



Dave Yost • Auditor of State

DEFIANCE COUNTY
TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor’s Report	1
Management’s Discussion and Analysis.....	4
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	21
Statement of Activities	22
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	24
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities.....	26
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	27
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	29
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) – General Fund	30
Developmental Disabilities Fund.....	31
Job and Family Services Fund	32
Motor Vehicle License and Gas Tax Fund	33
Emergency 911 Fund	34
Senior Center Fund	35
Statement of Net Position – Proprietary Funds	36
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds.....	37
Statement of Cash Flows – Proprietary Funds	38
Statement of Fiduciary Assets and Liabilities – Fiduciary Funds	40
Notes to the Basic Financial Statements	41

DEFIANCE COUNTY

TABLE OF CONTENTS
(Continued)

TITLE	PAGE
Federal Awards Expenditure Schedule.....	89
Notes to the Federal Awards Expenditure Schedule	92
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	95
Independent Auditor’s Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance Required by <i>OMB Circular A-133</i>	97
Schedule of Findings	100
Corrective Action Plan.....	102
Schedule of Prior Audit Findings.....	103



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Commissioners:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Defiance County, Ohio (the County), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the County's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Defiance County, Ohio, as of December 31, 2012, and the respective changes in financial position and where applicable, cash flows thereof and the respective budgetary comparison for the General Fund, Developmental Disabilities Fund, Job and Family Services Fund, Motor Vehicle License and Gas Tax Fund, Emergency 911 Fund, and Senior Center Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3A to the financial statements, during the year ended December 31, 2012, the County adopted the provisions of Governmental Accounting Standard No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary and Other Information

Our audit was conducted to opine on the County's basic financial statements taken as a whole.

The Federal Awards Expenditure Schedule (the Schedule) presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

The Schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2013, on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

September 16, 2013

DEFIANCE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2012 UNAUDITED

The management's discussion and analysis of Defiance County's (the County) financial performance provides an overall review of the County's financial activities for the year ended December 31, 2012. The intent of this discussion and analysis is to look at the County's financial performance as a whole; readers should also review the notes to the basic financial statements and the basic financial statements to enhance their understanding of the County's financial performance.

Financial Highlights

Key financial highlights for 2012 are as follows:

- The County restated net position at December 31, 2011 as described in Note 3.C to the basic financial statements. The total net position of the County increased \$4,563,306. Net position of governmental activities increased \$2,578,664, which represents a 2.96% increase from 2011. Net position of business-type activities increased \$1,984,642 or 7.60% from 2011.
- General revenues accounted for \$13,102,169 or 45.13% of total governmental activities revenue. Program specific revenues accounted for \$15,928,236 or 54.87% of total governmental activities revenue.
- The County had \$26,451,741 in expenses related to governmental activities; \$15,928,236 of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of \$13,102,169 were adequate to provide for these programs.
- The County restated governmental fund balances at December 31, 2011 as described in Note 3.B to the basic financial statements. The general fund, the County's largest major governmental fund, had revenues and other financing sources of \$10,407,423 in 2012. The general fund had expenditures and other financing uses of \$10,531,550 in 2012. The fund balance of the general fund decreased \$124,127 from 2011 to 2012.
- The developmental disabilities (DD) fund, a major governmental fund, had revenues of \$4,959,631 in 2012. The DD fund had expenditures of \$4,726,696 in 2012. The DD fund balance increased \$232,935 from 2011 to 2012.
- The job and family services fund, a major governmental fund, had revenues and other financing sources of \$1,373,032 in 2012. The job and family services fund had expenditures of \$1,696,849 in 2012. The job and family services fund balance decreased \$323,817 from 2011 to 2012.
- The motor vehicle license and gas tax fund, a major governmental fund, had revenues and other financing sources of \$4,169,117 in 2012. The motor vehicle license and gas tax fund, had expenditures of \$3,759,317 in 2012. The motor vehicle license and gas tax fund balance increased \$409,800 from 2011 to 2012.
- The emergency 911 fund, a major governmental fund, had revenues of \$724,448 in 2012. The emergency 911 fund, had expenditures of \$697,344 in 2012. The emergency 911 fund balance increased \$27,104 from 2011 to 2012.
- The senior center fund, a major governmental fund, had revenues of \$1,231,738 in 2012. The senior center fund, had expenditures of \$1,265,281 in 2012. The senior center fund balance decreased \$33,543 from 2011 to 2012.

DEFIANCE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2012 UNAUDITED

- The historical jail debt service fund, a major governmental fund, had revenues of \$52,571 in 2012. The historical jail debt service fund had expenditures of \$216,825 in 2012. The historical jail debt service fund balance decreased \$164,254 from 2011 to 2012.
- The county improvement fund, a major governmental fund, had other financing sources of \$55,000 in 2012. The county improvement fund had expenditures of \$87,112 in 2012. The county improvement fund balance decreased \$32,112 from 2011 to 2012.
- Net position for the business-type activities, which consists of the landfill and sewer enterprise funds, increased in 2012 by \$1,984,642. This increase is mainly due to charges for services outpacing enterprise fund expenses and insurance proceeds received during 2012 for landfill equipment that was destroyed by fire.
- In the general fund, the actual revenues and other financing sources were \$1,933,730 higher than originally budgeted and actual expenditures and other financing uses were \$2,466,486 less than the amount in the original budget. These positive variances are a result of the County's conservative budgeting process.

Using the Basic Financial Statements (BFS)

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

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

Reporting the County as a Whole

Statement of Net Position and the Statement of Activities

The statement of net position and the statement of activities answer the question, "How did we do financially during 2012?" These statements include *all assets, deferred outflows, liabilities, deferred inflows, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the statement of net position and the statement of activities, the County is divided into two distinct kinds of activities:

DEFIANCE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2012 UNAUDITED

Governmental activities - Most of the County's programs and services are reported here including human services, health, public safety, public works and general government. These services are funded primarily by taxes and intergovernmental revenues including federal and State grants and other shared revenues.

Business-type activities - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided.

Reporting the County's Most Significant Funds

Fund Financial Statements

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

Fund financial reports provide detailed information about the County's major funds. The County uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the County's most significant funds. The County's major governmental funds are the general fund, developmental disabilities fund (DD), job and family services fund, motor vehicle license and gas tax fund, emergency 911 fund, senior center fund, historical jail debt service fund and county improvement fund. The County's major enterprise funds are the landfill and sewer funds.

Governmental Funds

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

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

The County maintains a multitude of individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances for the major funds, which were identified earlier. Data from the other governmental funds are combined into a single, aggregated presentation.

Proprietary Funds

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

DEFIANCE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
UNAUDITED

device used to accumulate and allocate costs internally among the County's various functions. The County's internal service fund accounts for medical/surgical and dental self-insurance.

Fiduciary Funds

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

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-Wide Financial Analysis

The statement of net position provides the perspective of the County as a whole. Certain asset, deferred outflow, liability, deferred inflow, and net position classifications have been restated by the County for 2011 to conform to 2012 presentation in accordance with GASB Statement No. 63 and GASB Statement No. 65. The net position of the County was restated at December 31, 2011 as described in Note 3.C to the basic financial statements. The table below provides a summary of the County's net position at December 31, 2012 and December 31, 2011.

DEFIANCE COUNTY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
UNAUDITED**

			Net Position		2012 Total	(Restated) 2011 Total
	Governmental Activities	Business-type Activities	(Restated) Governmental Activities	(Restated) Business-type Activities		
	2012	2012	2011	2011		
<u>Assets</u>						
Current and other assets	\$ 40,387,738	\$ 16,772,193	\$ 40,238,600	\$ 16,743,360	\$ 57,159,931	\$ 56,981,960
Capital assets, net	<u>62,720,537</u>	<u>17,807,600</u>	<u>60,886,002</u>	<u>15,708,347</u>	<u>80,528,137</u>	<u>76,594,349</u>
Total assets	<u>103,108,275</u>	<u>34,579,793</u>	<u>101,124,602</u>	<u>32,451,707</u>	<u>137,688,068</u>	<u>133,576,309</u>
<u>Deferred Outflows</u>						
	<u>42,188</u>		<u>46,002</u>		<u>42,188</u>	<u>46,002</u>
Total assets and deferred outflows	<u>103,150,463</u>	<u>34,579,793</u>	<u>101,170,604</u>	<u>32,451,707</u>	<u>137,730,256</u>	<u>133,622,311</u>
<u>Liabilities</u>						
Other liabilities	1,297,750	225,148	1,630,714	277,268	1,522,898	1,907,982
Long-term liabilities outstanding	<u>6,906,333</u>	<u>6,265,103</u>	<u>7,307,674</u>	<u>6,069,539</u>	<u>13,171,436</u>	<u>13,377,213</u>
Total liabilities	<u>8,204,083</u>	<u>6,490,251</u>	<u>8,938,388</u>	<u>6,346,807</u>	<u>14,694,334</u>	<u>15,285,195</u>
<u>Deferred Inflows</u>						
	<u>5,382,500</u>		<u>5,247,000</u>		<u>5,382,500</u>	<u>5,247,000</u>
Total liabilities and deferred inflows	<u>13,586,583</u>	<u>6,490,251</u>	<u>14,185,388</u>	<u>6,346,807</u>	<u>20,076,834</u>	<u>20,532,195</u>
<u>Net Position</u>						
Net investment in capital assets	59,016,861	15,664,729	56,829,275	15,589,847	74,681,590	72,419,122
Restricted	16,129,933	1,654,246	15,721,626	1,737,170	17,784,179	17,458,796
Unrestricted	<u>14,417,086</u>	<u>10,770,567</u>	<u>14,434,315</u>	<u>8,777,883</u>	<u>25,187,653</u>	<u>23,212,198</u>
Total net position	<u>\$ 89,563,880</u>	<u>\$ 28,089,542</u>	<u>\$ 86,985,216</u>	<u>\$ 26,104,900</u>	<u>\$ 117,653,422</u>	<u>\$ 113,090,116</u>

Over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2012, the County's assets and deferred outflows exceeded liabilities and deferred inflows by \$117,653,422. This amounts to \$89,563,880 in governmental activities and \$28,089,542 in business-type activities. The County's finances continued to remain strong during 2012.

