



**Auditor of State
Betty Montgomery**

DEFIANCE COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANT'S REPORT

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

To the Board of Commissioners:

We have audited the accompanying general-purpose financial statements of Defiance County (the County) as of and for the year ended December 31, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of Defiance County as of December 31, 2002, and the results of its operations and the cash flows of its proprietary fund types 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 26, 2003 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying federal awards expenditures schedule is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the general-purpose 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 26, 2003

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DEFIANCE COUNTY

COMBINED BALANCE SHEET

ALL FUND TYPES, ACCOUNT GROUPS, AND DISCRETELY PRESENTED COMPONENT UNIT
DECEMBER 31, 2002

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
ASSETS AND OTHER DEBITS				
Assets:				
Equity in pooled cash and cash equivalents	\$5,197,366	\$6,489,108	\$615,139	\$7,789,019
Cash in segregated accounts	148,772		2,161	
Receivables (net of allowance for uncollectibles):				
Sales taxes	657,967			
Real and other taxes	1,511,249	1,140,211		
Accounts	46,032	121,796	15,627	2,225
Special assessments		198,971	101,835	38,105
Accrued interest	138,948	83		
Due from other funds	65,469			
Due from other governments	587,295	1,701,539		534,012
Interfund loans receivable	150,752			
Advances to other funds	1,508,969			
Prepayments	141,980	451,369		
Materials and supplies inventory	57,612	372,517		
Loans receivable		397,881		
Notes receivable	1,501			
Restricted assets:				
Equity in pooled cash and cash equivalents				
Investments				
Property, plant and equipment (net of accumulated depreciation where applicable)				
Other Debits:				
Amount available in debt service fund				
Amount to be provided from general government resources				
Amount to be provided from component unit resources				
Total assets and other debits	\$10,213,912	\$10,873,475	\$734,762	\$8,363,361

Proprietary Fund Types		Fiduciary Fund Type	Account Groups		Total Primary Government (Memorandum Only)	Component Unit	Total Reporting Entity (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations			
\$7,491,959	\$425,831	\$7,748,051 232,107			\$35,756,473 383,040	\$1,182,174	\$36,938,647 383,040
					657,967		657,967
					2,651,460	1,264,148	3,915,608
317,503					503,183	8,773	511,956
13,286					352,197		352,197
40,007		181			179,219		179,219
171		22,575			88,215		88,215
585					2,823,431	126,689	2,950,120
					150,752		150,752
					1,508,969		1,508,969
9,476					602,825	5,206	608,031
8,296					438,425	7,966	446,391
					397,881		397,881
					1,501		1,501
267,728					267,728		267,728
3,510,207					3,510,207		3,510,207
2,604,675			\$18,784,134		21,388,809	739,091	22,127,900
				\$336,461	336,461		336,461
				4,019,736	4,019,736		4,019,736
						116,125	116,125
\$14,263,893	\$425,831	\$8,002,914	\$18,784,134	\$4,356,197	\$76,018,479	\$3,450,172	\$79,468,651

(Continued)

DEFIANCE COUNTY

COMBINED BALANCE SHEET
ALL FUND TYPES, ACCOUNT GROUPS, AND DISCRETELY PRESENTED COMPONENT UNIT
DECEMBER 31, 2002
(Continued)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
LIABILITIES, EQUITY AND OTHER CREDITS				
Liabilities:				
Accounts payable	\$62,825	\$267,702		\$524,811
Contracts payable				
Accrued wages and benefits	182,386	211,842		
Compensated absences payable	21,833	32,867		
Interfund loans payable		58,916	\$91,836	
Advances from other funds		680	204,630	1,303,659
Due to other governments	57,253	51,064		
Due to other funds		88,215		
Deferred revenue	1,965,327	2,448,958	101,835	38,105
Deposits held and due to others				
Accrued interest payable		7,828		5,109
Notes payable		632,530		532,630
Claims and judgments payable				
Pension obligation payable	95,451	142,608		
General obligation bonds payable				
OWDA loans payable				
OPWC loan payable				
Farmers Home Administration loan payable				
Capital lease obligation payable				
Special assessment bonds with government commitment				
Estimated accrued liability for landfill closure and post closure costs				
Total liabilities	2,385,075	3,943,210	398,301	2,404,314
Equity and other credits:				
Investment in general fixed assets				
Retained earnings:				
Unreserved				
Fund balances:				
Reserved for encumbrances	175,334	430,675		388,657
Reserved for materials and supplies inventory	57,612	372,517		
Reserved for notes receivable	1,501			
Reserved for prepayments	141,980	451,369		
Reserved for debt service			336,461	
Reserved for loans		397,881		
Reserved for advances	1,508,969			
Reserved for external investment pool participants.				
Unreserved - undesignated	5,943,441	5,277,823		5,570,390
Total equity and other credits	7,828,837	6,930,265	336,461	5,959,047
Total liabilities, equity and other credits	\$10,213,912	\$10,873,475	\$734,762	\$8,363,361

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

Proprietary Fund Types		Fiduciary Fund Type	Account Groups		Total Primary Government (Memorandum Only)	Component Unit	Total Reporting Entity (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations			
					\$878,209	\$81,627	\$959,836
					336,641		336,641
					412,062	98,288	510,350
				\$640,360	739,884	124,898	864,782
					150,752		150,752
					1,508,969		1,508,969
109,091		\$7,589,475			7,806,883		7,806,883
					88,215		88,215
13,871					4,568,096	1,341,580	5,909,676
		232,107			232,107		232,107
199					13,136		13,136
44,975					1,210,135		1,210,135
	\$147,285	69,855			217,140		217,140
11,481					249,540	42,789	292,329
75,000				2,350,000	2,425,000		2,425,000
4,767				133,208	137,975		137,975
				386,141	386,141		386,141
102,000					102,000		102,000
				8,957	8,957		8,957
				837,531	837,531		837,531
2,212,469					2,212,469		2,212,469
2,996,023	147,285	7,891,437		4,356,197	24,521,842	1,689,182	26,211,024
			\$18,784,134		18,784,134	739,091	19,523,225
11,267,870	\$278,546				11,546,416		11,546,416
					994,666	103,490	1,098,156
					430,129	7,966	438,095
					1,501		1,501
					593,349	5,206	598,555
					336,461		336,461
					397,881		397,881
					1,508,969		1,508,969
		99,540			99,540		99,540
		11,937			16,803,591	905,237	17,708,828
11,267,870	278,546	111,477	18,784,134		51,496,637	1,760,990	53,257,627
\$14,263,893	\$425,831	\$8,002,914	\$18,784,134	\$4,356,197	\$76,018,479	\$3,450,172	\$79,468,651

DEFIANCE COUNTY

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES, EXPENDABLE TRUST FUND AND
DISCRETELY PRESENTED COMPONENT UNIT
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Revenues:				
Property taxes	\$1,609,066	\$1,050,400		
Sales taxes	4,658,544			
Charges for services	1,204,672	1,265,448	\$117,174	
Licenses and permits	3,185	205		
Fines and forfeitures	70,123	98,901		
Intergovernmental	1,139,683	9,380,982	206,458	\$1,105,931
Special assessments		198,822	307,205	154,289
Investment income	1,421,069	42,088	23,279	762
Other	826,394	489,143	265,637	206,264
Total revenues	10,932,736	12,525,989	919,753	1,467,246
Expenditures:				
Current:				
General government:				
Legislative and executive	2,601,348	498,386		
Judicial	1,099,275	241,002		
Public safety	1,732,018	1,791,399		
Public works	255,984	3,550,794		
Health	57,304	98,472		
Human services	438,949	6,204,827		
Economic development and assistance		787,701		
Other	1,667,869	31,648	2,250	
Capital outlay		192,714		3,881,347
Debt service:				
Principal retirement		17,956	206,636	
Interest and fiscal charges		20,357	128,654	47,919
Total expenditures	7,852,747	13,435,256	337,540	3,929,266
Excess (deficiency) of revenues over (under) expenditures	3,079,989	(909,267)	582,213	(2,462,020)
Other financing sources (uses):				
Proceeds of loans				23,711
Proceeds of bonds				837,531
Operating transfers in		1,361,423		1,642,111
Operating transfers (out)	(2,484,483)		(510,155)	(8,896)
Total other financing sources (uses)	(2,484,483)	1,361,423	(510,155)	2,494,457
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	595,506	452,156	72,058	32,437
Fund balances, January 1 (restated)	7,228,346	6,327,813	264,403	5,926,610
Increase in reserve for inventory	4,985	150,296		
Fund balances, December 31	\$7,828,837	\$6,930,265	\$336,461	\$5,959,047

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

Fiduciary Fund Type	Total Primary Government (Memorandum Only)	Component Unit	Total Reporting Entity (Memorandum Only)
	\$2,659,466	\$2,000,377	\$4,659,843
	4,658,544		4,658,544
	2,587,294		2,587,294
	3,390		3,390
	169,024		169,024
	11,833,054	1,711,930	13,544,984
	660,316		660,316
	1,487,198		1,487,198
\$7,419	1,794,857	394,213	2,189,070
7,419	25,853,143	4,106,520	29,959,663
	3,099,734		3,099,734
	1,340,277		1,340,277
	3,523,417		3,523,417
	3,806,778		3,806,778
	155,776		155,776
	6,643,776		6,643,776
	787,701		787,701
1,504	1,703,271	3,757,375	5,460,646
	4,074,061		4,074,061
	224,592		224,592
	196,930		196,930
1,504	25,556,313	3,757,375	29,313,688
5,915	296,830	349,145	645,975
	23,711		23,711
	837,531		837,531
	3,003,534		3,003,534
	(3,003,534)		(3,003,534)
	861,242		861,242
5,915	1,158,072	349,145	1,507,217
6,022	19,753,194	672,054	20,425,248
	155,281	700	155,981
\$11,937	\$21,066,547	\$1,021,899	\$22,088,446

DEFIANCE COUNTY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
 ALL GOVERNMENTAL FUND TYPES
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

	General		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:			
Property taxes	\$1,612,321	\$1,612,321	
Sales taxes	4,775,530	4,775,530	
Charges for services	1,212,737	1,217,472	\$4,735
Licenses and permits	3,185	3,185	
Fines and forfeitures	56,145	56,144	(1)
Intergovernmental	1,116,547	1,116,547	
Special assessments			
Investment income	1,490,425	1,515,062	24,637
Other	925,836	925,836	
Total revenues	<u>11,192,726</u>	<u>11,222,097</u>	<u>29,371</u>
Expenditures:			
Current:			
General government:			
Legislative and executive	2,823,537	2,694,695	128,842
Judicial	1,164,014	1,151,177	12,837
Public safety	2,175,265	1,743,641	431,624
Public works	710,023	341,411	368,612
Health	67,612	58,018	9,594
Human services	503,769	443,985	59,784
Economic development and assistance			
Transportation	300,000		300,000
Other	4,696,796	1,679,814	3,016,982
Capital outlay			
Debt service:			
Principal retirement			
Interest and fiscal charges			
Total expenditures	<u>12,441,016</u>	<u>8,112,741</u>	<u>4,328,275</u>
Excess of revenues over (under) expenditures	<u>(1,248,290)</u>	<u>3,109,356</u>	<u>4,357,646</u>
Other financing sources (uses):			
Proceeds of notes			
Proceeds of bonds			
Operating transfers in			
Operating transfers out	(2,998,750)	(2,484,482)	514,268
Advances in	27,757	29,142	1,385
Advances out	(163,576)	(163,576)	
Total other financing sources (uses)	<u>(3,134,569)</u>	<u>(2,618,916)</u>	<u>515,653</u>
Excess of revenues and other financing sources over (under) expenditures and other financing (uses)	<u>(4,382,859)</u>	<u>490,440</u>	<u>4,873,299</u>
Fund balance, January 1	4,145,922	4,145,922	
Prior year encumbrances appropriated	236,937	236,937	
Fund balance, December 31		<u><u>\$4,873,299</u></u>	<u><u>\$4,873,299</u></u>

