County Auditor, 152 South Fulton Avenue, Suite 165, Wauseon, Ohio 43567.

B. Four County Board of Alcohol, Drug Addiction, and Mental Health Services

The Four County Board of Alcohol, Drug Addiction, and Mental Health Services (ADAMHS) is a jointly governed organization among Defiance, Fulton, Henry, and Williams Counties to provide alcohol, drug addition, and mental health services to individuals in the four counties. The governing board of ADAMHS consists of eighteen members; four members appointed by the Ohio Director of Alcohol and Drug Addition Services, four members appointed by the Ohio Director of Mental Health Services, Defiance and Fulton County Commissioners appointing three members each, and Henry and Williams County Commissioners appointing two members each. The governing board exercises total control over the operation of the ADAMHS including budgeting, contracting, and designating management. The County has no ongoing financial interest or responsibility for the ADAMHS. In 2004, Defiance County contributed \$727,488 in property taxes for the ADAMHS' operations which represents 6.5 percent of total contributions. Information can be obtained from Marlene J. Goodwin, Defiance County Auditor, 221 Clinton Street, Defiance, Ohio 43512.

DEFIANCE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004 (Continued)

C. Corrections Commission of Northwest Ohio

The Corrections Commission of Northwest Ohio (CCNO) is a jointly governed organization among Defiance, Fulton, Henry, Lucas, and Williams Counties and the City of Toledo. The CCNO was established to provide jail space for convicted criminals in the five counties and the City of Toledo and to provide a correctional center for the inmates. The CCNO was created in 1986 and occupancy started in 1991. The commission team consists of eighteen members; one judge, one chief law enforcement officer, and one county commissioner or administrative official from each entity. The commission team exercises total control over the operation of the CCNO including budgeting, contracting, and designating management. The County has no ongoing financial interest or responsibility for the CCNO. In 2004, Defiance County contributed \$1,394,261 for the CCNO's operations which represents 10.12 percent of total contributions. Information can be obtained from William Ott, Fiscal Manager, Corrections Commission of Northwest Ohio, 03151 County Road 2425, Stryker, Ohio 43557.

D. Four County Solid Waste District

The Four County Solid Waste District (District) is a jointly governed organization among Defiance, Fulton, Paulding, and Williams Counties to make disposal of waste in the four-county area more comprehensive in terms of recycling, incinerating, and landfilling. The District was created in 1989. The board of directors consists of twelve members; the three commissioners from each county. The board of directors exercises total control over the operation of the District including budgeting, contracting, and designating management. The County has no ongoing financial interest or responsibility for the District. In 2004, Defiance County contributed \$89,095 for the District's operations which represents 28.7 percent of total contributions. Information can be obtained from Robin S. Rosswurm, Williams County Auditor, One Courthouse Square, Bryan, Ohio 43506.

E. Multi-Area Narcotics Task Force

The Multi-Area Narcotics Task Force (Task Force) is a jointly governed organization among Defiance, Paulding, and Putnam Counties and the Cities of Defiance and Bryan. The Task Force is jointly controlled by the chief law enforcement officer of each respective entity. The main source of revenue for the Task Force is from federal grants and local matching funds from the entities. The Task Force exercises total control over the operation of the Task Force including budgeting, contracting, and designating management. The County has no ongoing financial interest or responsibility for the Task Force. In 2004, Defiance County did not contribute any funds for the Task Force's operations. Information can be obtained from the Defiance County Sheriff's office, 113 Beide Street, Defiance, Ohio 43512.

F. Quadco Rehabilitation Center

The Quadco Rehabilitation Center (Quadco) is a jointly governed organization among Defiance, Fulton, Henry, and Williams Counties. Quadco Rehabilitation Center is a nonprofit corporation which provides services and facilities for training physically and mentally disabled persons. Quadco is responsible for contracting with various agencies to obtain funding to operate the organization. Quadco is governed by an eight-member board composed of two appointees made by each of the four County Boards of Mental Retardation and Developmental Disabilities (County Boards of MRDD). This board, in conjunction with the County Boards of MRDD, assesses the needs of adult mentally challenged and developmentally disabled residents of each County and sets priorities based on available funds. The County provides resources to the Board based on units of service provided to the County. Quadco exercises total control over the operation of Quadco including budgeting, contracting,

DEFIANCE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004 (Continued)

and designating management. The County has no ongoing financial interest or responsibility for Quadco. In 2004, Defiance County contributed \$870,800 for Quadco's operations which represents 18.9 percent of total contributions. Information can be obtained from Terry Fruth, CFO, Quadco Rehabilitation Center, 427 North Defiance Street, Stryker, Ohio 43557.