Capital assets reported on the government-wide statements represent the largest portion of the County's assets. At year-end, capital assets represented 58.49% of total governmental and business-type assets. Capital assets include land, easements, land improvements, buildings and improvements, equipment, vehicles, construction in progress and infrastructure. Net investment in capital assets at December 31, 2012 was \$74,681,590. These capital assets are used to provide services to citizens and are not available for future spending. Although the County's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

As of December 31, 2012, the County is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

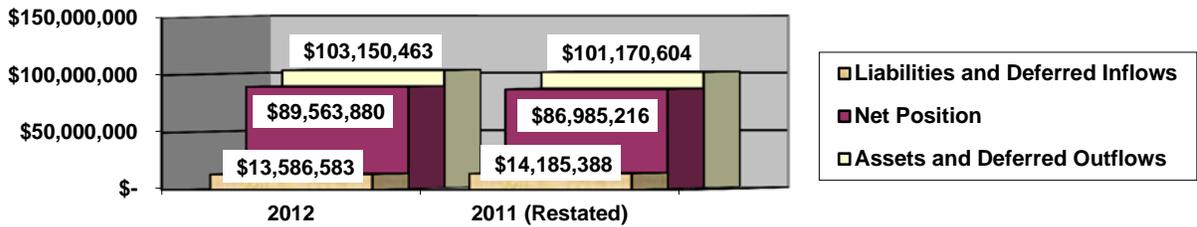
DEFIANCE COUNTY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
UNAUDITED**

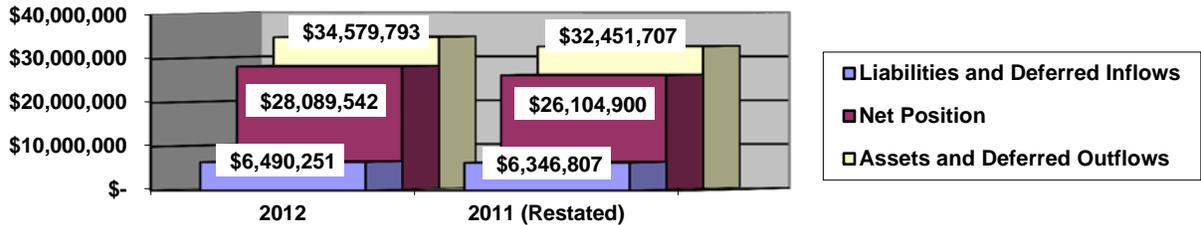
A portion of the County's net position, \$17,784,179 or 15.12%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position of \$25,187,653 or 21.41% may be used to meet the government's ongoing obligations to citizens and creditors.

The net position of the County was restated at December 31, 2011 as described in Note 3.C to the basic financial statements. The graphs below illustrate the County's assets and deferred outflows, liabilities and deferred inflows, and net position at December 31, 2012 and December 31, 2011 for the governmental activities and business-type activities.

Governmental Activities



Business-type Activities



The net position of the County was restated at December 31, 2011 as described in Note 3.C to the basic financial statements. The table below shows the changes in net position for 2012 and 2011.

DEFIANCE COUNTY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
UNAUDITED**

			Change in Net Position			
	Governmental	Business-type	(Restated)	(Restated)		(Restated)
	Activities	Activities	Governmental	Business-type	Total	Total
	<u>2012</u>	<u>2012</u>	<u>2011</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues						
Program revenues:						
Charges for services and sales	\$ 4,213,391	\$ 3,888,278	\$ 3,891,688	\$ 3,681,170	\$ 8,101,669	\$ 7,572,858
Operating grants and contributions	9,972,930		10,430,604		9,972,930	10,430,604
Capital grants and contributions	<u>1,741,915</u>	<u>368,249</u>	<u>1,582,877</u>	<u>3,956,631</u>	<u>2,110,164</u>	<u>5,539,508</u>
Total program revenues	<u>15,928,236</u>	<u>4,256,527</u>	<u>15,905,169</u>	<u>7,637,801</u>	<u>20,184,763</u>	<u>23,542,970</u>
General revenues:						
Property taxes	5,240,008		4,461,599		5,240,008	4,461,599
Sales tax	5,058,795		4,931,360		5,058,795	4,931,360
Unrestricted grants	1,836,688		2,170,876		1,836,688	2,170,876
Investment earnings	305,867	47,912	473,293	68,592	353,779	541,885
Revenue in lieu of taxes			80,000			80,000
Reimbursements	61,435		107,572		61,435	107,572
Other	599,376	18,406	709,744	17,069	617,782	726,813
Insurance recoveries		<u>762,492</u>			<u>762,492</u>	
Total general revenues	<u>13,102,169</u>	<u>828,810</u>	<u>12,934,444</u>	<u>85,661</u>	<u>13,930,979</u>	<u>13,020,105</u>

The decrease in capital grants and contributions of \$3,588,382 in the business-type activities is due to grant revenue received in the sewer fund during 2011 related to the Auglaize Sewer construction project. The majority of the grant revenue related to the project was paid out to the County during the prior year. The increase in property taxes in the governmental activities is primarily due to an increase in tax receipts attributable to the senior center as well as variances in the timing of property tax collections from year to year. The increase in insurance recoveries in the business-type activities is due to a fire that occurred during 2012 that destroyed landfill equipment for which the County received insurance proceeds.

DEFIANCE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
UNAUDITED

			Change in Net Position		Total	(Restated) Total
	Governmental	Business-type	(Restated)	(Restated)		
	Activities	Activities	Governmental Activities	Business-type Activities		
	<u>2012</u>	<u>2012</u>	<u>2011</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<u>Expenses</u>						
Program Expenses:						
General government						
Legislative and executive	5,493,890		5,498,668		5,493,890	5,498,668
Judicial	1,602,946		1,720,356		1,602,946	1,720,356
Public safety	4,528,107		4,553,727		4,528,107	4,553,727
Public works	4,212,097		5,723,124		4,212,097	5,723,124
Health	4,880,327		4,776,961		4,880,327	4,776,961
Human services	5,245,050		5,339,023		5,245,050	5,339,023
Conservation and recreation	3,827		2,230		3,827	2,230
Economic development	246,268		713,284		246,268	713,284
Interest and fiscal charges	239,229		255,124		239,229	255,124
Landfill		2,428,624		2,121,261	2,428,624	2,121,261
Sewer		672,071		833,804	672,071	833,804
Total expenses	<u>26,451,741</u>	<u>3,100,695</u>	<u>28,582,497</u>	<u>2,955,065</u>	<u>29,552,436</u>	<u>31,537,562</u>
Change in net position before transfers	2,578,664	1,984,642	257,116	4,768,397	4,563,306	5,025,513
Transfers			(216,973)	216,973		
Change in net position	2,578,664	1,984,642	40,143	4,985,370	4,563,306	5,025,513
Net position at beginning of year (restated)	<u>86,985,216</u>	<u>26,104,900</u>	<u>86,945,073</u>	<u>21,119,530</u>	<u>113,090,116</u>	<u>108,064,603</u>
Net position at end of year	<u>\$ 89,563,880</u>	<u>\$ 28,089,542</u>	<u>\$ 86,985,216</u>	<u>\$ 26,104,900</u>	<u>\$ 117,653,422</u>	<u>\$ 113,090,116</u>

DEFIANCE COUNTY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
UNAUDITED**

Governmental Activities

Governmental net position increased by \$2,578,664 in 2012 from 2011. The increase in net position is mainly a result of decreases in non-capitalized public works expense as well as a decline in economic development activity during 2012.

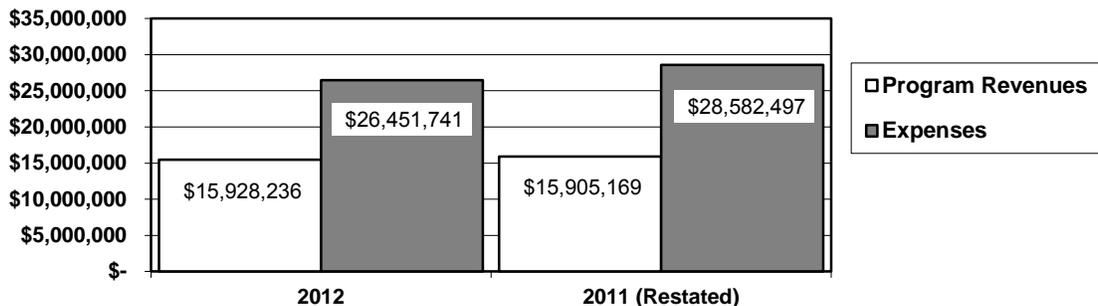
Human services expenses support the operations of family services (public assistance), veteran services, and the children services board, and accounts for \$5,245,050 of expenses, or 19.83% of total governmental expenses of the County. These expenses were funded by \$238,341 in direct charges to users and \$2,879,623 in operating grants and contributions in 2012. General government expenses, which include legislative and executive and judicial programs, accounted for \$7,096,836 or 26.83% of total governmental expenses. General government expenses were covered by \$2,995,437 of direct charges to users and \$160,836 in operating grants and contributions in 2012.