Special Revenue			Debt Service		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
\$1,053,415	\$1,053,415				
1,309,870	1,314,749	\$4,879	\$113,995	\$114,109	\$114
205	205				
29,618	29,618				
9,720,260	9,720,752	492	177,091	177,091	
198,823	198,823		355,071	355,873	802
24,552	24,552		22,473	22,473	
526,725	573,090	46,365	257,755	257,758	3
12,863,468	12,915,204	51,736	926,385	927,304	919
955,551	529,212	426,339			
552,786	282,395	270,391			
4,550,355	1,893,312	2,657,043			
4,779,353	3,826,360	952,993			
119,009	100,947	18,062			
7,533,442	6,686,527	846,915			
975,499	888,053	87,446			
484,155	206,861	277,294			
693,830	673,530	20,300	3,779,973	3,259,165	520,808
	20,126	(20,126)	300,762	207,549	93,213
20,643,980	15,107,323	5,536,657	4,080,735	3,466,714	614,021
(7,780,512)	(2,192,119)	5,588,393	(3,154,350)	(2,539,410)	614,940
632,530	632,530		1,733,891	1,732,630	(1,261)
1,361,423	1,361,423		837,531	837,531	
(42,020)		42,020	31,956	31,956	
58,916	58,916		(1,461)		1,461
(42,597)	(15,320)	27,277	92,083	92,083	
1,968,252	2,037,549	69,297	(1,247)	(1,245)	2
(5,812,260)	(154,570)	5,657,690	2,692,753	2,692,955	202
5,095,616	5,095,616		(461,597)	153,545	615,142
716,644	716,644		461,589	461,589	
	\$5,657,690	\$5,657,690	(\$8)	\$615,134	\$615,142

(Continued)

DEFIANCE COUNTY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
 ALL GOVERNMENTAL FUND TYPES
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
 (Continued)

	Capital Projects		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:			
Property taxes			
Sales taxes			
Charges for services			
Licenses and permits			
Fines and forfeitures			
Intergovernmental	\$386,948	\$1,046,936	\$659,988
Special assessments	119,071	119,071	
Investment income	847	847	
Other	215,518	215,518	
Total revenues	722,384	1,382,372	659,988
Expenditures:			
Current:			
General government:			
Legislative and executive			
Judicial			
Public safety			
Public works			
Health			
Human services			
Economic development and assistance			
Transportation			
Other			
Capital outlay	11,166,138	4,475,000	6,691,138
Debt service:			
Principal retirement			
Interest and fiscal charges			
Total expenditures	11,166,138	4,475,000	6,691,138
Excess of revenues over (under) expenditures	(10,443,754)	(3,092,628)	7,351,126
Other financing sources (uses):			
Proceeds of notes			
Proceeds of bonds			
Operating transfers in	1,100,000	1,100,000	
Operating transfers out	(8,897)	(8,897)	
Advances in	12,577	12,577	
Advances out	(12,577)	(12,577)	
Total other financing sources (uses)	1,091,103	1,091,103	
Excess of revenues and other financing sources over (under) expenditures and other financing (uses)	(9,352,651)	(2,001,525)	7,351,126
Fund balance, January 1	6,722,489	6,722,489	
Prior year encumbrances appropriated	2,630,162	2,630,162	
Fund balance, December 31	\$7,351,126	\$7,351,126	

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

Total (Memorandum Only)		
Revised Budget	Actual	Variance: Favorable (Unfavorable)
\$2,665,736	\$2,665,736	
4,775,530	4,775,530	
2,636,602	2,646,330	\$9,728
3,390	3,390	
85,763	85,762	(1)
11,400,846	12,061,326	660,480
672,965	673,767	802
1,538,297	1,562,934	24,637
1,925,834	1,972,202	46,368
<u>25,704,963</u>	<u>26,446,977</u>	<u>742,014</u>
3,779,088	3,223,907	555,181
1,716,800	1,433,572	283,228
6,725,620	3,636,953	3,088,667
5,489,376	4,167,771	1,321,605
186,621	158,965	27,656
8,037,211	7,130,512	906,699
975,499	888,053	87,446
300,000		300,000
4,696,796	1,679,814	3,016,982
11,650,293	4,681,861	6,968,432
4,473,803	3,932,695	541,108
300,762	227,675	73,087
<u>48,331,869</u>	<u>31,161,778</u>	<u>17,170,091</u>
<u>(22,626,906)</u>	<u>(4,714,801)</u>	<u>17,912,105</u>
2,366,421	2,365,160	(1,261)
837,531	837,531	
2,493,379	2,493,379	
(3,051,128)	(2,493,379)	557,749
191,333	192,718	1,385
<u>(219,997)</u>	<u>(192,718)</u>	<u>27,279</u>
<u>2,617,539</u>	<u>3,202,691</u>	<u>585,152</u>
(20,009,367)	(1,512,110)	18,497,257
16,425,616	16,425,616	
3,583,743	3,583,743	
<u>(\$8)</u>	<u>\$18,497,249</u>	<u>\$18,497,257</u>

DEFIANCE COUNTY

COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS
ALL PROPRIETARY FUNDS TYPES
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

	<u>Proprietary Fund Types</u>		Total (Memorandum Only)
	<u>Enterprise</u>	<u>Internal Service</u>	
Operating revenues:			
Charges for services	\$3,049,782		\$3,049,782
Other	43,792	\$1,271,201	1,314,993
	<u>3,093,574</u>	<u>1,271,201</u>	<u>4,364,775</u>
Operating expenses:			
Personal services	390,572		390,572
Contract services	607,478		607,478
Materials and supplies	88,270		88,270
Depreciation	296,476		296,476
Landfill closure/post closure expense	200,271		200,271
Other	189,812	1,351,583	1,541,395
	<u>1,772,879</u>	<u>1,351,583</u>	<u>3,124,462</u>
Operating income	<u>1,320,695</u>	<u>(80,382)</u>	<u>1,240,313</u>
Non-operating revenues (expenses):			
Interest income	231,186		231,186
Interest and fiscal charges	(11,541)		(11,541)
Other	27,440		27,440
	<u>247,085</u>		<u>247,085</u>
Net income	1,567,780	(80,382)	1,487,398
Retained earnings, January 1 (restated)	<u>9,700,090</u>	<u>358,928</u>	<u>10,059,018</u>
Retained earnings, December 31	<u>\$11,267,870</u>	<u>\$278,546</u>	<u>\$11,546,416</u>

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

DEFIANCE COUNTY

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

	<u>Proprietary Fund Types</u>		Total (Memorandum Only)
	<u>Enterprise</u>	<u>Internal Service</u>	
Cash flows from operating activities:			
Cash received from sales/service charges	\$3,068,252		\$3,068,252
Cash received from other operations	54,721	\$1,271,201	1,325,922
Cash payments for personal services	(401,317)		(401,317)
Cash payments for contract services	(548,841)		(548,841)
Cash payments for materials and supplies	(76,611)		(76,611)
Cash payments for other expenses	(209,594)	(1,204,298)	(1,413,892)
Net cash provided by operating activities	<u>1,886,610</u>	<u>66,903</u>	<u>1,953,513</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(883,401)		(883,401)
Proceeds of OWDA loan	4,767		4,767
Proceeds of notes	44,975		44,975
Principal retirement	(83,040)		(83,040)
Interest and fiscal charges	(11,853)		(11,853)
Net cash used in capital and related financing activities	<u>(928,552)</u>		<u>(928,552)</u>
Cash flows from investing activities:			
Sale of investments	1,300,000		1,300,000
Purchase of investments	(1,888,783)		(1,888,783)
Interest received	160,080		160,080
Net cash used in investing activities	<u>(428,703)</u>		<u>(428,703)</u>
Net increase in cash and cash equivalents	529,355	66,903	596,258
Cash and cash equivalents at January 1	<u>7,230,332</u>	<u>358,928</u>	<u>7,589,260</u>
Cash and cash equivalents at December 31	<u><u>\$7,759,687</u></u>	<u><u>\$425,831</u></u>	<u><u>\$8,185,518</u></u>

(Continued)

DEFIANCE COUNTY

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
(Continued)

	Proprietary Fund Types		Total (Memorandum Only)
	Enterprise	Internal Service	
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$1,320,695	(\$80,382)	\$1,240,313
Adjustments to reconcile income to net cash provided by operating activities:			
Depreciation	296,476		296,476
Changes in assets and liabilities:			
Increase in materials and supplies inventory	(2,053)		(2,053)
Decrease in accounts receivable	18,449		18,449
Increase in prepayments	(5,471)		(5,471)
Increase in due from other funds	(15)		(15)
Decrease in due from other governments	45		45
Increase in special assessments receivable	(2,951)		(2,951)
Decrease in accounts payable	(4,028)		(4,028)
Increase in accrued wages and benefits	984		984
Decrease in compensated absences payable	(13,803)		(13,803)
Increase in estimated liability for landfill closure	200,271		200,271
Decrease in pension obligation payable	898		898
Increase in claims payable		147,285	147,285
Increase in due to other governments	63,242		63,242
Increase in deferred revenue	13,871		13,871
Net cash provided by operating activities	\$1,886,610	\$66,903	\$1,953,513

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

DEFIANCE COUNTY

STATEMENT OF CHANGES IN NET ASSETS
INVESTMENT TRUST FUND
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

	<u>Fiduciary Fund Type</u>
	<u>Investment Trust</u>
Operations:	
Interest revenue	\$1,964
Increase in fair value	<u>74</u>
Net investment income	<u>2,038</u>
Capital transactions:	
Proceeds of investments sold	(35,466)
Purchase of investments	<u>39,161</u>
Increase from capital transactions	<u>3,695</u>
Changes in net assets	5,733
Net assets, January 1	<u>93,807</u>
Net assets, December 31	<u><u>\$99,540</u></u>

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

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DEFIANCE COUNTY

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2002

1. REPORTING ENTITY

The County's reporting entity has been defined in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity". The general-purpose financial statements (GPFS) include all funds, account groups, agencies, boards, commissions, and component units for which Defiance County and the County Commissioners are "accountable". Accountability as defined in GASB Statement No. 14 was evaluated based on financial accountability, the nature and significance of the potential component unit's (PCU) relationship with the County and whether exclusion would cause the County's general purpose financial statements to be misleading or incomplete. Among the factors considered were separate legal standing; appointment of a voting majority of PCU's board; fiscal dependency and whether a benefit or burden relationship exists; imposition of will; and the nature and significance of the PCU's relationship with the County. Responsibility was evaluated on the basis of financial dependence and the manifestations of oversight exercised by the Commissioners. Among the factors considered were budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the County, obligation of the County to finance any deficits that may occur, reliance of the organization on continuing subsidies from the County, selection of governing authority, and designation of management.