G. Maumee Valley Planning Organization

The Maumee Valley Planning Organization (MVPO) is a jointly governed organization among Defiance, Fulton, Henry, Paulding, and Williams Counties. The MVPO is an organization established to improve the social and economic conditions of the region through development and conservation. The MVPO is governed by a fifteen member executive council composed of the three county commissioners, the mayor of the largest municipality, three mayors selected by the committee of mayors that represent the incorporated cities and villages, the township trustee association president, the regional planning commission chairman, and two members at large to represent business, industry, labor, agricultural, low income, minority groups, education, and consumer protection activities. The County provides resources to the executive council based on a membership fee and services provided to the County. The MVPO exercises total control over the operation of MVPO including budgeting, contracting, and designating management. The County has no ongoing financial interest or responsibility for the MVPO. In 2004, Defiance County contributed \$118,115 for the MVPO's operations which represents 22.7 percent of total contributions. Information can be obtained from Nancy J. Yackee, Fulton County Auditor, 152 South Fulton Avenue, Suite 165, Wauseon, Ohio 43567.

H. Community Improvement Corporation of Defiance County

The Community Improvement Corporation of Defiance County (CIC) is a jointly governed organization among Defiance County, the City of Defiance, and the respective villages and townships of Defiance County. The purpose of the CIC is to promote and encourage the establishment and growth of industrial, commercial, distribution, and research facilities within member subdivisions. The CIC is governed by a board of trustees consisting of fifteen self-appointed members. Not less than two-fifths of the members are to be composed of elected officials. Five of these trustees include: a member of the Board of County Commissioners of Defiance County, the Auditor of Defiance County, the Mayor or his/her designated elected official of the City of Defiance, the Mayor or his/her designated elected official of the Village of Hicksville, and the President of the Defiance County Trustees. The remaining members represent private residents of Defiance County or employees of Defiance County businesses or firms. The County provides resources to the board of trustees based on a membership fee. The CIC exercises total control over the operation of CIC including budgeting, contracting, and designating management. The County has no ongoing financial interest or responsibility for the CIC. In 2004, Defiance County contributed \$60,000 for the CIC's operations which represents 26 percent of total contributions. Information can be obtained from the Jerry Hayes, Executive Director, 197-2B-1 Island Park Avenue, Defiance, Ohio 43512.

NOTE 22 - INSURANCE POOLS

A. County Commissioners Association Service Corporation

The County is participating in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The County Commissioners Association Service Corporation (CCAOSC) was established through the County Commissioners Association of Ohio (CCAO) as an insurance purchasing pool.

DEFIANCE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004 (Continued)

A group executive committee is responsible for calculating annual rate contributions and rebates, approving the selection of a third party administrator, reviewing and approving proposed third party fees, fees for risk management services and general management fees, determining ongoing eligibility of each participant, and performing any other acts and functions which may be delegated to it by the participating employers. The group executive committee consists of seven members. Two members are the president and treasurer of CCAOSC; the remaining five members are representatives of the participants. These five members are elected for the ensuing year by the participants at a meeting held in December of each year. No participant can have more than one member on the group executive committee in any year, and each elected member shall be a County Commissioner.

B. Northern Buckeye Education Council Employee Insurance Benefits Program

The Northern Buckeye Education Council Employee Insurance Benefits Program (Program) is a public entity shared risk pool consisting of educational entities within Defiance, Fulton, Henry, and Williams Counties. The Northern Buckeye Education Council and its participating members govern the Program. Financial information can be obtained from Cindy Siler, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

NOTE 23 - RELATED ORGANIZATION

The Defiance County Regional Airport Authority was created by resolution of the County Commissioners under the authority of Chapter 308 of the Ohio Revised Code. The Airport Authority is governed by a five member board of trustees appointed by the County Commissioners. The board of trustees has the authority to exercise all of the powers and privileges provided under the law. These powers include the ability to sue or be sued in its corporate name; the power to establish and collect rates, rentals, and other charges; the authority to acquire, construct, operate, manage, and maintain airport facilities; the authority to buy and sell real and personal property; and the authority to issue debt for acquiring or constructing any facility or permanent improvement. The Airport Authority serves as custodian of its own funds and maintains all records and accounts independent of Defiance County.

Although the County has no obligation to provide financial resources to the airport, the County Commissioners have in prior years allocated certain funds to the Airport Authority. In 2004, the County contributed \$25,200 to the Airport Authority.