The State and federal government contributed to the County revenues of \$9,972,930 in operating grants and contributions and \$1,741,915 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Operating grants and contributions of \$2,879,623 or 28.87% of total operating grants and contributions subsidized human services programs. Operating grants and contributions of \$4,254,412 or 42.66% of total operating grants and contributions, as well as the entire amount of capital grants and contributions, subsidized public works projects.

General revenues totaled \$13,102,169, and amounted to 45.13% of the total revenues of \$29,030,405. These revenues primarily consist of property and sales tax revenue of \$10,298,803, or 78.60% of total general revenues in 2012. The other primary source of general revenues is grants and entitlements not restricted to specific programs, with operating grants consisting of local government and local government revenue assistance making up \$1,836,688, or 14.01% of the total general revenues.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2012 and 2011. That is, it identifies the cost of these services supported by general revenues (such as tax revenue and unrestricted state grants and entitlements). As can be seen in the graph below, the County is reliant upon general revenues to finance operations as program revenues are not sufficient to cover total expenses. The net position of the County was restated at December 31, 2011 as described in Note 3.C to the basic financial statements.

Governmental Activities – Program Revenues vs. Total Expenses



DEFIANCE COUNTY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
UNAUDITED**

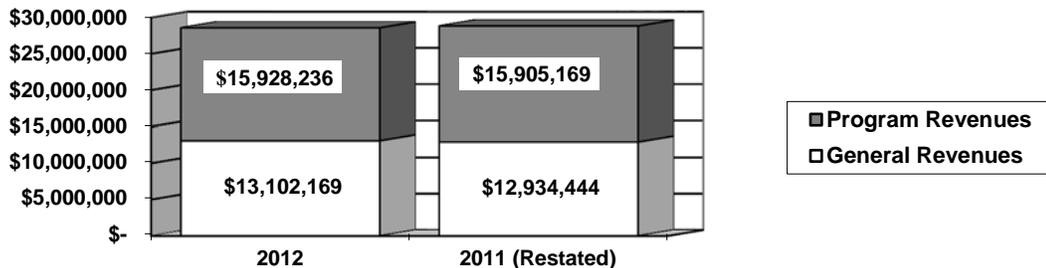
	Governmental Activities			
	Total Cost of Services <u>2012</u>	Net Cost of Services <u>2012</u>	(Restated) Total Cost of Services <u>2011</u>	(Restated) Net Cost of Services <u>2011</u>
Program Expenses:				
General government				
Legislative and executive	\$ 5,493,890	\$ 3,056,284	\$ 5,498,668	\$ 3,088,935
Judicial	1,602,946	884,279	1,720,356	959,748
Public safety	4,528,107	4,002,575	4,553,727	4,195,497
Public works	4,212,097	(2,257,814)	5,723,124	(529,485)
Health	4,880,327	2,474,411	4,776,961	2,490,919
Human services	5,245,050	2,127,086	5,339,023	2,111,119
Conservation and recreation	3,827	3,827	2,230	2,230
Economic development	246,268	187,452	713,284	248,316
Interest and fiscal charges	<u>239,229</u>	<u>45,405</u>	<u>255,124</u>	<u>110,049</u>
Total	<u>\$ 26,451,741</u>	<u>\$ 10,523,505</u>	<u>\$ 28,582,497</u>	<u>\$ 12,677,328</u>

The variance in net cost of services for public works is a result of a decline in non-capitalized public works expense in 2012 compared to 2011.

The dependence upon general revenues for governmental activities is apparent, with 39.78% of expenses supported through taxes and other general revenues during 2012.

The net position of the County was restated at December 31, 2011 as described in Note 3.C to the basic financial statements. The graph below illustrates the County's reliance upon general revenues for 2012 and 2011.

Governmental Activities – General and Program Revenues



Business-type Activities

The landfill and sewer funds are the County's enterprise funds. These operations had program revenues of \$4,256,527, general revenues of \$828,810 and expenses of \$3,100,695 for 2012. The net position of the enterprise funds increased \$1,984,642 or 7.60% during 2012.

Financial Analysis of the Government's Funds

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

DEFIANCE COUNTY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
UNAUDITED**

Governmental Funds

The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements.

The County's governmental funds reported a combined fund balance of \$27,507,236, which is \$782,746 greater than last year's restated total of \$26,724,490.

The fund balances of the County were restated at December 31, 2011 as described in Note 3.B to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of December 31, 2012 and December 31, 2011 for all major and nonmajor governmental funds.

	Fund Balance (Deficit) <u>December 31, 2012</u>	(Restated) Fund Balance (Deficit) <u>December 31, 2011</u>	Increase/ <u>(Decrease)</u>
Major Funds:			
General	\$ 10,081,683	\$ 10,205,810	\$ (124,127)
Developmental Disabilities	3,609,359	3,376,424	232,935
Job and Family Services	214,379	538,196	(323,817)
Motor Vehicle License and Gas Tax	2,297,230	1,887,430	409,800
Emergency 911	897,219	870,115	27,104
Senior Center	294,319	327,862	(33,543)
Historical Jail Debt Service	(482,092)	(317,838)	(164,254)
County Improvement	3,550,885	3,582,997	(32,112)
Other Nonmajor Governmental Funds	<u>7,044,254</u>	<u>6,253,494</u>	<u>790,760</u>
Total	<u>\$ 27,507,236</u>	<u>\$ 26,724,490</u>	<u>\$ 782,746</u>

General Fund

The County's general fund balance decreased \$124,127. The primary reason for the decrease in fund balance was that the County transferred a substantial amount of money out of the general fund during 2012 to supplement the activities of the receiving funds. The table that follows assists in illustrating the revenues of the general fund.

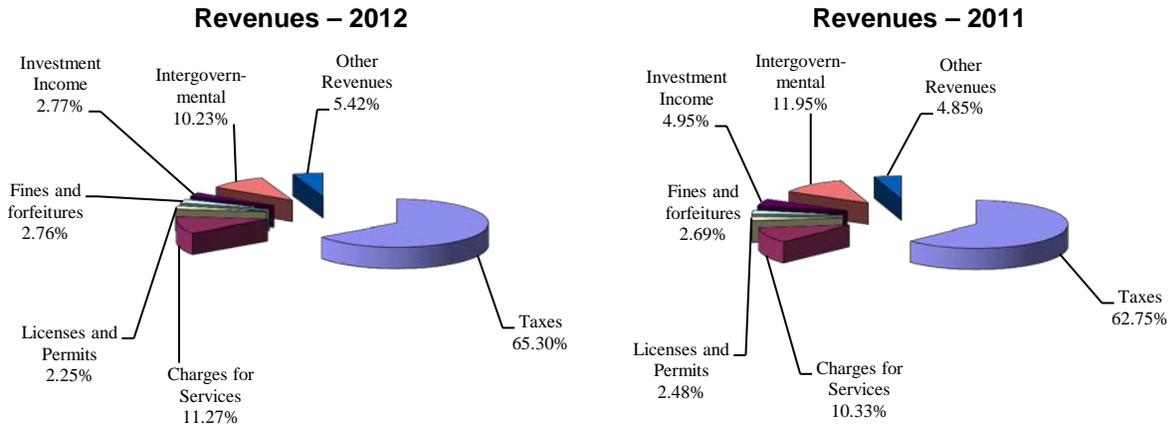
DEFIANCE COUNTY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
UNAUDITED**

	2012 <u>Amount</u>	2011 <u>Amount</u>	Increase/ <u>(Decrease)</u>	Percentage <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 6,785,709	\$ 6,515,483	\$ 270,226	4.15 %
Charges for services	1,170,815	1,073,171	97,644	9.10 %
Licenses and permits	233,624	257,913	(24,289)	(9.42) %
Fines and forfeitures	286,317	279,283	7,034	2.52 %
Intergovernmental	1,064,022	1,240,953	(176,931)	(14.26) %
Investment income	287,447	513,916	(226,469)	(44.07) %
Rent income and other	563,148	503,794	59,354	11.78 %
Total	<u>\$ 10,391,082</u>	<u>\$ 10,384,513</u>	<u>\$ 6,569</u>	<u>0.06 %</u>

Overall revenues of the general fund in 2012 increased \$6,569 or 0.06% from 2011. Tax revenue represents 65.30% of all general fund revenue. Tax revenue increased slightly by \$270,226 or 4.15% from the prior year due to minor increases in both sales tax and property tax revenue. Intergovernmental revenue decreased \$176,931 or 14.26% due to the phasing out of tangible personal property tax loss reimbursements. The decrease in investment income of \$226,469 or 44.07% is primarily due to declining interest rates. All other revenues remained comparable to 2011.

The graphs below illustrate the revenue of the general fund for 2012 and 2011.