Based on the foregoing criteria, the financial activities of the following PCU is reflected in the accompanying financial statements:

DISCRETELY PRESENTED COMPONENT UNIT

Defiance County Board of Mental Retardation and Development Disabilities (MRDD) - The County Commissioners appoint a majority of the board members. The Commissioners also levy taxes and serve as the appropriating authority for the board. The operations of the MRDD are discretely presented as a component unit because the MRDD does not provide services solely to the primary government, nor is the MRDD substantively the same as the primary government. Financial statements for the MRDD can be obtained from its administrative offices at 195 Island Park Avenue, Defiance, Ohio 43512.

JOINTLY GOVERNED ORGANIZATIONS

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

MVPO is governed by a Board consisting of fifteen members. The Board is made up of one County Commissioner from each member county as well as one township representative and one municipal representative for each of the five member counties. The main sources of revenue are fees charged by MVPO to administer CDBG grants and a per capita amount from each county. In 2002, the County paid administrative fees of \$2,675 and per capita charges of \$147,411 to MVPO.

Community Improvement Corporation of Defiance County - The County is a member of the Community Improvement Corporation of Defiance County (the CIC) which is a jointly governed organization between 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.

DEFIANCE COUNTY

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2002 (Continued)

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 Association (the Association) or an elected Defiance County Trustee appointed by the Association President. The remaining members represent private residents of Defiance County or employees of Defiance County businesses or firms. The County paid the CIC \$35,000 in 2002. Financial information concerning CIC can be obtained from the Defiance Economic Development Office at 197 – 2B – 1 Island Park Avenue, Defiance, Ohio 43512 – 2251.

JOINT VENTURES - WITHOUT EQUITY INTEREST

Corrections Commission of Northwest Ohio - Defiance County is a member of Northwest Ohio's Multicounty - Municipal Correctional Center, which is a joint venture between Defiance, Fulton, Henry, Lucas and Williams counties and the City of Toledo. The purpose of the center is to provide additional jail space for convicted criminals in the 5 counties and City of Toledo and to provide a correctional center for the inmates. The Corrections Commission joint venture was created in 1986 and construction was finished and occupancy was taken December 31, 1991.

The Corrections Commission is governed by a Commission Team made up of 18 members. These members consist of one judge, one chief law enforcement officer, and one county commissioner or administrative official from each entity. Sources of revenue include operating costs and capital costs contributed by members and rental revenue. The County does not have an explicit, measurable right to the net resources of the Commission. Total expenditures made by the County to the Corrections Commission in 2002 were \$1,200,269. Complete financial statements for the Corrections Commission can be obtained from the Correction Commission's administrative office on County Road 24 in Stryker, Ohio.

Four County Board of Alcohol, Drug Addiction and Mental Health Services (ADAMHS Board) - The Four County Board of Alcohol, Drug Addiction and Mental Health Services (ADAMHS Board) is a joint venture between Fulton, Defiance, Henry, and Williams Counties. The purpose of this board is to provide alcohol, drug addiction, and mental health services to individuals in the four counties.

The Four County ADAMHS Board is governed by a Board consisting of 18 members. The breakdown is as follows: 4 members are appointed by the Ohio Director of Alcohol and Drug Addiction Services, 4 are appointed by the Ohio Director of Mental Health Services, 3 each are appointed by the Defiance and Fulton County Commissioners, and 2 each are appointed by the Henry and Williams County Commissioners.

The main sources of revenue of the Board are state and federal grants, and a property tax levy covering the entire four county area. Outside agencies are contracted by the Board to provide services for the Board. The Board operates autonomously from the County and the County has no financial responsibility for the operations of the Board. The County does have indirect access to the net resources of the Board. In the event the County withdrew from the Board it would be entitled to a share of the state and federal grants that is currently being received by the Board. This access to net resources of the Board has not been explicitly defined, nor is it currently measurable. Complete financial statements for the Board can be obtained from the Board at its offices located at T-761, State Route 66, Archbold, Ohio, 43502.

DEFIANCE COUNTY

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2002 (Continued)

Four County Solid Waste District - The County is a member of the Four County Solid Waste District (the District), which is joint venture between Defiance, Fulton, Paulding, and Williams counties. The purpose of the District is 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 District is governed and operated through a twelve- member board of directors, comprised of three commissioners from each county. Financial records are maintained by the Williams County Auditor in Bryan, Ohio. The District's sole revenue source is derived from a waste disposal fee for in-district and out-of-district waste. The County paid disposal fees of \$68,643 to the District in 2002.

The County has an ongoing financial interest in the District. The County Commissioners are able to influence the Board of Directors to use the District's surplus resources to undertake special projects of interest to the County's citizens. In the event that a county withdraws from the District, this access to the net resources has not been explicitly defined, nor is it currently measurable. The County has no ongoing financial responsibility for the District. The Williams County Auditor acts as the financial agent for the District. Financial information concerning the District can be obtained from the Williams County Auditor's office located at One Courthouse Square, Bryan, Ohio 43506.

Multi-Area Narcotics Task Force (the Task Force) - Defiance County is a member of a drug task force which is a joint venture between Defiance, Paulding, and Putnam Counties and the Cities of Defiance and Bryan. The purpose of the drug task force is to act as a joint task force in the fight against narcotics. The 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 shares by the entities. The County has no ongoing financial responsibility to the Task Force. The County has indirect access to the net resources of the Task Force since the County is able to influence the Task Force to use its surplus resources to undertake projects of interest to the County's residents. This access to the net resources of the Board has not been explicitly defined, nor is it currently measurable. The County did not contribute to the Task Force in 2002. Complete financial statements for the Task Force can be obtained through the Defiance County Sheriff's Office located at 113 Beide Street, Defiance, Ohio.

Northwest Ohio Juvenile Detention, Training, and Rehabilitation District - The County is a participant with Henry, Fulton, and Williams Counties in a joint venture to operate the Northwest Ohio Juvenile Detention District (NWOJDD), established to operate both detention, training and rehabilitation facilities for juveniles.

NWOJDD is governed and operated by a thirteen member board of trustees consisting of three trustees from each County and one at large member. Revenue sources are from member Counties and rental revenue. The County has no ongoing financial responsibility for NWOJDD. Total expenditures made by the County to NWOJDD in 2002 were \$281,917. The County acts as the financial agent for NWOJDD; accordingly, this fiduciary responsibility is reflected in an Agency Fund in the County's financial statements.

Quadco Rehabilitation Center, Administrative Board - The County is a participant with Henry, Fulton, and Williams Counties in a joint venture to operate Quadco Rehabilitation Center, Administrative Board (Quadco). Quadco, a nonprofit corporation, 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.

DEFIANCE COUNTY

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2002 (Continued)

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 MR/DD). This board, in conjunction with the County Boards of MR/DD, assesses the needs of adult mentally retarded and developmentally disabled residents in each County and sets priorities based on available funds. The County provides subsidies to the Board based on units of service provided to it. For the year ended December 31, 2002, the County remitted \$793,969 to Quadco to supplement its operations.

The Board operates autonomously from the County and the County has no financial responsibility for the operations of the Board. Should Quadco dissolve, the property and equipment of the corporation would revert back to the four counties. This access to the net resources of the Board has not been explicitly defined, nor is it currently measurable. Complete financial statements for Quadco can be obtained from Quadco's administrative office at 427 N. Defiance Street, Stryker, Ohio.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and reporting practices of the County conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The following is a summary of its significant accounting policies:

A. Basis of Presentation - Fund Accounting

The accounts of the County are maintained on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity or retained earnings, as appropriate; and revenues, and expenditures or expenses, as appropriate. The following fund types and account groups are used by the County:

GOVERNMENTAL FUNDS

General Fund - The general fund is used to account for all activities of the County not required to be included in another fund.

Special Revenue Funds - The special revenue funds are used to account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds - The debt service funds are used to account for the accumulation of financial resources for, and the payment of, general obligation long-term debt principal, interest and related costs.

Capital Projects Funds - The capital project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by the proprietary funds).

PROPRIETARY FUNDS

Enterprise Funds - The enterprise funds are used to account for operations financed and operated in a manner similar to private business enterprises. The intent of the County is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

DEFIANCE COUNTY

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2002 (Continued)

Internal Service Funds - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the County, or to other governmental units, on a cost reimbursement basis.

FIDUCIARY FUNDS

Trust and Agency Funds - These funds are used to account for assets held by the County in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. These include expendable trust funds, the investment trust fund, and agency funds. Expendable trust funds are accounted for in essentially the same manner as governmental funds. The investment trust fund is accounted for in essentially the same manner as proprietary funds. Agency funds are custodial in nature, and do not have a measurement focus. Agency funds are presented on a budgetary basis, with note disclosure, if applicable, regarding items which, in other funds, would be subject to accrual.

ACCOUNT GROUPS

General Fixed Asset Account Group - The general fixed assets account group is used to account for all general fixed assets of the County, other than those fixed assets accounted for in the proprietary funds.

General Long-Term Obligations Account Group - The General Long-Term Obligations Account Group is used to account for all long-term obligations of the County, except those accounted for in the proprietary funds.

COMPONENT UNIT

Component Unit - A component unit is either a legally separate organization for which the elected officials of the County are not financially accountable, or a legally separate organization for which the nature and significance of its relationship with the County is such that exclusion would cause the County's financial statements to be misleading or incomplete.

B. Measurement Focus and Basis of Accounting

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

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Governmental funds and expendable trust funds, and the component unit, use the modified accrual basis of accounting. Proprietary and investment trust funds use the accrual basis of accounting. Differences between the accrual and the modified

DEFIANCE COUNTY

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2002 (Continued)

accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the reporting of expenses and expenditures.

Revenues - Exchange and Non-Exchange Transactions

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

Nonexchange transactions, in which the County receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal 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 a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: interest, federal and state grants and subsidies, state-levied locally shared taxes (including motor vehicle license fees and gasoline taxes), fines and forfeitures, fees and special assessments.

Deferred Revenue

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

Delinquent property taxes and property taxes for which there is an enforceable legal claim as of December 31, 2002, but which were levied to finance fiscal year 2003 operations, have been recorded as deferred revenues. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On the modified accrual basis of accounting, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is

DEFIANCE COUNTY

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2002 (Continued)

incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

C. Budgetary Data

Outlined below are the procedures followed by the County to establish the expenditures budget data reported in the combined financial statements:

1. Following submission of requests by various offices and departments, the Board of County Commissioners holds budget hearings during the autumn of each year with respective officeholders and department heads.
2. Shortly after the beginning of the fiscal year, the County Commissioners pass an Appropriation Resolution which legally authorizes the expenditure of funds for respective officeholders and department heads.
3. The County is accorded discretion in its method of appropriating federal funds. Appropriations are provided in the amounts of approved grants by the Board of County Commissioners.
4. The Revised budget figures reflected in the combined financial statements include the prior year appropriations carried over for liquidations against prior year encumbrances, and any amendments to the original Appropriation Resolution.
5. The Commissioners appropriate at the major account level within a division and fund. The appropriation level accounts for the County include personal services, materials and supplies, contractual services and interfund transfers. For funds which are directly appropriated by the Commissioners, transfers of appropriations at the major account level or between appropriation levels require a resolution signed by at least two Commissioners.
6. Supplemental appropriations are made when needed, subject to approval by at least two Commissioners. Supplemental appropriations were made during 2002.
7. Unencumbered appropriations lapse at year-end. Contracts and purchase-type encumbrances outstanding at year-end carry their appropriations with them into the next year. Contract and purchase-type encumbrances outstanding at year-end are recorded as expenditures on the budget basis of accounting.
8. The budgetary procedures described herein apply to all funds except the trust and agency funds.