NOTE 24 - CONTINGENT LIABILITIES

A. Litigation

The County is a party to several legal proceedings seeking damages or injunctive relief generally incidental to its operations and pending projects. The County management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material effect, if any, on the financial condition of the County.

B. Federal and State Grants

For the period January 1, 2004, to December 31, 2004, the County received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed

DEFIANCE COUNTY

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

under the terms of the grant. Based on prior experience, the County believes such disallowances, if any, would be immaterial.

NOTE 25 - SUBSEQUENT EVENTS

On February 28, 2005, the County passed a resolution to authorize the issuance of \$700,000 in Ohio Economic Development Revenue Bonds for the purpose of making a loan to assist the Defiance Area YMCA in financing a portion of the cost of acquiring, constructing, improving, installing, and equipping gymnasiums and related facilities. The County is not obligated in any way to pay the debt charges on these bonds.

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DEFIANCE COUNTY

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2004**

FEDERAL GRANTOR	Pass Through	Federal	
<i>Pass Through Grantor</i>	Entity	CFDA	
<u>Program Title</u>	<u>Number</u>	<u>Number</u>	<u>Disbursements</u>
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Education:</i>			
National School Lunch Program	065946-03-PU-02	10.555	\$ 8,495
Total U.S. Department of Agriculture			8,495
U.S. DEPARTMENT OF EDUCATION			
<i>Passed Through Ohio Department of Education:</i>			
Special Education Cluster:			
Special Education - Grants to States (Title VI-B)	065946-6B-8F-05	84.027	71,864
Special Education - Preschool Grant (Title I)	065946-PG-51-2005	84.173	26,708
Total Special Education Cluster			98,572
Innovative Education Program Strategies	065946-C2-S1-2005	84.298	850
Total U.S. Department of Education			99,422
U.S. DEPARTMENT OF HOMELAND SECURITY			
<i>Passed Through Ohio Department of Emergency Management</i>			
State Homeland Security - Exercise Grant	S04-HXP2-20-0196	97.004	6,000
State Homeland Security - Equipment Funds (Part I)	S03-HE03-20-0431	97.004	8,775
State Homeland Security - Equipment Funds (Part II)	S04-HEP2-20-0020	97.004	13,555
State Homeland Security - Planning and Administrative Funds	S03-HP03-20-0519	97.004	3,868
Total State Homeland Security			32,198
Pre-Disaster Mitigation - Program Grant	S03-FM02-20-0188	97.047	5,695
FEMA Supplemental Planning Grant	S03-FS02-20-0108	97.051	6,038
FEMA Supplemental Cert Grant	S03-FCE02-20-0599	97.051	4,443
			10,481
ODP Citizen Corps Program Grant	S05-HCC04-20-0009	97.053	6,188
FEMA Community Emergency Response Team (CERT)	S04-HCE03-20-0330	97.054	3,375
Total U.S. Department of Homeland Security			57,937
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<i>Passed Through The Area Office of Aging:</i>			
Aging Cluster:			
Special Programs for the Aging -Title III Part B- Grants for Supportive Services and Senior Centers	-	93.044	31,265
Special Programs for the Aging -Title III Part C- Nutrition Services		93.045	233,895
Total Aging Cluster			265,160

(Continued)