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

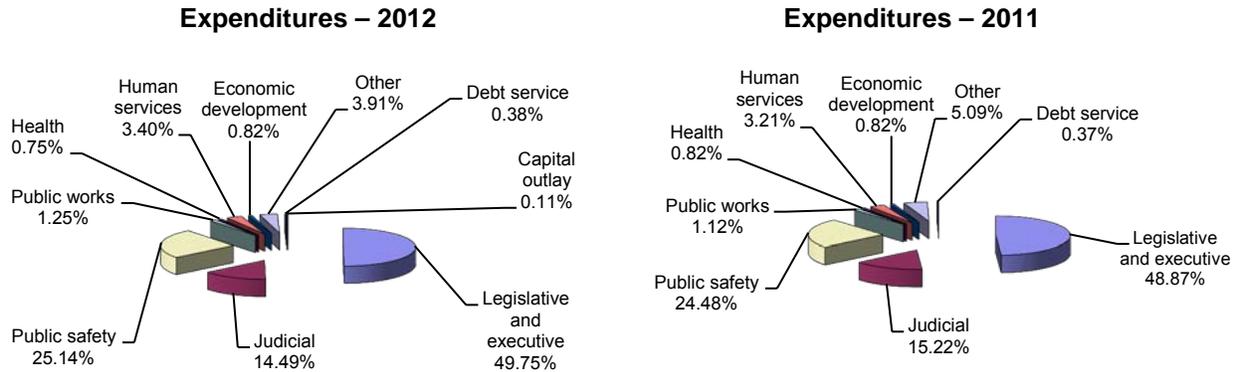
DEFIANCE COUNTY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
UNAUDITED**

	<u>2012</u> <u>Amount</u>	<u>2011</u> <u>Amount</u>	<u>Increase/</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Expenditures</u>				
General government				
Legislative and executive	\$ 4,437,709	\$ 4,329,694	\$ 108,015	2.49 %
Judicial	1,292,704	1,348,790	(56,086)	(4.16) %
Public safety	2,242,237	2,169,247	72,990	3.36 %
Public works	111,479	99,538	11,941	12.00 %
Health	67,159	72,488	(5,329)	(7.35) %
Human services	303,211	283,995	19,216	6.77 %
Economic development	72,733	72,765	(32)	(0.04) %
Other	348,508	450,879	(102,371)	(22.70) %
Capital outlay	9,450		9,450	100.00 %
Debt service	33,525	32,787	738	2.25 %
Total	<u>\$ 8,918,715</u>	<u>\$ 8,860,183</u>	<u>\$ 58,532</u>	<u>0.66 %</u>

Overall expenditures of the general fund in 2012 increased \$58,532 or 0.66% from 2011. The minor individual increases and decreases in the various expenditure classifications are a result of closely monitored cash outflows by each department within the County during 2012.

The graphs below illustrate the expenditures of the general fund for 2012 and 2011.



Developmental Disabilities (DD) Fund

The developmental disabilities (DD) fund, a major governmental fund, had revenues of \$4,959,631 in 2012. The DD fund had expenditures of \$4,726,696 in 2012. The DD fund balance increased \$232,935 from 2011 to 2012.

Job and Family Services Fund

The job and family services fund, a major governmental fund, had revenues and other financing sources of \$1,373,032 in 2012. The job and family services fund had expenditures of \$1,696,849 in 2012. The job and family services fund balance decreased \$323,817 from 2011 to 2012.

Motor Vehicle License and Gas Tax Fund

DEFIANCE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2012 UNAUDITED

The motor vehicle license and gas tax fund, a major governmental fund, had revenues and other financing sources of \$4,169,117 in 2012. The motor vehicle license and gas tax fund, had expenditures of \$3,759,317 in 2012. The motor vehicle license and gas tax fund balance increased \$409,800 from 2011 to 2012.

Emergency 911 Fund

The emergency 911 fund, a major governmental fund, had revenues of \$724,448 in 2012. The emergency 911 fund, had expenditures of \$697,344 in 2012. The emergency 911 fund balance increased \$27,104 from 2011 to 2012.

Senior Center Fund

The senior center fund, a major governmental fund, had revenues of \$1,231,738 in 2012. The senior center fund, had expenditures of \$1,265,281 in 2012. The senior center fund balance decreased \$33,543 from 2011 to 2012.

Historical Jail Debt Service Fund

The historical jail debt service fund, a major governmental fund, had revenues of \$52,571 in 2012. The historical jail debt service fund had expenditures of \$216,825 in 2012. The historical jail debt service fund balance decreased \$164,254 from 2011 to 2012.

County Improvement Fund

The county improvement fund, a major governmental fund, had other financing sources of \$55,000 in 2012. The county improvement fund had expenditures of \$87,112 in 2012. The county improvement fund balance decreased \$32,112 from 2011 to 2012.

Budgeting Highlights - General Fund

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

Budgetary information is presented for the general fund, DD fund, job and family services fund, motor vehicle license and gas tax fund, emergency 911 fund and senior center fund. In the general fund, the original budgeted revenues and other financing sources were \$8,373,904 and were increased to \$10,503,750 in the final budget. Actual revenues and other financing sources of \$10,307,634 were less than the final budgeted revenues and other financing sources by \$196,116 or 1.87%. In the general fund, the original budgeted appropriations and other financing uses were \$13,203,485. These were increased to \$15,333,331 in the final budget. Actual expenditures and other financing uses of \$10,736,999 were less than final budgeted amounts by \$4,596,332 or 29.98%. This variance is a result of the County's conservative budgeting practices.

Proprietary Funds

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

Capital Assets and Debt Administration

DEFIANCE COUNTY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
UNAUDITED**

Capital Assets

At the end of 2012, the County had \$80,528,137 (net of accumulated depreciation) invested in land, easements, land improvements, buildings and improvements, equipment, vehicles, construction in progress and infrastructure. Of this total, \$62,720,537 was reported in governmental activities and \$17,807,600 was reported in business-type activities.

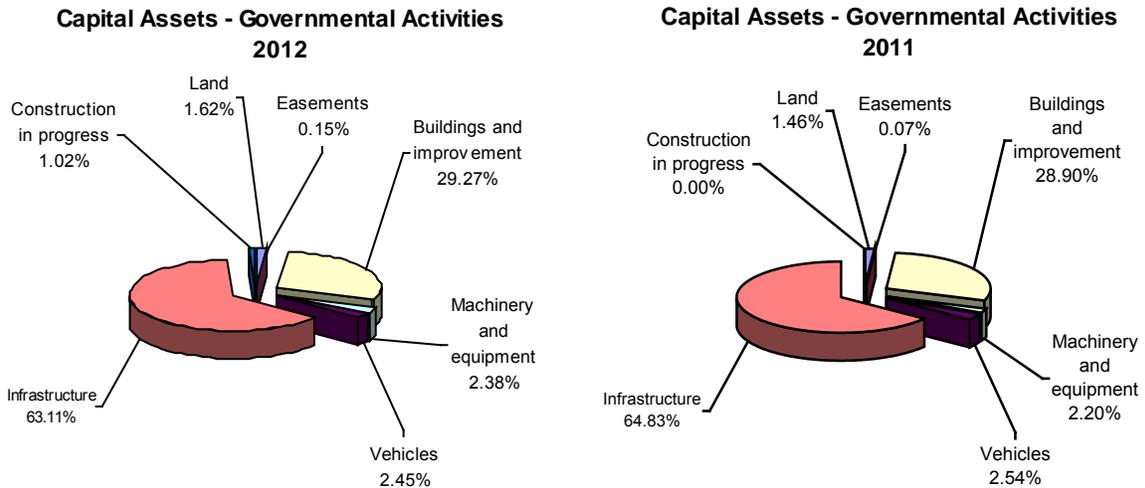
The following table shows December 31, 2012 balances compared to December 31, 2011.

Capital Assets at December 31 (Net of Depreciation)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 1,018,153	\$ 886,031	\$ 1,214,071	\$ 1,214,071	\$ 2,232,224	\$ 2,100,102
Easements	93,851	41,640			93,851	41,640
Land improvements			5,448,907	5,351,165	5,448,907	5,351,165
Building and improvements	18,360,862	17,594,638	2,024,812	1,538,214	20,385,674	19,132,852
Machinery and equipment	1,494,173	1,341,152	1,945,527	452,358	3,439,700	1,793,510
Vehicles	1,539,304	1,545,508	65,024	40,690	1,604,328	1,586,198
Infrastructure	39,576,240	39,472,674			39,576,240	39,472,674
Sewer lines			6,966,379	7,111,849	6,966,379	7,111,849
Construction in progress	637,954	4,359	142,880		780,834	4,359
Total	\$ 62,720,537	\$ 60,886,002	\$ 17,807,600	\$ 15,708,347	\$ 80,528,137	\$ 76,594,349

See Note 9 to the basic financial statements for detail on governmental activities and business-type activities capital assets.

The following graphs show the breakdown of governmental capital assets by category at December 31, 2012 and December 31, 2011:



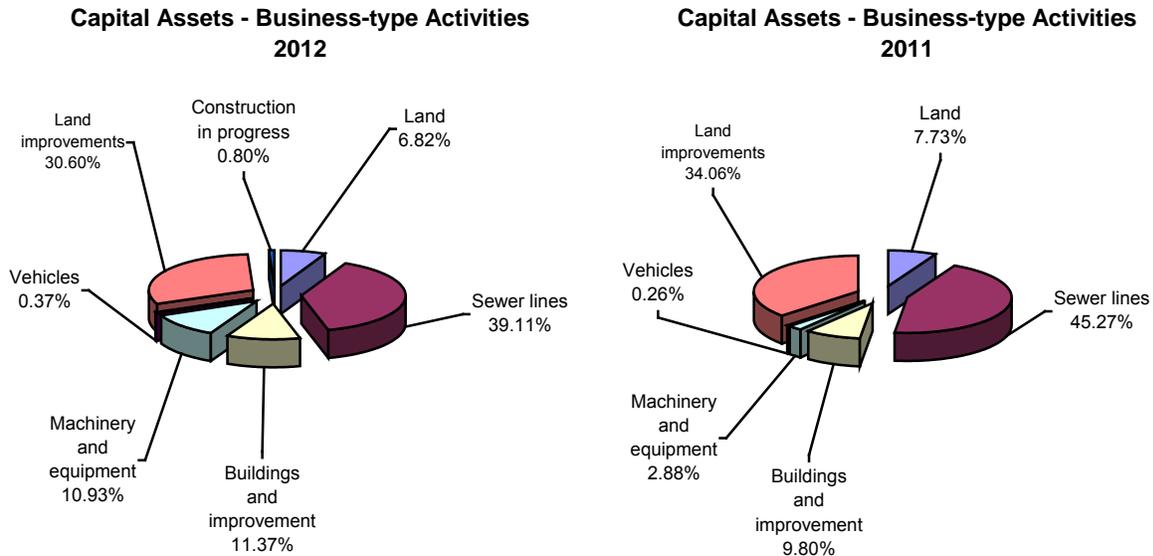
The County's largest governmental activities capital asset category is infrastructure, which includes roads and bridges. These items are immovable and of value only to the County, however, the annual cost of

DEFIANCE COUNTY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
UNAUDITED**

purchasing these items is quite significant. The net book value of the County's infrastructure (cost less accumulated depreciation) represents approximately 63.11% of the County's total governmental capital assets.