D. Encumbrances

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

DEFIANCE COUNTY

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

E. Cash and Investments

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

During fiscal year 2002, investments were limited to STAR Ohio, treasury notes, federal agency securities, certificates of deposit and repurchase agreements.

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit and repurchase agreements are reported at cost.

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 at December 31, 2002.

Following Ohio statutes and other legal provisions, the Commissioners have specified the funds to receive an allocation of interest earnings.

The following fund was credited with more interest revenue than would have been received based upon its share of the County's cash fund balance during 2002:

	Interest Actually Received	Interest Based upon Share of Cash Fund Balance	Interest Assigned by Other Funds
General Fund	\$1,421,069	\$195,993	\$1,225,076

The County has segregated bank accounts for monies held separate from the County's central bank account. These interest bearing depository accounts are presented on the combined balance sheet as "Cash in Segregated Accounts" since they are not required to be deposited into the County treasury.

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

F. External Investment Pool

By statute, the County serves as fiscal agent for various legally separate entities. The County pools the moneys of these entities with the County's moneys for investment purposes. The County cannot allocate its investments between the internal and external investment pools. The external investment pool is not registered with the SEC as an investment company. The fair value of investments is determined annually. The pool does not issue shares. Each participant is allocated a pro rata share of each investment at fair value along with a pro rata share of the interest that it

DEFIANCE COUNTY

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

earnings. The fair value of investments for both the internal and external investment pools is disclosed in Note 4, "Equity in Pooled Cash and Investments". Condensed financial information for the investment pool follows:

	<u>Statement of Net Assets at 12/31/2002</u>
Assets:	
Cash and Cash Equivalents	\$36,938,647
Interest Receivable	<u>138,948</u>
Total Assets	<u><u>\$37,077,595</u></u>
Net Assets Held in Trust for Pool Participants:	
Internal Portion	\$36,978,055
External Portion	<u>99,540</u>
Net Assets Available to Pool Participants	<u><u>\$37,077,595</u></u>

	<u>Statement of Changes in Net Assets at 12/31/2002</u>
Revenue:	
Fair Value Increases and Decreases	\$56,875
Interest income	<u>1,364,194</u>
Total Revenue	1,421,069
Distributions to Participants	(2,022,199)
Capital Transactions	
Proceeds of Investments sold	(27,281,827)
Purchase of Investments	<u>30,123,826</u>
Total increase in net assets	2,240,869
Net Assets at January 1, 2002	<u>34,836,726</u>
Net Assets at December 31, 2002	<u><u>\$37,077,595</u></u>

G. Health Care

The Comprehensive Omnibus Budget Reconciliation Act (COBRA) of 1986 required the County to offer and provide terminated or retired employees continued participation in the County's employee health care benefits program, provided that the employees pay the rate established by the plan administrator. In 2002, the County did not incur expenditures in providing these services, and recognized no revenues for premiums received from these previous employees.

DEFIANCE COUNTY

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2002 (Continued)

H. Inventories of Materials and Supplies

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

I. Property, Plant, Equipment, and Depreciation

1. General Fixed Assets Account Group

General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and disposals during the year in the general fixed assets account group. Contributed fixed assets are recorded at their fair market values as of the date donated. The County follows a policy of not capitalizing infrastructure, which is defined as assets that are immovable and of value only to the County, (i.e. roads, bridges, etc.), ornamental artifacts, or any asset with a cost of less than \$500. No depreciation is recognized for assets in the account group. Interest on debt issued to construct general fixed assets is not capitalized in the account group.

2. Enterprise Funds

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

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

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

J. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate

DEFIANCE COUNTY

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2002 (Continued)

the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for sick leave is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. Sick leave benefits are accrued using the "vesting methods."

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

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

County employees earn vacation at varying rates ranging from two to five weeks per year. Sick leave is accumulated at the rate of 4.6 hours per 80 hours worked. Vacation and sick leave is accumulated on an hours-worked basis. Accumulated vacation cannot exceed three times the annual accumulation rate for an employee. Vacation pay is vested after one year and sick pay upon eligibility for retirement.

K. Intergovernmental Revenues

Unrestricted intergovernmental revenues received on the basis of entitlement are recorded as receivables and revenues when the entitlement occurs. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred.

L. Long-term Obligations

Long-term obligations for general obligation bonds, OWDA, OPWC & FHA loans, vested sick and vacation leave, capital lease obligations, and any claims or judgments that are expected to be paid from the governmental funds are shown in the general long-term obligations account group, while those expected to be paid from proprietary funds are shown as a liability of those funds.

Under Ohio law, a debt retirement fund must be created and used for the payment of all debt principal and interest. GAAP requires the allocation of the debt liability among the capital projects and enterprise funds, and the general long – term obligations account group, with principal and interest payments on matured general obligation long – term debt being reported in the debt service fund. To comply with GAAP reporting requirements, the County's debt retirement fund has been split among the appropriate funds. Debt service fund resources used to pay both principal and interest have also been allocated accordingly.

M. Interfund Transactions

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

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with

DEFIANCE COUNTY

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2002 (Continued)

the exception of agency funds, which do not show transfers of resources as operating transfers.

2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund.
3. Short-term interfund loans and accrued interfund reimbursements and accrued operating transfers are reflected as interfund loans receivable or payable.
4. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources.

An analysis of interfund transactions is presented in Note 5.

N. Fund Balance Reserves

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

The County reports amounts representing material and supply inventories, available debt service equity, prepaid items, encumbrances outstanding, advances, loans receivable, external investment pools and notes receivable as reservations of fund balance in the governmental funds.

O. Bond Discounts, Premiums, and Issuance Costs

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

When the proceeds from general obligation bonded debt are placed in a proprietary type fund, and the debt will be serviced from revenues generated by that fund, then any material issuance costs will be reported as a deferred charge and amortized over the life of the bond using the interest method. Any material discounts or premiums are shown as additions to or deductions from the amount of the bond liability, are amortized using the effective interest method, and are reflected as interest income or expense in the Statement of Revenues, Expenses, and Changes in Retained Earnings.

P. Prepayments

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

DEFIANCE COUNTY

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

Q. Estimates

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

R. Financial Reporting for Proprietary and Similar Fund Types

The County's financial statements have been prepared in accordance with GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting". This Statement is effective for financial statements beginning after December 15, 1993. The County accounts for its proprietary activities in accordance with all applicable GASB pronouncements, as well as pronouncements of the Financial Accounting Standards Board (FASB) and its predecessors issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

S. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Total (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with GAAP. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data. When the title of the statement indicates that a component unit is included, two total columns are presented. The first is captioned "primary government" to indicate that only those activities that comprise the County's legal entity have been included. The second is captioned "reporting entity" and includes operations of the County's legally separate discretely presented component unit (see Note 1) The total column on statements which do not include the component unit have no additional caption.

3. ACCOUNTABILITY AND COMPLIANCE

A. Prior Period Adjustments

The County has presented a restatement of retained earnings for the enterprise funds to include a fixed asset and a loan payable previously omitted at December 31, 2001. The effect of this restatement on retained earnings and net income as previously reported in the enterprise funds is as follows:

	Retained Earnings	Net Income
Amounts as previously reported as of and for the year ended December 31, 2001	\$9,961,263	\$1,929,399
Effect of omissions	(261,173)	(153,173)
Restated amounts as of and for the year ended December 31, 2001	\$9,700,090	\$1,776,226

The County has presented a restatement of fund balance for the special revenue funds to include revolving loan fund notes receivable previously omitted at December 31, 2001. The effect of this restatement on fund balance as previously reported in the special revenue funds is as follows:

DEFIANCE COUNTY

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

	Fund Balance
Fund balance as previously reported at December 31, 2001	\$6,169,832
Notes receivable	157,981
Fund balance, restated at January 1, 2002	\$6,327,813

The above restatement had no effect on the excess of revenues over/under expenditures as previously reported for the year ended December 31, 2001.

B. Deficit Balances

The following funds had deficit fund balances as of December 31, 2002:

	Deficit Fund Balances
<u>Special Revenue Funds:</u>	
Economic Development	\$1,600
COPS	680
<u>Debt Service Funds:</u>	
Brunersburg Sewer	109,366
Auglaize Sewer	115,779
<u>Capital Projects Funds:</u>	
Auglaize Sewer	69,783
Express Sewer	157,309
Green Acres Sewer	19,827
DMP Sewer	230,425
Airport	307,646

The deficits in the special revenue and debt service funds are caused by the application of GAAP to these funds. These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. These GAAP deficits will be funded by anticipated future revenues or other subsidies not recognized and recorded at December 31.

The deficits in the capital project funds arose from the requirement to report bond anticipation note liabilities in the fund which received the note proceeds. The deficits will be alleviated when the bonds are issued or when the notes are paid off.

C. Compliance

The County received a Highway Planning and Construction grant from the United States Department of Transportation. These monies were not included in the County's accounting records, contrary to Ohio law. In addition, the County did not record appropriations for expenditures related to this grant, also contrary to Ohio law.

D. Agency Funds

The following are material receivables for agency funds, which, in other fund types, would be recognized in the combined balance sheet:

DEFIANCE COUNTY

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2002 (Continued)

Taxes receivable	\$26,203,223
Accounts receivable	3,913
Special assessments receivable	539,218
Due from other governments	2,461,199

4. EQUITY IN POOLED CASH AND INVESTMENTS

A. Primary Government

Monies held by the County are classified by State statute into two categories. Active monies are public monies determined to be 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 withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States.
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities.
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days.
4. Bonds and other obligations of the State of Ohio, or its political subdivision, 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.

DEFIANCE COUNTY

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2002 (Continued)

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 five percent of the County's total average portfolio.
10. Bankers acceptances for a period not to exceed 180 days and in an amount not to exceed ten percent of the County's total average portfolio.

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

Cash in Segregated Accounts - At year-end, \$383,040 was on deposit in segregated accounts used by various County departments, and included in the total amount of deposits reported below; however, this amount is not part of the internal cash pool reported on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents".

Cash on Hand - At year-end, the County had \$245,471 in undeposited cash on hand (\$9,520 cash on hand with the County Treasurer, \$235,501 in undeposited receipts, and \$450 cash on hand with departments), which is included on the combined balance sheet as part of "Equity in Pooled Cash and Cash Equivalents", but is not included in the total amount of deposits reported below.

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".

Deposits - At year-end, the carrying amount of the County's deposits was \$22,468,649 and the bank balance was \$24,392,447. Of the bank balance:

1. \$1,236,884 was covered by federal depository insurance.
2. \$17,355,563 was covered by collateral held by a third party trustee pursuant to Section 135.181, Revised Code, in collateralized pools securing all public funds on deposits with specific depository institutions.
3. \$5,800,000 was covered by an Ohio Depository Bond.