DEFIANCE COUNTY

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

FEDERAL GRANTOR	Pass Through	Federal	
<i>Pass Through Grantor</i>	Entity	CFDA	
<u>Program Title</u>	<u>Number</u>	<u>Number</u>	<u>Disbursements</u>
Special Programs for the Aging - Title III Part D - Sixty Plus Program		93.043	7,146
Special Programs for the Aging - A12 - Alzheimer	2003	93.051	<u>47,719</u>
Total Area Office of Aging			<u>320,025</u>
<i>Passed Through Ohio Department of Health:</i>			
Social Services Block Grant (Title XX)		93.667	58,286
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>			
Medical Assistance Program (Medicaid: Title XIX)		93.778	
Good Samaritan School Mental Retardation Development Disabilities			99,608
Quadco Rehabilitation Center			<u>130,793</u>
Total Medical Assistance Program (Medicaid: Title XIX)			<u>230,401</u>
<i>Passed Through Ohio Job and Family Services:</i>			
ESSA Family Preservation	20-6035-03	93.645	1,196
Grants to States for Access and Visitation Programs	G-04-09-0792	93.675	32,995
Basic Child Abuse and Neglect	20-6020-02	93.669	<u>2,003</u>
Total U.S. Department of Health and Human Services			<u>644,906</u>
U.S. DEPARTMENT OF LABOR			
<i>Passed Through Ohio Job and Family Services:</i>			
Workforce Investment Act Cluster:			
Workforce Investment Act - Adult	N/A	17.258	8,987
Workforce Investment Act - Adult Administration	N/A	17.258	<u>2,911</u>
Workforce Investment Act - Adult Total			11,898
Workforce Investment Act - Youth	N/A	17.259	104,161
Workforce Investment Act - Youth Administration	N/A	17.259	<u>2,911</u>
Workforce Investment Act - Youth Total			107,072
Workforce Investment Act - Dislocated Worker	N/A	17.260	2,283
Workforce Investment Act - Dislocated Worker Administration	N/A	17.260	<u>2,912</u>
Workforce Investment Act - Dislocated Total			5,195
Workforce Investment Act - Rapid Response- FY'02	N/A	17.260	49,259
Workforce Investment Act - Rapid Response- FY'03	N/A	17.260	<u>2,912</u>
Workforce Investment Act - Rapid Response Total			<u>52,171</u>
Total U.S. Department of Labor Workforce Investment Act Cluster			<u>176,336</u>

(Continued)

DEFIANCE COUNTY

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Passed Through Ohio Department of Development:</i>			
Home Investment Partnerships Program (Chip)	B-C-00-019-2	14.239	219,040
Community Development Block Grant (Formula Grant)	B-F-03-019-1	14.228	56,250
Community Development Block Grant (Formula Grant)	B-F-02-019-1	14.228	22,028
FEDERAL GRANTOR			
<i>Pass Through Grantor</i>			
Community Development Block Grant (Emergency Shelter)	B-L-03-019-1	14.228	38,020
Community Development Block Grant (Emergency Shelter)	B-L-04-019-1	14.228	24,393
Community Development Block Grant (Chip)	B-C-02-019-1	14.228	105,634
Total Community Development Block Grant			<u>246,325</u>
Total U.S. Department of Housing and Urban Development			<u>465,365</u>
U.S. DEPARTMENT OF TRANSPORTATION			
<i>Passed Through Ohio Engineer's Association:</i>			
Highway Planning and Construction	03N021	20.205	800,791
Highway Planning and Construction	03N049	20.205	125,867
Highway Planning and Construction	04N089	20.205	54,640
Highway Planning and Construction	03N050	20.205	2,057
Total U.S. Department of Transportation			<u>983,355</u>
U.S. DEPARTMENT OF JUSTICE			
<i>Passed Through the Office of Criminal Justice Services:</i>			
Byrne Memorial Drug Control and Systems (Improvement Grant)	02-DG-A01-7014	16.579	204,901
Byrne Memorial Grant - Rape Crisis Advocate	02-DG-D02-7004	16.579	1,385
Total Byrne Memorial Grant			<u>206,286</u>
Local Law Enforcement Block Grant	2003-LE-LEB-3627	16.592	20,000
Community Prosecution and Project Safe Neighborhood	2003-PS-PSN-307	16.609	15,641
Victims of Crimes Act Grant	20-061T	16.575	69,451
Total U.S. Department of Justice			<u>311,378</u>
U.S. GENERAL SERVICES ADMINISTRATION			
<i>Passed Through through the Office of the Ohio Secretary of State</i>			
Election Reform Payments		39.011	6,134
Total U.S. General Services Administration			<u>6,134</u>
Total			<u><u>\$ 2,753,328</u></u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE.

DEFIANCE COUNTY

NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE FISCAL YEAR ENDED DECEMBER 31, 2004

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FOOD DISTRIBUTION

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At December 31, 2004, the County had no significant food commodities in inventory.

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

The County 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 County passed through the Ohio Department of Development. The initial loan of this money is recorded as a disbursement on the accompanying Schedule of Federal Awards Expenditures (the Schedule). Loans repaid, including interest, are used to make additional loans. Such subsequent loans are subject to certain compliance requirements imposed by HUD, but are not included as disbursements on the Schedule.

These loans are collateralized at December 31, 2004; the gross amount of loans outstanding under this program was \$336,019.

NOTE D - MATCHING REQUIREMENTS

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



**Auditor of State
Betty Montgomery**

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

Defiance County
500 Court Street, Suite A
Defiance, Ohio 43512-2171

To the Board of Commissioners:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Defiance County (the County) as of and for the year ended December 31, 2004, which collectively comprise the County's basic financial statements and have issued our report thereon dated June 27, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the County's management dated June 27, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the County's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the County's management dated June 27, 2005, we reported other matters related to noncompliance we deemed immaterial.