The following graphs show the breakdown of business-type capital assets by category at December 31, 2012 and December 31, 2011:



The County's largest business-type capital asset category is sewer lines. These items play a vital role in the income producing ability of the business-type activities. The net book value of the County's sewer lines (cost less accumulated depreciation) represents approximately 39.11% of the County's total business-type capital assets.

Debt Administration

The County restated long-term obligations at December 31, 2011 (see Note 3.C for details). At December 31, 2012 the County had long-term obligations of \$4,020,000 in general obligation bonds, \$805,000 in special assessment bonds, \$2,032,700 in sewer revenue bonds, OPWC loans of \$163,817, OWDA loans of \$782,758, Capmark commercial mortgage of \$56,000, capital lease obligations of \$81,126 and closure and postclosure liability outstanding of \$4,020,408. Of this total, \$607,319 is due within one year and \$11,354,490 is due in more than one year.

The following table summarizes the bonds and loans outstanding at December 31, 2012 and the restated balances at December 31, 2011:

Outstanding Debt, at Year End

DEFIANCE COUNTY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
UNAUDITED**

	Governmental Activities <u>2012</u>	Business-type Activities <u>2012</u>	(Restated) Governmental Activities <u>2011</u>	(Restated) Business-type Activities <u>2011</u>
Short-Term Obligations:				
Bond anticipation notes	\$ 53,700		\$ 170,700	
Long-Term Obligations:				
General obligation bonds	4,020,000		3,945,000	
Special assessment bonds	805,000		870,000	
Sewer revenue bonds		\$ 2,032,700		\$ 56,500
Bond anticipation notes			344,300	
OPWC loans	163,817		187,220	
OWDA loans	728,587	54,171	795,635	2,006,868
Capmark commercial mortgage		56,000		62,000
Capital lease obligations	81,126		138,709	
Closure and postclosure		<u>4,020,408</u>		<u>3,839,572</u>
Total	<u>\$ 5,852,230</u>	<u>\$ 6,163,279</u>	<u>\$ 6,451,564</u>	<u>\$ 5,964,940</u>

See Notes 16 and 17 to the basic financial statements for detail on governmental activities and business-type activities long-term obligations.

Economic Factors and Next Year's Budgets and Rates

The County's estimated population for 2010 (the latest information available from the U.S. Census Bureau) was approximately 39,037.

As of December 31, 2012, as reported by the Ohio Job and Family Services Office of Workforce Development and Bureau of Labor Market Information, the County's unemployment rate was 6.5%, compared to the 6.7% state rate and the 7.8% national rate.

Contacting the County's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Honorable Marlene J. Goodwin, Defiance County Auditor, 500 Second Street, Suite 301, Defiance, Ohio 43512-2158.

DEFIANCE COUNTY

STATEMENT OF NET POSITION
DECEMBER 31, 2012

	Governmental Activities	Business-type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents	\$ 24,277,671	\$ 12,422,011	\$ 36,699,682
Cash and cash equivalents in segregated accounts.	5,553	325	5,878
Cash and cash equivalents with fiscal agent.		2,161	2,161
Investments.		5,267,523	5,267,523
Receivables (net of allowance for uncollectibles):			
Sales taxes.	842,881		842,881
Real estate and other taxes	5,517,502		5,517,502
Accounts.	71,973	395,973	467,946
Intergovernmental.	3,652,942	116,239	3,769,181
Special assessments	1,772,583		1,772,583
Accrued interest	61,614	11,025	72,639
Loans.	873,685		873,685
Internal balances	1,520,244	(1,520,244)	
Prepayments	1,123,285	73,350	1,196,635
Materials and supplies inventory.	667,805	3,830	671,635
Capital assets:			
Non-depreciable capital assets.	1,749,958	1,356,951	3,106,909
Depreciable capital assets, net.	60,970,579	16,450,649	77,421,228
Total capital assets.	<u>62,720,537</u>	<u>17,807,600</u>	<u>80,528,137</u>
Total assets	<u>103,108,275</u>	<u>34,579,793</u>	<u>137,688,068</u>
Deferred outflows of resources:			
Unamortized deferred charges on debt refunding	42,188		42,188
Total assets and deferred outflows of resources	<u>103,150,463</u>	<u>34,579,793</u>	<u>137,730,256</u>
Liabilities:			
Accounts payable.	297,068	130,187	427,255
Contracts payable.	5,589	9,660	15,249
Accrued wages and benefits.	396,920	20,885	417,805
Due to other governments	372,030	58,684	430,714
Accrued interest payable	20,633	5,732	26,365
Notes payable.	53,700		53,700
Claims payable.	151,810		151,810
Long-term liabilities:			
Due within one year	1,057,437	119,909	1,177,346
Due in more than one year.	5,848,896	6,145,194	11,994,090
Total liabilities	<u>8,204,083</u>	<u>6,490,251</u>	<u>14,694,334</u>
Deferred inflows of resources:			
Real estate and other taxes levied for the next fiscal year	5,382,500		5,382,500
Total liabilities and deferred inflows of resources.	<u>13,586,583</u>	<u>6,490,251</u>	<u>20,076,834</u>
Net position:			
Net investment in capital assets.	59,016,861	15,664,729	74,681,590
Restricted for:			
Debt service	2,540,782		2,540,782
Capital projects	162,978		162,978
Other purposes.	3,090,148		3,090,148
Human services programs.	1,501,546		1,501,546
Public works projects.	4,054,337		4,054,337
Public safety programs.	1,046,330		1,046,330
Health services.	3,733,812		3,733,812
Landfill closure and postclosure.		1,654,246	1,654,246
Unrestricted	14,417,086	10,770,567	25,187,653
Total net position	<u>\$ 89,563,880</u>	<u>\$ 28,089,542</u>	<u>\$ 117,653,422</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

DEFIANCE COUNTY

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government:				
Legislative and executive	\$ 5,493,890	\$ 2,437,300	\$ 306	
Judicial	1,602,946	558,137	160,530	
Public safety	4,528,107	295,698	229,834	
Public works	4,212,097	473,584	4,254,412	\$ 1,741,915
Health	4,880,327	205,181	2,200,735	
Human services	5,245,050	238,341	2,879,623	
Conservation and recreation	3,827			
Economic development	246,268	5,150	53,666	
Interest and fiscal charges	239,229		193,824	
Total governmental activities	26,451,741	4,213,391	9,972,930	1,741,915
Business-type activities:				
Landfill	2,428,624	3,187,687		
Sewer	672,071	700,591		368,249
Total business-type activities	3,100,695	3,888,278		368,249
Total	\$ 29,552,436	\$ 8,101,669	\$ 9,972,930	\$ 2,110,164

General Revenues:

Property taxes levied for:

General fund	
Public safety - Emergency 911	
Human services - County Board of DD	
Human services - Senior Center	
Sales taxes	
Grants and entitlements not restricted to specific programs	
Investment income	
Reimbursements	
Miscellaneous	
Insurance recoveries	

Total general revenues

Change in net position

Net position at beginning of year (restated)

Net position at end of year

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Net (Expense) Revenue
and Changes in Net Position**

Governmental Activities	Business-type Activities	Total
\$ (3,056,284)		\$ (3,056,284)
(884,279)		(884,279)
(4,002,575)		(4,002,575)
2,257,814		2,257,814
(2,474,411)		(2,474,411)
(2,127,086)		(2,127,086)
(3,827)		(3,827)
(187,452)		(187,452)
(45,405)		(45,405)
<u>(10,523,505)</u>		<u>(10,523,505)</u>
	\$ 759,063	759,063
	396,769	396,769
	<u>1,155,832</u>	<u>1,155,832</u>
<u>(10,523,505)</u>	<u>1,155,832</u>	<u>(9,367,673)</u>
1,764,165		1,764,165
627,039		627,039
2,096,360		2,096,360
752,444		752,444
5,058,795		5,058,795
1,836,688		1,836,688
305,867	47,912	353,779
61,435		61,435
599,376	18,406	617,782
	<u>762,492</u>	<u>762,492</u>
<u>13,102,169</u>	<u>828,810</u>	<u>13,930,979</u>
2,578,664	1,984,642	4,563,306
<u>86,985,216</u>	<u>26,104,900</u>	<u>113,090,116</u>
<u>\$ 89,563,880</u>	<u>\$ 28,089,542</u>	<u>\$ 117,653,422</u>