Investments - The County's investments are required to be 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, or 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

DEFIANCE COUNTY

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

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 2	Category 3	Carrying Amount	Fair Value
Repurchase agreement		\$2,156,450	\$2,156,450	\$2,156,450
U.S. Government securities	\$7,779,150		7,779,150	7,779,150
Investments not subject to categorization:				
Investment in STAR Ohio			7,267,728	7,267,728
Total investments	<u>\$7,779,150</u>	<u>\$2,156,450</u>	<u>\$17,203,328</u>	<u>\$17,203,328</u>

The government securities include federal agency securities, which have maturities ranging from 2003 to 2007 and treasury notes, which mature in 2016.

Net increase in the fair value of applicable investments during fiscal year 2002 per GASB Statement No. 31 is \$19,485.

The classification of cash, cash equivalents, and investments on the combined balance sheet is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

A reconciliation between the classifications of cash, cash equivalents, and investments on the combined balance sheet per GASB Statement No. 9, and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Equity in Pooled Cash and Cash Equivalents	Investments
Per GASB Statement No. 9	\$36,024,201	\$3,510,207
Combined balance sheet reclassifications:		
Repurchase agreement	(2,156,450)	2,156,450
Investment in STAR Ohio	(7,267,728)	7,267,728
Certificates of deposit	1,250,000	(1,250,000)
U.S. Government securities	(5,518,943)	5,518,943
Cash on hand	(245,471)	
Cash in segregated accounts	383,040	
Total per GASB Statement No. 3	<u>\$22,468,649</u>	<u>\$17,203,328</u>

B. Component Units

At December 31, 2002, the carrying amount of the component unit's demand deposits was \$1,182,174. The bank balance at that date was \$801,157. Of the bank balance, \$40,625 was insured by FDIC and thus would belong in risk Category 1. The remaining balance of \$760,532 was insured and uncollateralized and thus would belong in risk Category 3. The component unit had no investments at December 31, 2002.

DEFIANCE COUNTY

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

5. INTERFUND TRANSACTIONS

A. Interfund balances at December 31, 2002, consist of the following individual fund receivables and payables which are long-term in nature (outstanding longer than one year):

	<u>Advances to Other Funds</u>	<u>Advances from Other Funds</u>
General Fund	\$1,508,969	
Special Revenue Funds		\$680
Debt Service Funds		204,630
Capital Projects Funds		1,303,659
Total long-term advances	<u>\$1,508,969</u>	<u>\$1,508,969</u>

B. Interfund balances at December 31, 2002, consist of the following individual fund receivables and payables which are short term in nature (outstanding less than one year):

	<u>Interfund Loans Receivable</u>	<u>Interfund Loans Payable</u>
General Fund	150,752	
Special Revenue Funds		\$58,916
Debt Service Funds		91,836
Total interfund loans	<u>\$150,752</u>	<u>\$150,752</u>

C. Quasi-external transactions (reimbursements) at December 31, 2002, consist of the following individual fund receivables and payables:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$65,469	
Special Revenue Funds		\$88,215
Enterprise Funds	171	
Agency Funds	22,575	
Total quasi-external transactions	<u>\$88,215</u>	<u>\$88,215</u>

D. The following is a reconciliation of the County's operating transfers for 2002:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund		\$2,484,483
Special Revenue Funds	\$1,361,423	
Debt Service Funds		510,155
Capital Projects Funds	1,642,111	8,896
Total transfers	<u>\$3,003,534</u>	<u>\$3,003,534</u>

6. PROPERTY TAXES

Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the County. Real property taxes and public utility taxes are levied after October 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by

DEFIANCE COUNTY

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2002 (Continued)

state law at 35% of appraised market value. Public utility property taxes are assessed on tangible personal property, as well as land and improvements, at true value. Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25% of true value. The assessed value upon which the 2002 taxes were collected was \$635,901,130. The full tax rate for all County operations applied to real property for fiscal year ended December 31, 2002, was \$10.85 per \$1,000 of assessed valuation.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due February 9, 2002. If paid semi-annually, the first payment is due February 9, 2002 and the remainder payable by July 20, 2002. Under certain circumstances, state statute permits earlier or later payment dates to be established.

The County Treasurer collects property tax on behalf of all taxing districts within the County. The County Auditor periodically remits to the taxing districts their portions of the taxes collected. Collections of the taxes and remittance of them to the taxing districts are accounted for in various agency funds of the County.

Tangible personal property taxes for unincorporated and single county businesses are due semi-annually, with the first payment due April 30 and the remainder payable by September 20. Due dates are normally extended an additional 30 days. The due date for the entire tax for inter-county businesses is September 20 or the extended date. The first \$10,000 of taxable value is exempt from taxation for each business by state law. The lien date is either December 31 or the end of their fiscal year (for incorporated businesses in operation more than one year). Since each business must file a return to the County Auditor, the tangible personal taxes are not known until all the returns are received.

"Real and Other Taxes" receivable represents delinquent real and tangible personal property and public utility taxes outstanding as of the last settlement (net of allowances for estimated uncollectibles) and real and public utility taxes which were measurable as of the year end.

Since the current levy is not intended to finance 2002 operations, the receivable is offset by a credit to "Deferred Revenue". The delinquent real, public utility and tangible personal property taxes that will become available to the County within the first 60 days of 2003 are shown as 2002 revenue; the remainder is shown as "Deferred Revenue".

The eventual collection of significantly all real and public utility property taxes (both current and delinquent) is reasonably assured due to the County's ability to force foreclosure of the properties on which the taxes are levied.

7. PERMISSIVE SALES AND USE TAX

In 1987, the County Commissioners by resolution imposed a 1% percent tax on all retail sales (except sales of motor vehicles) made in the County, and on the storage, use, or consumption in the County of tangible personal property, including automobiles not subject to the sales tax. 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 tax to be returned to the County. The Tax Commissioner's certification must be made within forty-five days after the end of the month of collection. The State Auditor then has five days in which to draw the warrant payable to the County.

Proceeds of the sales and use tax are credited to the general fund. Amounts that have been collected by the state and are to be received within the available period are accrued as revenue. Sales and use

DEFIANCE COUNTY

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

tax revenue for 2002 amounted to \$4,658,544, which includes a receivable of \$657,967 at December 31, 2002.

8. FIXED ASSETS

A. A summary of the proprietary fund property, plant, and equipment at December 31, 2002 is as follows:

Land	\$629,469
Buildings and improvements	1,109,343
Vehicles	260,503
Machinery and equipment	<u>2,353,106</u>
Total gross assets	4,352,421
Less: accumulated depreciation	<u>(1,747,746)</u>
Total net assets	<u><u>\$2,604,675</u></u>

B. A summary of changes in general fixed assets and component unit fixed assets during the fiscal year is as follows:

	Balance 1/1/02	Additions	Disposals	Balance 12/31/02
Land	\$462,117	\$475,000		\$937,117
Buildings	8,557,000	287,959		8,844,959
Machinery and equipment	4,510,903	186,184	\$12,719	4,684,368
Vehicles	4,029,657	583,294	295,261	4,317,690
Total	<u>\$17,559,677</u>	<u>\$1,532,437</u>	<u>\$307,980</u>	<u>\$18,784,134</u>
Component unit:				
Machinery and equipment	<u>\$686,877</u>	<u>\$52,214</u>		<u>\$739,091</u>

9. VACATION AND SICK LEAVE LIABILITY

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

Upon termination of County service, a fully vested employee with 10 or more years of service is entitled to be compensated for 25% of his/her sick leave balance, up to a maximum of 45 days (30 days for MRDD employees) of accumulated sick leave, based on 180 days (140 days for MRDD employees). Employees of both the County and the MRDD Board are paid for all accumulated vacation upon termination of service.

At December 31, 2002 vested benefits for vacation leave for governmental fund type and component units employees totaled \$432,645 and 39,298. In accordance with GASB No. 16, a liability of \$207,715 in the governmental fund type and \$76,827 component unit fund was also accrued to record termination (severance) payments for employees expected to become eligible to retire in the future. The total long-term liability for compensated absences for all governmental fund types is \$640,360 and component

DEFIANCE COUNTY

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

units are \$116,125. The total liability (both short-term and long-term) for compensated absences for all governmental fund types are \$695,061 and component units is \$124,898.

10. CAPITALIZED LEASES - LESSEE DISCLOSURE

In prior years, the County has entered into capital lease agreements. Each lease meets the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. At inception, capital lease transactions are accounted for as a capital outlay expenditure and other financing source in the appropriate fund. A corresponding liability was recorded in the general long-term obligations account group.

Capital lease payments have been reclassified and are reflected as debt service expenditures in the Combined Financial Statement of Revenues, Expenditures and Changes in Fund Balances-All Governmental Fund Types, Expendable Trust Fund, and Discretely Presented Component Units. These expenditures are reflected as program/function expenditures on a budgetary basis. General fixed assets acquired by lease have been capitalized in the general fixed asset account group in the amount of \$67,422, which is equal to the present value of the future minimum lease payments as of the date of their inception. A corresponding liability was recorded in the general long-term obligations account group. Principal payments in the 2002 fiscal year totaled \$17,956. This amount is reflected as debt service principal retirement in the special revenue funds.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of December 31, 2002.

General Long-Term Obligations	
Year Ending December 31,	Equipment
2003	\$3,567
2004	5,402
Total future minimum lease payments	8,969
Less: amount representing interest	(12)
Present value of future minimum lease payments	\$8,957

The County does not have capitalized lease obligations after fiscal year 2004.

11. LEASE ARRANGEMENT

On July 8, 2002, the Board of County Commissioners approved a resolution authorizing a master lease – purchase and sublease – purchase agreement with CitiMortgage, Inc., the County and the Defiance Hospital.

According to the terms of the agreement, CitiMortgage, Inc. (the Lessor) agrees to lease a General Electric HI Speed X/I CT Scanner and related medical equipment and a Intera 1.5 MR System and related medical equipment at cost of \$1,785,660 to Defiance County (the Lessee), which agrees to sublease the equipment to the Defiance Hospital, Inc. (the Sublessee.)

This lease is considered a special obligation of the County payable solely from rental payments paid by the Hospital on behalf of the County directly to CitiMortgage, Inc. and is not a debt to the County.

DEFIANCE COUNTY

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

The agreement specifies that the Sublessee pays the lease payments directly to the Lessor. The Lessee holds the title to the equipment for the term of the applicable payments. The term of the lease is not to exceed 40 years from the date of execution (July 31, 2002.) The Sublessee maintains the equipment at their place of business and is responsible for maintaining and insuring the equipment. The title to the equipment passes to the Sublessee upon receipt of the final lease payment.

In the event of default on the lease payments by the Sublessee, the equipment reverts to the Lessor and the Lessee has the right to terminate the lease agreement without further obligation.