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Defiance County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

June 27, 2005



**Auditor of State
Betty Montgomery**

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

Defiance County
500 Court Street, Suite A
Defiance, Ohio 43512-2171

To the Board of Commissioners:

Compliance

We have audited the compliance of Defiance County (the County) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended December 31, 2004. The summary of auditor's results section of the accompanying schedule of findings identifies the County's major federal programs. The County's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Defiance County complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended December 31, 2004. In a separate letter to the County's management dated June 27, 2005, we reported other matters related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

The County's management 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 County's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving the internal control over compliance and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the County's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying schedule of findings as item 2003-001.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We do not believe the reportable condition described above is a material weakness.

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



Betty Montgomery
Auditor of State

June 27, 2005

DEFIANCE COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2004

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(I)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(I)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(I)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(I)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(I)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(I)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	Yes
<i>(d)(I)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(I)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(I)(vii)</i>	Major Programs (list):	Highway Planning and Construction Cluster (Highway Planning and Construction, CFDA #20.205) Medical Assistance Program (Medicaid), Title XIX, CFDA #93.778 Aging Cluster (Title III, Part B and C), CFDA #93.044 and 93.045
<i>(d)(I)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(I)(ix)</i>	Low Risk Auditee?	No

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

None.

3. FINDINGS FOR FEDERAL AWARDS

Special Programs for the Aging – Title III Part C – Nutrition Services Program – Reporting

Finding Number	2004-001
CFDA Number and Title	93.045 - Aging Cluster
Federal Agency	U.S. Department of Health and Human Services

REPORTABLE CONDITION

It is management's responsibility to implement internal control procedures to reasonably ensure that reports are accurate and complete and that funds are expended in accordance with grant requirements. A strong system of internal controls includes documenting the review and approval of any independently prepared reports to ensure they are accurate and complete.

There was no evidence that Senior Center officials performed any supervisory reviews and approvals of the following documents:

- Purchase requisitions of food items.
- Monthly reimbursement reports sent to the Area Office on Aging (AOA).
- Vendor invoices sent to the County Auditor for disbursement.

This could result in the Senior Center purchasing items not allowable to the Title III Part B and Part C programs.

If management does not review and approve the reports prior to their submission, incorrect information may be reported to AOA, adversely affecting management decisions and federal reporting. In addition, reimbursement from the respective programs may be adversely affected.

In order to provide appropriate supervisory controls at the Senior Center, we recommend that:

- All purchase requisitions, vendor invoices, reimbursement reports and daily dining site and home delivered meal count records be reviewed by a supervisory official such as the Executive Director and/or Assistant Director.
- Reimbursement reports be approved by the Executive Director prior to being submitted to the AOA. These approvals should be indicated in some manner on the appropriate document.

DEFIANCE COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .315 (b)
DECEMBER 31, 2005

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2003-001	Ohio Revised Code §5705.40, posted appropriations greater than approved appropriations.	Yes	
2003-002	Special Programs for the Aging – Title III Part C – Nutrition Services Program, 93.045 - Aging Cluster – Questioned cost for ineligible meals.	No	Partially corrected. Reported in the Management Letter.
2003-003	Special Programs for the Aging – Title III Part E – Rural Care Grant – Activities Allowed or Unallowed – Allowable Cost/Cost Principles, 93.052 - National Family Caregiver Support – National Innovation Programs – Questioned cost for unsubstantiated unit cost.	Yes	
2003-004	Special Programs for the Aging – Title III Part B – Grants for Supportive Services and Senior Centers – Reporting, 93.045 - Aging Cluster – Noncompliance and reportable condition for activities undocumented and ineligible	No	Partially corrected. Reported in the Management Letter.
2003-005	Special Programs for the Aging – Title III Part E – Rural Care Grant – Activities Allowed Or Unallowed – Eligibility, 93.052 - National Family Caregiver Support – National Innovation Programs – Noncompliance and reportable condition for insufficient documentation of eligibility	Yes	
2003-006	Special Programs for the Aging – Title III Part C – Nutrition Services Program, 93.045 – Aging Cluster – Reportable Condition for lack of controls over disbursements and reporting	No	Not corrected. Reported as Finding 2004-001.



**Auditor of State
Betty Montgomery**

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FINANCIAL CONDITION

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
AUGUST 4, 2005**