DEFIANCE COUNTY

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	General	Developmental Disabilities	Job and Family Services	Motor Vehicle License and Gas Tax	Emergency 911
Assets:					
Equity in pooled cash and cash equivalents	\$ 4,879,371	\$ 3,229,712	\$ 286,502	\$ 1,515,164	\$ 917,362
Cash and cash equivalents in segregated accounts	5,373			142	
Receivables (net of allowance for uncollectibles):					
Sales taxes	842,881				
Real estate and other taxes	1,749,780	2,343,123			641,000
Accounts	35,326		3,243	36	
Intergovernmental	555,818	274,287		2,049,270	46,534
Special assessments					
Accrued interest	61,614				
Loans					
Interfund loans	4,694,668				
Due from other funds	21,557			14,967	
Prepayments	254,409	395,066	22,261	31,401	9,586
Materials and supplies inventory	71,041	12,626	10,793	528,691	987
Total assets	<u>\$ 13,171,838</u>	<u>\$ 6,254,814</u>	<u>\$ 322,799</u>	<u>\$ 4,139,671</u>	<u>\$ 1,615,469</u>
Liabilities:					
Accounts payable	\$ 131,141	\$ 18,161	\$ 15,229	\$ 28,221	\$ 5,451
Contracts payable					
Accrued wages and benefits	150,357	78,408	42,664	45,415	10,896
Compensated absences payable	4,607				
Due to other funds	13,708		2,426	5,918	
Due to other governments	163,556	56,474	48,101	37,288	14,696
Interfund loans payable					
Accrued interest payable					
Notes payable					
Total liabilities	<u>463,369</u>	<u>153,043</u>	<u>108,420</u>	<u>116,842</u>	<u>31,043</u>
Deferred inflows of resources:					
Real estate and other taxes levied for the next fiscal year	1,707,000	2,285,000			625,500
Sales tax revenue not available	436,591				
Delinquent real estate and other tax revenue not available	41,878	56,897			15,173
Other nonexchange revenue not available	412,066	150,515		1,725,599	46,534
Special assessments revenue not available					
Accrued interest not available	29,251				
Miscellaneous revenue not available					
Total deferred inflows of resources	<u>2,626,786</u>	<u>2,492,412</u>		<u>1,725,599</u>	<u>687,207</u>
Total liabilities and deferred inflows of resources	<u>3,090,155</u>	<u>2,645,455</u>	<u>108,420</u>	<u>1,842,441</u>	<u>718,250</u>
Fund balances:					
Nonspendable	5,111,055	407,692	33,054	560,092	10,573
Restricted		3,201,667	181,325	1,737,138	886,646
Committed	91,602				
Assigned	4,469,885				
Unassigned (deficit)	409,141				
Total fund balances (deficit)	<u>10,081,683</u>	<u>3,609,359</u>	<u>214,379</u>	<u>2,297,230</u>	<u>897,219</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 13,171,838</u>	<u>\$ 6,254,814</u>	<u>\$ 322,799</u>	<u>\$ 4,139,671</u>	<u>\$ 1,615,469</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

<u>Senior Center</u>	<u>Historical Jail Debt Service</u>	<u>County Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 331,447	\$ 1,217,908	\$ 3,550,885	\$ 7,116,117 38	\$ 23,044,468 5,553
783,599				842,881 5,517,502
61,663			33,368 665,370 1,772,583	71,973 3,652,942 1,772,583
			873,685	61,614 873,685 4,694,668
11,693			31,327	67,851
1,389			398,869	1,123,285
			42,278	667,805
<u>\$ 1,189,791</u>	<u>\$ 1,217,908</u>	<u>\$ 3,550,885</u>	<u>\$ 10,933,635</u>	<u>\$ 42,396,810</u>
\$ 18,436			\$ 80,429	\$ 297,068
20,769			5,589	5,589
1,029			48,411	396,920
16,192			42,714	4,607
	\$ 1,700,000		35,723	65,795
			1,265,185	372,030
			194	2,965,185
			53,700	194
<u>56,426</u>	<u>1,700,000</u>		<u>1,531,945</u>	<u>4,161,088</u>
765,000				5,382,500
18,206				436,591
55,840			545,155	132,154
			1,772,583	2,935,709
			39,698	1,772,583
<u>839,046</u>			<u>2,357,436</u>	<u>10,728,486</u>
895,472	1,700,000		3,889,381	29,251
				39,698
13,082			1,192,348	7,327,896
281,237			4,262,313	10,550,326
		\$ 3,550,885	2,215,573	2,307,175
	(482,092)		(625,980)	8,020,770
<u>294,319</u>	<u>(482,092)</u>	<u>3,550,885</u>	<u>7,044,254</u>	<u>(698,931)</u>
<u>\$ 1,189,791</u>	<u>\$ 1,217,908</u>	<u>\$ 3,550,885</u>	<u>\$ 10,933,635</u>	<u>\$ 42,396,810</u>

DEFIANCE COUNTY

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2012**

Total governmental fund balances		\$	27,507,236
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			62,720,537
Other long-term assets are not available to pay for current period expenditures and therefore are deferred inflows in the funds.			
Sales taxes receivable	\$	436,591	
Real estate and other taxes receivable		132,154	
Intergovernmental receivable		2,975,407	
Special assessments receivable		1,772,583	
Accrued interest receivable		29,251	
Total		5,345,986	5,345,986
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net position.			881,393
An interfund payable is recorded in governmental activities to reflect overpayments to the internal service fund by the business-type activities.			(11,295)
Unamortized premiums on bond issuances are not recognized in the funds.			(28,196)
Unamortized deferred amounts on refundings are not recognized in the funds.			42,188
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(20,439)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
General obligation bonds payable		(4,020,000)	
Special assessment bonds payable		(805,000)	
OPWC loan payable		(163,817)	
OWDA loan payable		(728,587)	
Compensated absences payable		(1,075,000)	
Capital leases payable		(81,126)	
Total		(6,873,530)	(6,873,530)
Net position of governmental activities		\$	89,563,880

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

DEFIANCE COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	General	Developmental Disabilities	Job and Family Services	Motor Vehicle License and Gas Tax	Emergency 911
Revenues:					
Property taxes	\$ 1,768,208	\$ 2,101,856			\$ 628,504
Sales taxes	5,017,501				
Special assessments					
Charges for services	1,170,815	69,229		\$ 147	
Licenses and permits	233,624				
Fines and forfeitures	286,317			21,867	
Intergovernmental	1,064,022	2,731,171	\$ 1,176,276	4,111,652	95,942
Investment income	287,447	215		4,324	
Rental income	289,625				
Contributions and donations		4,727			
Reimbursements			61,435		
Other	273,523	52,433	48,674	17,953	2
Total revenues	<u>10,391,082</u>	<u>4,959,631</u>	<u>1,286,385</u>	<u>4,155,943</u>	<u>724,448</u>
Expenditures:					
Current:					
General government:					
Legislative and executive	4,437,709				
Judicial	1,292,704				
Public safety	2,242,237				697,344
Public works	111,479			3,759,317	
Health	67,159	4,688,728			
Human services	303,211		1,696,849		
Economic development	72,733				
Other	348,508				
Capital outlay	9,450				
Debt service:					
Principal retirement	27,824	36,319			
Interest and fiscal charges	5,701	1,649			
Total expenditures	<u>8,918,715</u>	<u>4,726,696</u>	<u>1,696,849</u>	<u>3,759,317</u>	<u>697,344</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,472,367</u>	<u>232,935</u>	<u>(410,464)</u>	<u>396,626</u>	<u>27,104</u>
Other financing sources (uses):					
Sale of capital assets	6,891				
Issuance of bonds					
Capital lease transaction	9,450				
Transfers in			86,647	13,174	
Transfers out	(1,612,835)				
Total other financing sources (uses)	<u>(1,596,494)</u>		<u>86,647</u>	<u>13,174</u>	
Net change in fund balances	(124,127)	232,935	(323,817)	409,800	27,104
Fund balances (deficit)					
at beginning of year (restated)	10,205,810	3,376,424	538,196	1,887,430	870,115
Fund balances (deficit) at end of year	<u>\$ 10,081,683</u>	<u>\$ 3,609,359</u>	<u>\$ 214,379</u>	<u>\$ 2,297,230</u>	<u>\$ 897,219</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

<u>Senior Center</u>	<u>Historical Jail Debt Service</u>	<u>County Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 654,204			\$ 100,000	\$ 5,252,772
				5,017,501
98,741			583,912	583,912
			1,021,263	2,360,195
				233,624
			387,108	695,292
457,071	\$ 52,571		4,237,401	13,926,106
			24,580	316,566
			141,156	430,781
6,518			125,396	136,641
				61,435
15,204			191,587	599,376
<u>1,231,738</u>	<u>52,571</u>		<u>6,812,403</u>	<u>29,614,201</u>
			405,852	4,843,561
			366,849	1,659,553
			1,697,600	4,637,181
			1,111,950	4,982,746
			121,240	4,877,127
1,263,511			1,713,654	4,977,225
			173,875	246,608
			4,437	352,945
		\$ 87,112	1,442,354	1,538,916
1,374	100,000		626,267	791,784
396	116,825		115,579	240,150
<u>1,265,281</u>	<u>216,825</u>	<u>87,112</u>	<u>7,779,657</u>	<u>29,147,796</u>
<u>(33,543)</u>	<u>(164,254)</u>	<u>(87,112)</u>	<u>(967,254)</u>	<u>466,405</u>
				6,891
			300,000	300,000
				9,450
		55,000	1,741,459	1,896,280
			(283,445)	(1,896,280)
		<u>55,000</u>	<u>1,758,014</u>	<u>316,341</u>
(33,543)	(164,254)	(32,112)	790,760	782,746
327,862	(317,838)	3,582,997	6,253,494	26,724,490
<u>\$ 294,319</u>	<u>\$ (482,092)</u>	<u>\$ 3,550,885</u>	<u>\$ 7,044,254</u>	<u>\$ 27,507,236</u>