12. LONG-TERM DEBT

A. The County's long-term obligations at year end consist of the following:

	Outstanding 1/1/02	Additions	Reductions	Outstanding 12/31/02	Maturity Date
<u>General obligation bonds:</u>					
1999 - 3.9% to 5.6%					
Various purpose improvements	\$2,435,000		(\$85,000)	\$2,350,000	12/1/24
<u>Other long-term obligations:</u>					
OWDA loans payable	207,731	\$23,711	(98,234)	133,208	Various
OPWC loan payable	409,543		(23,402)	386,141	7/1/19
Special assessment bonds		837,531		837,531	12/1/22
Compensated absences	603,287	503,648	(466,575)	640,360	N/A
Capital lease	26,913		(17,956)	8,957	4/1/04
Total general long-term obligations	<u>\$3,682,474</u>	<u>\$1,364,890</u>	<u>(\$691,167)</u>	<u>\$4,356,197</u>	
	Outstanding 1/1/02	Additions	Reductions	Outstanding 12/31/02	Maturity Date
Enterprise funds:					
<u>General obligation bonds:</u>					
1999 - 3.9% to 5.6%					
Christi Meadows					
Sewer Improvements	\$85,000		(\$10,000)	\$75,000	12/1/2024
<u>Other long-term obligations:</u>					
OWDA loan payable		\$4,767		4,767	1/1/2023
Farmers Home Administration					
loan payable	105,000		(3,000)	102,000	1/1/2020
Total enterprise funds	<u>\$190,000</u>	<u>\$4,767</u>	<u>(\$13,000)</u>	<u>\$181,767</u>	

General obligation bonds are general obligations of the County for which the full faith and credit of the County is pledged for repayment. Accordingly, such unmatured obligations of the County are accounted for in the general long-term obligations account group. Payments of principal and interest relating to these liabilities are recorded as expenditures in the debt service fund.

In 1999, the County issued \$2.675 million in general obligation bonds. \$705,000 of the proceeds was used to retire various bond anticipation notes, and \$1,970,000 will be used for construction of

DEFIANCE COUNTY

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2002 (Continued)

facilities at the Evergreen Home. The source of repayment for this bond is general operating revenues of the County. \$100,000 of the \$2.675 million in general obligation bonds was used for Christi Meadows Sewer improvements and is recorded as a liability of the enterprise funds.

On August 28, 2002, the County issued \$837,531 in special assessments bonds for additional construction of the Brunersburg Sewer Project. The bonds bear an interest rate of 4.75% and mature December 1, 2022. Interest payments are due June 1 and December 1 of each year. Annual principal payments are due each December 1. The source of repayment will be from annual assessments made to property owners in the project area.

The County has two loans outstanding with the Ohio Water Development Authority (OWDA). The first loan, dated June 3, 1998 has a five year term and an interest rate of 3.2%. Additional proceeds of \$23,711 were issued during fiscal 2002. The amount outstanding on this loan at December 31, 2002 is \$133,208. This amount has been reported in the general long-term obligations account group. The second loan, issued during 2002 in the amount of \$4,767 has a stated interest rate of 1.5% with interest payments due July 1 and January 1 of each year. Principal payments due annually on July 1, with final maturity of January 1, 2023. This amount has been reported in the enterprise funds.

During 1996, the County received a loan in the amount of \$468,050 from the Ohio Public Works Commission for the Evansport Water System. This loan is interest free, provided the County remains current on the loan repayment schedule. Principal payments of \$11,701 will be made semi-annually, beginning in January 2000, and concluding in July 2019. The source of repayment for this loan will be from proceeds of special assessments levied against the property owners who are primarily benefited from the project, as well as user fees.

During 1980, the County received a loan in the amount of \$146,300 from the Farmers Home Administration for the Evansport Sewer System. The loan has an interest rate of 5% and matures on November 1, 2020. Annual payments of principal and interest are due on 11/1. The source of repayment will be from a monthly fee assessed to the users of the system.

The following is a summary of the County's future annual debt service requirements for long-term obligations (both governmental and proprietary):

	General Obligation Bonds		Special Assessment Bonds		OWDA Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2003	\$100,000	\$134,530	\$16,131	\$49,970	\$96,037	\$25,516
2004	105,000	125,995	28,200	38,792	41,938	2,267
2005	105,000	121,218	29,700	37,329		
2006	120,000	116,335	31,000	35,904		
2007	120,000	110,635	32,500	34,413		
2008 - 2012	510,000	456,955	188,400	147,198		
2013 - 2017	495,000	329,840	240,500	96,976		
2018 - 2022	595,000	178,080	271,100	33,217		
2023 - 2024	275,000	23,240				
Total	<u>\$2,425,000</u>	<u>\$1,596,828</u>	<u>\$837,531</u>	<u>\$473,799</u>	<u>\$137,975</u>	<u>\$27,783</u>

DEFIANCE COUNTY

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

	OPWC Loans		FHA Loans		Total Long-Term Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2003	\$11,702		\$4,000	\$5,100	\$227,870	\$215,116
2004	23,402		4,000	4,900	202,540	171,954
2005	23,403		4,000	4,700	162,103	163,247
2006	23,402		4,000	4,500	178,402	156,739
2007	23,403		4,000	4,300	179,903	149,348
2008 - 2012	117,012		26,000	18,000	841,412	622,153
2013 - 2017	117,013		32,000	10,950	884,513	437,766
2018 - 2022	46,804		24,000	2,400	936,904	213,697
2023 - 2024					275,000	23,240
Total	<u>\$386,141</u>		<u>\$102,000</u>	<u>\$54,850</u>	<u>\$3,888,647</u>	<u>\$2,153,260</u>

B. 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 shall never exceed one percent of the total assessed valuation of the County.

The Code further provides that the total voted and unvoted net debt of the County, less the same exempt debt, shall never exceed a sum equal to three percent of the first \$100,000,000 of the assessed valuation, plus one and one-half percent of such valuation in excess of \$100,000,000 and not in excess of \$300,000,000, plus two and one-half percent of such valuation in excess of \$300,000,000.

The effects of the debt limitations described above at December 31, 2002 are an overall debt margin of \$10,261,323 and an unvoted debt margin of \$2,222,806, including available funds of \$336,461.

13. NOTES PAYABLE

The County had the following general obligation bond anticipation notes outstanding at December 31, 2002:

Date	Issue Date	Maturity Date	Balance Issued	Retired	12/31/02	Balance
<u>Special Revenue Funds:</u>						
2.30% County Road & Bridge Repair	08/01/02	08/01/03		\$632,530		\$632,530
3.00% County Road & Bridge Repair	08/02/01	08/01/02	\$673,530		(\$673,530)	
Total special revenue funds			<u>\$673,530</u>	<u>\$632,530</u>	<u>(\$673,530)</u>	<u>\$632,530</u>

DEFIANCE COUNTY

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

Date	Issue Date	Maturity Date	Issued	Retired	12/31/02	Balance
<u>Capital Project Funds:</u>						
3.35% Donley Ditch	03/28/02	03/27/03		\$3,720		\$3,720
4.80% Donley Ditch	03/30/01	03/28/02	\$6,900		(\$6,900)	
3.35% Wisda - Prairie Ditch	03/28/02	03/27/03		9,700		9,700
4.80% Wisda - Prairie Ditch	03/30/01	03/28/02	12,375		(12,375)	
3.35% Morehart Ditch	03/28/02	03/27/03		11,385		11,385
4.80% Morehart Ditch	03/30/01	03/28/02	13,675		(13,675)	
3.35% Clemens Ditch	03/28/02	03/27/03		15,150		15,150
4.80% Clemens Ditch	03/30/01	03/28/02	19,160		(19,160)	
3.35% Ramus Ditch	03/28/02	03/27/03		14,500		14,500
4.80% Ramus Ditch	03/30/01	03/28/02	19,628		(19,628)	
1.95% Brunersburg Sewer	04/05/02	09/04/02		1,200,000	(1,200,000)	
3.38% Brunersburg Sewer	04/05/01	04/04/02	1,200,000		(1,200,000)	
2.90% Glenburg Ditch	05/31/02	05/30/03		6,350		6,350
4.49% Glenburg Ditch	06/01/01	05/31/02	7,560		(7,560)	
4.49% Shoemaker Ditch	05/31/02	05/31/02	1,115		(1,115)	
2.90% Schlack Ditch	06/01/01	05/30/03		2,850		2,850
4.49% Schlack Ditch	05/31/02	05/31/02	4,780		(4,780)	
2.90% Lake Road Ditch	06/01/01	05/30/03		7,925		7,925
4.49% Lake Road Ditch	05/31/02	05/31/02	10,020		(10,020)	
4.49% Kennerk Tile	06/01/01	05/31/02	1,385		(1,385)	
2.90% Arrowsmith Waterway Imp.	05/31/02	05/30/03		10,325		10,325
4.49% Arrowsmith Waterway Imp.	06/01/01	05/31/02	19,178		(19,178)	
2.30% DMP Sewer (St. Rt. 66)	08/01/02	08/01/03		213,050		213,050
3.00% DMP Sewer (St. Rt. 66)	08/02/01	08/01/02	249,590		(249,590)	
2.30% Hardy Tile	08/01/02	08/01/03		14,375		14,375
3.00% Hardy Tile	08/02/01	08/01/02	16,250		(16,250)	
2.30% Mitchell Ditch	08/01/02	08/01/03		9,425		9,425
3.00% Mitchell Ditch	08/02/01	08/01/02	17,400		(17,400)	
2.30% Preston Run Ditch	08/01/02	08/01/03		10,285		10,285
3.00% Preston Run Ditch	08/02/01	08/01/02	15,720		(15,720)	
2.30% Coakley Tile	08/01/02	08/01/03		1,015		1,015
3.00% Coakley Tile	08/02/01	08/01/02	2,510		(2,510)	
2.13% Behrens Ditch	10/11/02	10/10/03		2,575		2,575
3.50% Behrens Ditch	10/12/01	10/11/02	6,600		(6,600)	
2.40% Airport Improvement	12/19/02	12/18/03		200,000		200,000
3.10% Airport Improvement	12/20/01	12/19/02	225,000		(225,000)	
Total capital projects funds			\$1,848,846	\$1,732,630	(\$3,048,846)	\$532,630

DEFIANCE COUNTY

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

Date	Issue Date	Maturity 12/31/01	Balance Issued	Retired	12/31/02	Balance
Enterprise Funds						
2.13% Noble Township Sewer	10/11/02	10/10/03		\$26,475		\$26,475
3.50% Noble Township Sewer	10/12/01	10/11/02	\$48,640		(\$48,640)	
2.13% Belden Wastewater	10/11/02	10/10/03		18,500		18,500
3.50% Belden Wastewater	10/12/01	10/11/02	21,400		(21,400)	
Total enterprise funds			<u>\$70,040</u>	<u>\$44,975</u>	<u>(\$70,040)</u>	<u>\$44,975</u>

14. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The County maintains three separate enterprise funds to account for the operations of a sewer district, a county landfill, and mining reclamation. Segment information for the year ended December 31, 2002 follows:

	County Landfill	Sanitary Sewer	Mining Reclamation	Total
Operating revenue	\$2,589,016	\$504,394	\$164	\$3,093,574
Operating expenses before depreciation	1,339,058	137,345		1,476,403
Depreciation expense	262,281	34,195		296,476
Operating income	987,677	332,854	164	1,320,695
Net income	1,218,863	348,753	164	1,567,780
Property, plant and equipment (Net of accumulated depreciation)	2,251,138	353,537		2,604,675
Property, plant and equipment Additions	1,104,365	143,117		1,247,482
Deletions		2,496		2,496
Net working capital	7,000,566	318,397	5,508	7,324,471
Total assets	13,549,944	708,441	5,508	14,263,893
Long-term liabilities payable from fund revenues	2,212,469	226,742		2,439,211
Total equity	10,817,170	445,192	5,508	11,267,870
Encumbrances/(Budget Basis)	203,388	12,211		215,599

15. DEFINED PENSION PLANS

A. Ohio Public Employees Retirement System

All County full-time employees, other than teachers, participate in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer public employee retirement system created by the State of Ohio. OPERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-PERS (7377).

DEFIANCE COUNTY

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2002 (Continued)

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate for 2002 was 8.5% for employees other than law enforcement and public safety. The law enforcement classification consisted of sheriffs, deputy sheriffs, and township police with an employee contribution rate of 10.1%. Public safety division members contribute at 9%. The employer contribution rate for employees other than law enforcement and public safety division was 13.55% of covered payroll and 8.55% was the portion used to fund pension obligations for 2002. The employer contribution rate for law enforcement and public safety divisions was 16.70% of covered payroll and 11.70% was the portion used to fund pension obligations for 2002. Required employer contributions are equal to 100% of the dollar amount billed to each employer and must be extracted from the employer's records. The County's contributions to OPERS for the years ended December 31, 2002, 2001, and 2000 were \$910,502, \$965,024 and \$1,094,930, respectively; 79.77% has been contributed for 2002 and 100% for 2001 and 2000. \$184,224, representing the unpaid contribution for 2002, is recorded as a liability within the respective funds.

B. State Teachers Retirement System of Ohio

Certified teachers employed by the school for the Mental Retarded/Developmentally Disabled participate in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS Ohio provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code.

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio's 2002 Comprehensive Annual Financial Report may be obtained by writing to the STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3% of their annual covered salary and the County is required to contribute 14%; 9.5% was the portion used to fund pension obligations. Contribution rates are established by STRS Ohio Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The County's contributions for pension obligations to STRS Ohio for the years ended December 31, 2002, 2001, and 2000 were \$80,283, \$87,394 and \$51,087, respectively; 95.73% has been contributed for 2002 and 100% for the years 2001 and 2000. \$4,340, representing the unpaid contributions for 2002, is recorded as a liability within the respective funds.

16. POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

OPERS provides postretirement health care coverage to age and service retirants with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The OPERS law enforcement program is separated into two divisions, law enforcement and public safety, with separate employee contribution rates and benefits. The 2002 employer contribution rate for local government employers was 13.55% of covered payroll

DEFIANCE COUNTY

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2002 (Continued)

and 5.00% was the portion that was used to fund health care. For both the public safety and law enforcement divisions the 2002 employer rate was 16.70% of covered payroll and 5.00% was the portion used to fund health care.

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS. The County's contribution actually made to fund postemployment benefits was \$516,458. Of this amount \$473,052 was used to fund health care for the year for regular employees, while \$43,406 was used to fund health care for the year for law enforcement employees.

OPEBs are financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely. OPEBs are advance funded on an actuarially determined basis.

As of December 31, 2001 (the latest information available), the actuarial value of the Retirement System's net assets available for future OPEB payments were \$11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$16.4 billion and \$4.8 billion, respectively, at December 31, 2001 (the latest information available). The number of benefit recipients eligible for OPEB at December 31, 2001 (the latest information available) was 402,041.

In December 2001, the OPERS Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of health care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad 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.

Additional information on the OPERS, including historical trend information showing the progress in accumulating sufficient assets to pay benefits when due is available in the OPERS December 31, 2002, Comprehensive Annual Financial Report.

B. State Teachers Retirement System of Ohio

Comprehensive health care benefits are provided to retired teachers and their dependents through the STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by the State Teachers Retirement Board based on authority granted by State statute.

All benefit recipients are required to pay a portion of the health care cost in the form of a monthly premium. Benefits are funded on a pay-as-you-go basis through an allocation of employer contributions to the Health Care Stabilization Fund equal to 4.5% of covered payroll for the fiscal year ended June 30, 2002. Effective July 1, 2002, 1% of covered payroll was allocated to the

DEFIANCE COUNTY

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

Health Care Stabilization Fund. For the County, this amount equaled \$38,029 during calendar year 2002. As of June 30, 2002, the balance in the Health Care Stabilization Fund was \$3.011 billion and eligible benefit recipients totaled 105,300 for STRS Ohio as a whole. For the fiscal year ended June 30, 2002, net health care costs paid by STRS Ohio were \$354.697 million.

17. BUDGETARY BASIS OF ACCOUNTING

The County's budgetary process is based upon accounting for transactions on a cash basis. The differences between the cash basis (budget basis) and the modified accrual basis (GAAP basis) are that revenues are recorded when actually received (budget) as opposed to when susceptible to accrual (GAAP) and the expenditures are recorded when paid (budget) as opposed to when incurred (GAAP). Additionally, the County reflects outstanding encumbrances as expenditures on the budgetary basis of accounting. Adjustments necessary to convert the results of operations at the end of the year on the budget basis to the GAAP basis are as follows:

	Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses			
	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Budget basis	\$490,440	(\$154,570)	\$153,545	(\$2,001,525)
Net adjustment for revenue accruals	(289,361)	(389,215)	(7,551)	84,874
Net adjustment for expenditure accruals	(7,306)	840,683	3,129,174	107,841
Net adjustment for other financing sources/(uses)	134,433	(676,126)	(3,203,110)	1,403,354
Encumbrances (budget basis)	267,300	831,384		437,893
GAAP basis	<u>\$595,506</u>	<u>\$452,156</u>	<u>\$72,058</u>	<u>\$32,437</u>

18. CONTINGENT LIABILITIES

A. Grants

The County receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the County at December 31, 2002.

B. Litigation

The County is a party to various legal proceedings which seek damages or injunctive relief generally incidental to its operations. The County's management and legal counsel is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material adverse effect on the financial condition of the County.

DEFIANCE COUNTY

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2002 (Continued)

19. CLOSURE AND POSTCLOSURE CARE COSTS

State and federal laws and regulations require that the County place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and postclosure care costs is based on the amount of the landfill used during the year. The estimated liability for landfill closure and postclosure care costs has a balance of \$2,212,469 as of December 31, 2002, which is based on 72.83% usage (filled) of the landfill. It is estimated that an additional \$825,510 will be recognized as closure and postclosure care expenses between the date of the balance sheet and the date the landfill is expected to be filled to capacity (2005). The estimated total current cost of the landfill closure and postclosure care of \$3,037,979 is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain all equipment, facilities, and services required to close, monitor, and maintain the landfill were acquired as of December 31, 2002. However, the actual costs of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

The County is required by state and federal laws and regulations to make annual contributions to finance closure and postclosure care. The County is in compliance with these requirements, and at December 31, 2002, investments of \$3,777,935 are held for these purposes. These amounts are presented on the County's balance sheet as "Restricted Assets: Investments" and "Restricted Assets: Equity in Pooled Cash and Cash Equivalents". It is anticipated that future inflation costs will be financed in part from earnings on investments. The remaining portion of anticipated future inflation costs (including inadequate earnings on investments, if any) and additional costs that might arise from changes in postclosure requirements (due to changes in technology or more rigorous environmental regulations, for example) may need to be covered by charges to future landfill users, taxpayers, or both.

20. RISK MANAGEMENT

A. The County Risk Sharing Authority, Inc. is a public entity risk sharing pool among thirty-nine counties in Ohio. CORSA was formed as an Ohio nonprofit corporation for the purpose of establishing the CORSA Insurance/Self-Insurance Program, a group primary and excess insurance/self-insurance and risk management program. Member counties agree to jointly participate in coverage of losses and pay all contributions necessary for the specified insurance coverages provided by CORSA. These coverages include comprehensive general liability, automobile liability, certain property insurance and public officials' errors and omissions liability insurance.

Each member county has one vote on all matters requiring a vote, to be cast by a designated representative. The affairs of the Corporation are managed by an elected board of not more than nine trustees. Only county commissioners of member counties are eligible to serve on the board. No county may have more than one representative on the board at any time. Each member county's control over the budgeting and financing of CORSA is limited to its voting authority and any representation it may have on the board of trustees.

CORSA has issued certificates of participation in order to provide adequate cash reserves. The certificates are secured by the member counties' obligations to make coverage payments to CORSA. The participating counties have no responsibility for the payment of the certificates. The County does not have an equity interest in CORSA. The County's payment for insurance to CORSA in 2002 was \$180,498.

DEFIANCE COUNTY

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

Settled claims have not exceeded this coverage in any of the past three years, and there has been no significant reduction in coverage from last year.

- B. The County participates in an Employee Self-Insurance Benefits Program. The purpose of the plan is for Defiance County to purchase health and dental insurance products and enhance the wellness opportunities for the employees.

The County established a Self-Insurance Fund (internal service fund) to account for and finance its health uninsured risks of loss. Under this program, the Self-Insurance Fund provides coverage for up to a maximum of \$2,500,000 for health insurance claims per individual. The plan is administered by a third party administrator, Employee Plans LLC, which monitors all claim payments. The County purchases insurance for claims in excess of health insurance coverage provided by the Self-Insurance Fund. All departments of the County including Component Units participate in the program and make payments to the Self-Insurance Fund based on participation of employees and their dependents.

The claims liability of \$147,285 reported in the fund at December 31, 2002 is based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the 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 of the loss can be reasonably estimated. Changes in the fund's claims liability amount 2002 were:

Fiscal Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year End
2000		\$1,351,583	\$1,204,298	\$147,285

Each county employee pays 10% of the premium. The money is put into a fund where claims and premiums are paid. The claims billings and premium billing come from Employee Plans LLC to the County Commissioners, who approve payment. Defiance County has paid in premiums and claims \$1,204,298 in 2002.

21. RECEIVABLES

Receivables at December 31, 2002, consisted of taxes, interest, accounts (billings for user charged services), special assessments, short-term interfund loans, interfund transactions related to charges for goods and services rendered and intergovernmental receivables arising from grants, entitlements and shared revenue. All intergovernmental receivables have been classified as "Due from Other Governments" on the combined balance sheet and all interfund transactions related to charges for goods and services rendered have been classified as "Due from Other Funds" on the combined balance sheet. Receivables have been recorded to the extent eligibility requirements have been met by year-end and the amounts are measurable. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of Federal funds.