DEFIANCE COUNTY

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

Net change in fund balances - total governmental funds	\$	782,746
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceed depreciation expense in the current period.		
Capital outlay	\$ 4,602,952	
Depreciation expense	<u>(2,733,880)</u>	
Total		1,869,072
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net position.		(34,537)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes	(12,764)	
Sales taxes	41,294	
Special assessments	(90,413)	
Intergovernmental	(529,329)	
Investment income	<u>7,416</u>	
Total		(583,796)
The issuances of bonds and capital lease transactions are other financing sources in the funds, but they increase long-term liabilities on the statement of net position.		
Bonds	(300,000)	
Capital leases	<u>(9,450)</u>	
Total		(309,450)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in less interest being reported in the statement of activities.		
Decrease in accrued interest payable	2,224	
Amortization of bond premium	2,511	
Amortization of deferred charges on refundings	<u>(3,814)</u>	
Total		921
Principal payments are expenditures in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position.		
General obligation bonds payable	225,000	
Special assessment bonds payable	65,000	
Loans payable	90,451	
Capital leases payable	67,033	
Notes payable	<u>344,300</u>	
Total		791,784
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		(80,667)
The internal service fund used by management to charge the cost of insurance to individual funds is not reported in the government-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund (less the \$34,793 internal activity) is allocated among the governmental activities.		
		<u>142,591</u>
Change in net position of governmental activities	\$	<u>2,578,664</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

DEFIANCE COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2012

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Property taxes	\$ 1,657,000	\$ 1,759,637	\$ 1,759,637	
Sales taxes	4,000,000	4,995,515	4,995,515	
Charges for services	785,231	1,092,819	1,118,786	\$ 25,967
Licenses and permits	57,067	132,285	132,285	
Fines and forfeitures	248,100	299,229	299,229	
Intergovernmental	825,000	985,308	994,155	8,847
Investment income	340,806	525,888	402,548	(123,340)
Rental income	250,000	290,468	289,625	(843)
Other	210,400	382,000	275,253	(106,747)
Total revenues	<u>8,373,604</u>	<u>10,463,149</u>	<u>10,267,033</u>	<u>(196,116)</u>
Expenditures:				
Current:				
General government:				
Legislative and executive	4,448,470	4,588,649	4,392,277	196,372
Judicial	1,363,951	1,375,950	1,286,227	89,723
Public safety	2,622,607	2,648,448	2,269,852	378,596
Public works	604,716	539,325	111,479	427,846
Health	73,116	73,116	72,854	262
Human services	517,417	317,417	308,157	9,260
Economic development	73,000	73,000	72,733	267
Other	1,994,917	1,406,871	438,378	968,493
Total expenditures	<u>11,698,194</u>	<u>11,022,776</u>	<u>8,951,957</u>	<u>2,070,819</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(3,324,590)</u>	<u>(559,627)</u>	<u>1,315,076</u>	<u>1,874,703</u>
Other financing sources (uses):				
Advances in		33,709	33,709	
Advances out		(847,374)	(835,493)	11,881
Transfers out		(937,669)	(949,549)	(11,880)
Sale of capital assets	300	6,892	6,892	
Contingencies	(1,505,291)	(2,525,512)		2,525,512
Total other financing sources (uses)	<u>(1,504,991)</u>	<u>(4,269,954)</u>	<u>(1,744,441)</u>	<u>2,525,513</u>
Net change in fund balance	(4,829,581)	(4,829,581)	(429,365)	4,400,216
Fund balance at beginning of year	4,743,614	4,743,614	4,743,614	
Prior year encumbrances appropriated	<u>\$ 85,967</u>	<u>\$ 85,967</u>	<u>85,967</u>	
Fund balance at end of year	<u><u>\$ 4,400,216</u></u>	<u><u>\$ 4,400,216</u></u>	<u><u>\$ 4,400,216</u></u>	<u><u>\$ 4,400,216</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

DEFIANCE COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 DEVELOPMENTAL DISABILITIES FUND
 FOR THE YEAR ENDED DECEMBER 31, 2012

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Property taxes.	\$ 2,200,000	\$ 2,200,000	\$ 2,092,542	\$ (107,458)
Charges for services.	2,800	2,800	69,228	66,428
Intergovernmental.	2,134,544	2,134,544	2,663,636	529,092
Investment income.	250	250	215	(35)
Contributions and donations.	2,000	2,000	4,727	2,727
Other	29,500	29,500	52,433	22,933
Total revenues	<u>4,369,094</u>	<u>4,369,094</u>	<u>4,882,781</u>	<u>513,687</u>
Expenditures:				
Current:				
Health	<u>5,413,565</u>	<u>5,413,565</u>	<u>4,892,071</u>	<u>521,494</u>
Net change in fund balance	(1,044,471)	(1,044,471)	(9,290)	1,035,181
Fund balance at beginning of year	2,974,077	2,974,077	2,974,077	
Prior year encumbrances appropriated	59,520	59,520	59,520	
Fund balance at end of year	<u>\$ 1,989,126</u>	<u>\$ 1,989,126</u>	<u>\$ 3,024,307</u>	<u>\$ 1,035,181</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

DEFIANCE COUNTY

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
JOB AND FAMILY SERVICES FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Intergovernmental	\$ 1,874,561	\$ 1,362,432	\$ 1,363,515	\$ 1,083
Other	665,000	575,167	288,648	(286,519)
Total revenues	<u>2,539,561</u>	<u>1,937,599</u>	<u>1,652,163</u>	<u>(285,436)</u>
Expenditures:				
Current:				
Human services	<u>2,870,648</u>	<u>2,263,444</u>	<u>1,740,003</u>	<u>523,441</u>
Excess of expenditures over revenues	<u>(331,087)</u>	<u>(325,845)</u>	<u>(87,840)</u>	<u>238,005</u>
Other financing sources:				
Transfers in	<u>91,889</u>	<u>86,647</u>	<u>86,647</u>	
Net change in fund balance	(239,198)	(239,198)	(1,193)	238,005
Fund balance at beginning of year	205,507	205,507	205,507	
Prior year encumbrances appropriated	<u>\$ 33,691</u>	<u>\$ 33,691</u>	<u>33,691</u>	
Fund balance at end of year	<u><u>238,005</u></u>	<u><u>238,005</u></u>	<u><u>\$ 238,005</u></u>	<u><u>\$ 238,005</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

DEFIANCE COUNTY

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
MOTOR VEHICLE LICENSE AND GAS TAX FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Charges for services	\$ 1,000	\$ 114	\$ 114	
Fines and forfeitures	10,000	22,260	22,260	
Intergovernmental	4,090,000	4,042,348	4,144,656	\$ 102,308
Investment income	12,000	4,324	4,324	
Other	3,000	17,714	18,230	516
Total revenues	<u>4,116,000</u>	<u>4,086,760</u>	<u>4,189,584</u>	<u>102,824</u>
Expenditures:				
Current:				
Public works	5,245,641	5,219,576	4,530,620	688,956
Excess of expenditures over revenues	<u>(1,129,641)</u>	<u>(1,132,816)</u>	<u>(341,036)</u>	<u>791,780</u>
Other financing sources:				
Transfers in	9,999	13,174	13,174	
Net change in fund balance	<u>(1,119,642)</u>	<u>(1,119,642)</u>	<u>(327,862)</u>	<u>791,780</u>
Fund balance at beginning of year	1,085,696	1,085,696	1,085,696	
Prior year encumbrances appropriated	<u>\$ 33,946</u>	<u>\$ 33,946</u>	<u>33,946</u>	
Fund balance at end of year	<u><u> </u></u>	<u><u> </u></u>	<u><u>\$ 791,780</u></u>	<u><u>\$ 791,780</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

DEFIANCE COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 EMERGENCY 911 FUND
 FOR THE YEAR ENDED DECEMBER 31, 2012

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Property taxes	\$ 625,000	\$ 625,480	\$ 625,480	
Intergovernmental	124,000	95,942	95,942	
Other		2	2	
Total revenues	<u>749,000</u>	<u>721,424</u>	<u>721,424</u>	
Expenditures:				
Current:				
Public safety	<u>1,631,061</u>	<u>1,603,485</u>	<u>746,399</u>	\$ 857,086
Net change in fund balance	(882,061)	(882,061)	(24,975)	857,086
Fund balance at beginning of year	872,742	872,742	872,742	
Prior year encumbrances appropriated	\$ 9,319	\$ 9,319	9,319	
Fund balance at end of year	<u><u> </u></u>	<u><u> </u></u>	<u><u>\$ 857,086</u></u>	<u><u>\$ 857,086</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

DEFIANCE COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 SENIOR CENTER FUND
 FOR THE YEAR ENDED DECEMBER 31, 2012

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Property taxes.	\$ 765,000	\$ 650,573	\$ 650,573	
Charges for services.	101,709	101,818	103,908	\$ 2,090
Intergovernmental.	445,074	452,716	452,716	
Contributions and donations.	5,000	6,437	6,518	81
Other	10,500	15,006	15,204	198
Total revenues	<u>1,327,283</u>	<u>1,226,550</u>	<u>1,228,919</u>	<u>2,369</u>
Expenditures:				
Current:				
Human services.	<u>1,663,014</u>	<u>1,562,281</u>	<u>1,289,939</u>	<u>272,342</u>
Net change in fund balance	(335,731)	(335,731)	(61,020)	274,711
Fund balance at beginning of year	300,913	300,913	300,913	
Prior year encumbrances appropriated	\$ 34,818	\$ 34,818	34,818	
Fund balance at end of year	<u><u> </u></u>	<u><u> </u></u>	<u><u>\$ 274,711</u></u>	<u><u>\$ 274,711</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