A summary of the principal items of receivables follows:

DEFIANCE COUNTY

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
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(Continued)

Fund/Description	Amount
General Fund:	
Sales taxes	\$657,967
Real and other taxes	1,511,249
Accounts	46,032
Accrued interest	138,948
Interfund loans	150,752
Due from other funds	65,469
Due from other governments	587,295
Special Revenue Funds:	
Real and other taxes	1,140,211
Accounts	121,796
Special assessments	198,971
Accrued interest	83
Due from other governments	1,701,539
Loans receivable	397,881
Debt Service Funds:	
Accounts	15,627
Special assessments	101,835
Capital Projects Funds:	
Accounts	2,225
Special assessments	38,105
Due from other governments	534,012
Enterprise Funds:	
Accounts	317,503
Special assessments	13,286
Accrued interest	40,007
Due from other funds	171
Due from other governments	585
Component Units:	
Real and other taxes	1,264,148
Accounts	8,773
Due from other governments	126,689

22. LOANS RECEIVABLES

Loans receivable represents low interest loans made by the County for development projects and small businesses under the Federal Community Block Development Grant (CDBG) program. The loans bear interest at annual rates ranging between 4 and 8.5 percent. The loans are to be repaid over periods ranging from 3 to 15 years. A summary of the loan activity for 2002 is as follows:

DEFIANCE COUNTY

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

	<u>Restated Balance at 1/1/02</u>	<u>Loans Issued</u>	<u>Principal Received</u>	<u>Balance at 12/31/02</u>
CDBG Loans	<u>\$416,076</u>	<u>\$60,000</u>	<u>(\$78,195)</u>	<u>\$397,881</u>

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DEFIANCE COUNTY

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2002**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF AGRICULTURE			
Water and Waste Disposal Systems for Rural Communities	-	10.760	\$363,407
Passed Through Ohio Department of Education:			
National School Lunch Program	065946-03-PU-02	10.555	<u>7,908</u>
Total U.S. Department of Agriculture			<u>371,315</u>
U.S. DEPARTMENT OF EDUCATION			
Passed Through Ohio Department of Education:			
<u>Special Education Cluster:</u>			
Special Education - Grants to States (Title VI-B)	065946-6B-SF-02P	84.027	29,612
	065946-6B-SF-03P		<u>15,456</u>
Total Special Education - Grants to States			45,068
Special Education - Preschool Grant (Title 1)	065946-PG-51-02P	84.173	<u>6,919</u>
Total Special Education Cluster			51,987
Innovative Education Program Strategies (Title VI)	065946-C2-S1-02	84.298	1,596
Passed Through Ohio Department of Health:			
Special Education Grants for Infants and Families with Disabilities (Early Intervention)	20-1-002-1-AN-01	84.181	<u>2,624</u>
Total U.S. Department of Education			<u>56,207</u>
U.S. DEPARTMENT OF FEDERAL EMERGENCY MANAGEMENT DISASTER ASSISTANCE			
Passed Through Ohio Department of Emergency/ Management Disaster Assistance:			
Federal Emergency Management Agency - EMPG	H418	83.552	19,700
Federal Emergency Management Agency - TCMPAG	OH-99-023		<u>2,355</u>
Total U.S. Department of Federal Emergency Management Disaster Assistance			<u>22,055</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through The Area Office of Aging:			
<u>Aging Cluster:</u>			
Special Programs for the Aging -Title III Part B- Grants for Supportive Services and Senior Centers	-	93.044	34,003
Special Programs for the Aging -Title III Part C- Nutrition Services	-	93.045	<u>241,797</u>
Total Aging Cluster			275,800

(Continued)

DEFIANCE COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
Special Programs for the Aging - Title III Part D - Sixty Plus Program	-	93.043	6,828
Special Programs for the Aging - Title III Part E - Rural Care Giver's	-	93.052	84,018
Special Programs for the Aging - A12 - Alzheimer	2001	93.951	31,402
	2002		<u>25,093</u>
Total Special Programs for the Aging - A12 - Alzheimer			<u>56,495</u>
Total Area Office of Aging			<u>423,141</u>
<i>Passed Through Ohio Department of Health:</i>			
Social Services Block Grant (Title XX)	-	93.667	43,633
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>			
Medical Assistance Program (Medicaid: Title XIX)	-	93.778	219,781
<i>Passed Through Ohio Department of Job and Family Services:</i>			
Child Welfare Subsidy (Title IV-B)	20-6010-03	93.645	4,136
ESSA Family Preservation	20-6035-03	93.645	<u>257</u>
Total			4,393
Chaffee Independent Living	20-6015-02	93.674	185
Basic Child Abuse and Neglect	20-6020-02	93.669	<u>2,004</u>
Total U.S. Department of Health and Human Services			<u>693,137</u>
U.S. DEPARTMENT OF LABOR			
<i>Passed Through Ohio Department of Job and Family Services:</i>			
Employment and Training Administration, Department of Labor	-	17.255	524,996
<i>Passed Through Williams County:</i>			
Employment and Training Administration, Department of Labor	-	17.255	111,820
<i>Passed Through Paulding County:</i>			
Employment and Training Administration, Department of Labor	-	17.255	<u>71,462</u>
Total U.S. Department of Labor			<u>708,278</u>

(Continued)

DEFIANCE COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

FEDERAL GRANTOR <i>Pass Through Grantor</i>	Pass Through Entity Number	Federal CFDA Number	Disbursements
Program Title			
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Home Investment Partnerships Program (Chip)	B-C-00-019-2	14.239	234,012
<i>Passed Through Ohio Department of Development:</i>			
Community Development Block Grant (Formula Grant)	B-F-99-019-1	14.228	23,800
	B-F-00-019-1		17,964
	B-F-01-019-1		<u>78,316</u>
Total CDBG (Formula Grant)			120,080
Community Development Block Grant (Emergency Shelter)	B-L-01-019-1	14.228	46,900
Community Development Block Grant - (Microenterprise)	B-M-00-019-1	14.228	12,300
Community Development Block Grant - (Water and Sewer)	B-W-98-019-1	14.228	108,320
Community Development Block Grant (Chip)	B-C-00-019-1	14.228	162,089
Total U.S. Department of Housing and Urban Development			<u>683,701</u>
U.S. DEPARTMENT OF TRANSPORTATION			
<i>Passed Through Ohio Engineer's Association:</i>			
Highway Planning and Construction	01N153	20.205	59,580
Highway Planning and Construction	01N157	20.205	253,972
Highway Planning and Construction	02N011	20.205	169,155
Highway Planning and Construction	02N153	20.205	111,807
Highway Planning and Construction	-	20.205	32,737
Highway Planning and Construction	-	20.205	32,737
Total U.S. Department of Federal Highway Administration			<u>659,988</u>
U.S. DEPARTMENT OF JUSTICE			
Bulletproof Vest Program	-	16.607	7,901
<i>Passed Through the State Emergency Management Agency:</i>			
State Domestic Preparedness Equipment Program	S02-JE01-10-0010	16.007	36,195
<i>Passed Through the Office of Criminal Justice Services:</i>			
Byrne Memorial Drug Control and Systems (Improvement Grant)	01-DG-A01-7014	16.579	265,734
Byrne Memorial Grant - Rape Crisis Advocate	01-DG-D02-7004	16.579	<u>21,732</u>
Total Byrne Memorial Grant			287,466
Victims of Crimes Act Grant	02-VAG-ENE-061	16.575	54,290
	03-VAG-ENE-061		<u>17,043</u>
Total Victims of Crimes Act Grant			71,333
Total U.S. Department of Justice			<u>402,895</u>
Total			<u><u>\$3,597,576</u></u>

The accompanying notes are an integral part of this schedule.

DEFIANCE COUNTY

NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES FISCAL YEAR ENDED DECEMBER 31, 2002

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (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, 2002, 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 by mortgages on the property. At December 31, 2002, the gross amount of loans outstanding under this program was \$397,881.

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 COMPLIANCE AND ON INTERNAL
CONTROL 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 Defiance County (the County) as of and for the year ended December 31, 2002, and have issued our report thereon dated June 26, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as item 2002-001 and 2002-002. We also noted certain immaterial instances of noncompliance that we have reported to management of the County in a separate letter dated June 26, 2003.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the County in a separate letter dated June 26, 2003.

One Government Center / Room 1420 / Toledo, OH 43604-2246
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484
www.auditor.state.oh.us

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

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

Betty Montgomery
Auditor of State

June 26, 2003



**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 are applicable to each of its major federal programs for the year ended December 31, 2002. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the County's management. 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 obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, the County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2002. We noted certain instances of noncompliance that do not require inclusion in this report that we have reported to the management of the County in a separate letter dated June 26, 2003.

Internal Control over Compliance

The management of the County 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 have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. We noted other matters involving the internal control over federal compliance that do not require inclusion in this report, that we have reported to management of the County in a separate letter dated June 26, 2003.

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



Betty Montgomery
Auditor of State

June 26, 2003

DEFIANCE COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
DECEMBER 31, 2002

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under §.510?	No
(d)(1)(vii)	Major Programs (list):	Water and Waste Disposal Systems for Rural Communities – CFDA #10.760 Employment and Training Administration (WIA) – CFDA #17.255 Medical Assistance Program (Medicaid: Title XIX) – CFDA #93.778 Highway Planning and Construction – CFDA #20.205
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2002-001

Ohio Revised Code § 5705.42 states that when the United States government or the state makes a grant to any subdivision of this state to aid in paying the cost of any program, activity or function of such subdivision, or enters into an agreement with the subdivision for the making of any such grant or loan of money, the amount thereof is deemed appropriated for such purpose by the subdivision as provided by law and shall be recorded as such by the fiscal officer of the subdivision and is deemed in process of collection within the meaning of § 5705.41 of the Revised Code.

The County Engineer's office agreed to administer several bridge projects for the Ohio Department of Transportation (ODOT.) These projects were funded with grant monies from the United States Department of Transportation. ODOT disburses the funds directly to vendor for the County. The funds are considered to be federal financial assistance to the County. The funds disbursed in 2002 by ODOT were not recorded on the County's financial records. This resulted in the County's general-purpose financial statements (GPFS) being understated. An adjustment was recorded to the County's GPFS to reflect the amount of financial assistance disbursed by ODOT (\$659,988.)

We recommend that the County Engineer's office notify the County Auditor's office when ODOT disburses such grant monies to a vendor. The County Auditor's office should establish a capital project type fund and record the receipt and disbursement of these grant monies according to procedures described in Auditor of State Bulletin #2000 - 008.

FINDING NUMBER 2002-002

Ohio Revised Code § 5705.41(B) prohibits a subdivision from making an expenditure unless it has been properly appropriated. During 2002, the County received a Highway Planning and Construction grant from the United States Department of Transportation. Expenditures from this grant in 2002 were \$659,988. No appropriations were recorded by the County for these expenditures.

Since the County Engineer's office administers this grant, we recommend that the County Engineer's office notify the County Auditor's office of anticipated grant expenditures for the year. The County Auditor's should include appropriations for the anticipated grant expenditures in its annual appropriations resolution. Accounting procedures for these types of grant monies are described in Auditor of State Bulletin #2000-008.

DEFIANCE COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

OMB CIRCULAR A -133 §.315 (b)

DECEMBER 31, 2002

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2001-60120-001	Questioned Cost for Workforce Investment Act (WIA) initial startup advances and costs incurred prior to contract approval	Yes	
2001-60120-002	Questioned Cost for WIA program expenses reimbursed at incorrect rate and employees not on approved list.	No	Partially corrected. Reported in the management letter.
2001-60120-003	Questioned Cost for WIA program tuition and supportive services costs paid to ineligible providers.	Yes	
2001-60120-004	29 CFR 97.20 (b) (7)-WIA program draw downs were not made close to expenditures.	Yes	
2001-60120-005	Section 667.300 (C) (3) WIA program accounting records were not maintained on the accrual basis.	Yes	
2001-60120-006	There was no evidence to indicate management oversight and monitoring of WIA program expenses and contracts.	Yes	
2001-60120-007	Individual training accounts maintained for the WIA program were not reconciled with fund cash disbursements.	Yes	



**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 12, 2003**