DEFIANCE COUNTY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2012

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Landfill	Sewer	Total	
Assets:				
Current assets:				
Equity in pooled cash and cash equivalents	\$ 9,966,912	\$ 2,058,993	\$ 12,025,905	\$ 1,233,203
Cash with fiscal agent		2,161	2,161	
Cash and cash equivalents in segregated accounts	225	100	325	
Receivables (net of allowance for uncollectibles):				
Accounts	242,174	153,799	395,973	
Intergovernmental		116,239	116,239	
Due from other funds	55		55	
Prepayments	68,636	4,714	73,350	
Materials and supplies inventory	3,174	656	3,830	
Total current assets	10,281,176	2,336,662	12,617,838	1,233,203
Noncurrent assets:				
Restricted assets:				
Equity in pooled cash and cash equivalents	396,106		396,106	
Investments	5,267,523		5,267,523	
Accrued interest receivable	11,025		11,025	
Total restricted assets	5,674,654		5,674,654	
Capital assets:				
Non-depreciable capital assets	1,134,611	222,340	1,356,951	
Depreciable capital assets, net	5,541,947	10,908,702	16,450,649	
Total capital assets, net	6,676,558	11,131,042	17,807,600	
Total noncurrent assets	12,351,212	11,131,042	23,482,254	
Total assets	22,632,388	13,467,704	36,100,092	1,233,203
Liabilities:				
Current liabilities:				
Accounts payable	94,014	36,173	130,187	
Contracts payable		9,660	9,660	
Accrued wages and benefits	16,770	4,115	20,885	
Compensated absences payable	26,902	5,536	32,438	
Due to other funds	115	1,996	2,111	
Due to other governments	55,488	3,196	58,684	
Interfund loans payable		1,529,483	1,529,483	200,000
Accrued interest payable		5,732	5,732	
Claims payable				151,810
Revenue bonds		27,300	27,300	
Capmark commercial mortgage payable		6,000	6,000	
OWDA loan payable		54,171	54,171	
Total current liabilities	193,289	1,683,362	1,876,651	351,810
Long-term liabilities:				
Liabilities payable from restricted assets:				
Closure and postclosure payable	4,020,408		4,020,408	
Revenue bonds		2,005,400	2,005,400	
Capmark commercial mortgage payable		50,000	50,000	
Compensated absences	36,259	33,127	69,386	
Total long-term liabilities	4,056,667	2,088,527	6,145,194	
Total liabilities	4,249,956	3,771,889	8,021,845	351,810
Net position:				
Net investment in capital assets	6,676,558	8,988,171	15,664,729	
Restricted for closure and postclosure	1,654,246		1,654,246	
Unrestricted	10,051,628	707,644	10,759,272	881,393
Total net position	\$ 18,382,432	\$ 9,695,815	28,078,247	\$ 881,393
Adjustment to reflect the consolidation of the internal service fund activities related to enterprise funds			11,295	
Net position of business-type activities			\$ 28,089,542	

DEFIANCE COUNTY

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Business-type Activities - Enterprise Funds			Governmental
	Landfill	Sewer	Total	Activities - Internal Service Fund
Operating revenues:				
Charges for services	\$ 3,187,687	\$ 699,547	\$ 3,887,234	\$ 2,337,686
Special assessments		1,044	1,044	
Other	10,412	7,994	18,406	
Total operating revenues.	<u>3,198,099</u>	<u>708,585</u>	<u>3,906,684</u>	<u>2,337,686</u>
Operating expenses:				
Personal services	441,615	153,324	594,939	
Contract services.	1,224,115	28,794	1,252,909	
Materials and supplies.	225,887	18,514	244,401	
Other	90,856	148,186	239,042	
Claims.				2,160,302
Closure and postclosure.	180,836		180,836	
Depreciation.	283,019	249,297	532,316	
Total operating expenses.	<u>2,446,328</u>	<u>598,115</u>	<u>3,044,443</u>	<u>2,160,302</u>
Operating income.	<u>751,771</u>	<u>110,470</u>	<u>862,241</u>	<u>177,384</u>
Nonoperating revenues (expenses):				
Interest revenue.	47,912		47,912	
Interest expense and fiscal charges		(10,390)	(10,390)	
Loss on disposal of capital assets		(80,655)	(80,655)	
Insurance recoveries.	762,492		762,492	
Total nonoperating revenues (expenses).	<u>810,404</u>	<u>(91,045)</u>	<u>719,359</u>	
Net income before capital contributions	<u>1,562,175</u>	<u>19,425</u>	<u>1,581,600</u>	<u>177,384</u>
Capital contributions.		368,249	368,249	
Change in net position	1,562,175	387,674	1,949,849	177,384
Net position at beginning of year (restated)	<u>16,820,257</u>	<u>9,308,141</u>		<u>704,009</u>
Net position at end of year	<u>\$ 18,382,432</u>	<u>\$ 9,695,815</u>		<u>\$ 881,393</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			34,793	
Change in net position of business-type activities			<u>\$ 1,984,642</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

DEFIANCE COUNTY

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2012

	Business-type Activities - Enterprise Funds			Governmental
	Landfill	Sewer	Total	Activities - Internal Service Fund
Cash flows from operating activities:				
Cash received from sales/service charges	\$ 3,217,973	\$ 695,382	\$ 3,913,355	\$ 2,337,686
Cash received from other operating revenue	10,357	7,994	18,351	
Cash received from special assessments.		1,044	1,044	
Cash payments for personal services	(442,567)	(150,249)	(592,816)	
Cash payments for contract services.	(1,216,567)	(70,326)	(1,286,893)	
Cash payments for materials and supplies.	(224,038)	(18,506)	(242,544)	
Cash payments for claims				(2,200,137)
Cash payments for other expenses.	(90,856)	(148,218)	(239,074)	
Net cash provided by operating activities.	<u>1,254,302</u>	<u>317,121</u>	<u>1,571,423</u>	<u>137,549</u>
Cash flows from noncapital financing activities:				
Cash received from interfund loans				200,000
Net cash provided by noncapital financing activities				<u>200,000</u>
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(1,967,515)	(781,046)	(2,748,561)	
Cash received from issuance of bonds.		1,977,000	1,977,000	
Cash received from issuance of loans.		26,196	26,196	
Cash received from capital grants.		252,010	252,010	
Insurance recoveries	762,492		762,492	
Principal payments on bonds.		(800)	(800)	
Interest payments on bonds.		(2,331)	(2,331)	
Principal payments on Capmark commercial mortgage		(6,000)	(6,000)	
Interest payments on Capmark commercial mortgage		(3,100)	(3,100)	
Principal payments on OWDA loan.		(1,978,893)	(1,978,893)	
Net cash used in capital and related financing activities	<u>(1,205,023)</u>	<u>(516,964)</u>	<u>(1,721,987)</u>	
Cash flows from investing activities:				
Cash received from interest	86,052		86,052	
Net cash provided by maturities of investments	5,125,388		5,125,388	
Net cash payments for purchases of investments	(5,140,000)		(5,140,000)	
Net cash provided by investing activities	<u>71,440</u>		<u>71,440</u>	
Net increase (decrease) in cash and cash equivalents	120,719	(199,843)	(79,124)	337,549
Cash and cash equivalents at beginning of year (restated)	<u>10,242,524</u>	<u>2,261,097</u>	<u>12,503,621</u>	<u>895,654</u>
Cash and cash equivalents at end of year.	<u>\$ 10,363,243</u>	<u>\$ 2,061,254</u>	<u>\$ 12,424,497</u>	<u>\$ 1,233,203</u>

-- continued

DEFIANCE COUNTY

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2012

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Landfill	Sewer	Total	
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 751,771	\$ 110,470	\$ 862,241	\$ 177,384
Adjustments:				
Depreciation	283,019	249,297	532,316	
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	30,286	(4,165)	26,121	
(Increase) in due from other funds.	(55)		(55)	
(Increase) in prepayments	(5,207)	(3,528)	(8,735)	
Decrease in inventories	1,849	8	1,857	
Increase (decrease) in accounts payable.	19,634	(38,542)	(18,908)	
Increase in accrued wages and benefits	4,875	412	5,287	
Increase in landfill closure and postclosure care liability.	180,836		180,836	
Increase (decrease) in due to other funds.	(147)	506	359	
(Decrease) in claims payable.				(39,835)
(Decrease) in due to other governments.	(6,902)	(219)	(7,121)	
Increase (decrease) in compensated absences payable.	(5,657)	2,882	(2,775)	
Net cash provided by operating activities	<u>\$ 1,254,302</u>	<u>\$ 317,121</u>	<u>\$ 1,571,423</u>	<u>\$ 137,549</u>

Non-Cash Activity:

In 2012, there was an increase in the fair value of investments in the Landfill fund, in the amount of \$30,804.
 In 2012 and 2011, the Sewer fund purchased capital assets on account in the amount of \$9,660 and \$45,997, respectively.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

DEFIANCE COUNTY

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
DECEMBER 31, 2012**

		Agency
Assets:		
Equity in pooled cash and cash equivalents	\$	8,216,340
Cash in segregated accounts.		795,284
Receivables:		
Real estate and other taxes.		28,504,214
Due from other governments.		1,665,131
Special assessments.		367,473
Total assets	\$	39,548,442
Liabilities:		
Accounts payable	\$	4,751
Due to other governments.		32,420,844
Undistributed monies.		7,122,847
Total liabilities.	\$	39,548,442

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

DEFIANCE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 1 - DESCRIPTION OF THE COUNTY

A. The County

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

B. Reporting Entity

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

The County's reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity", as amended by GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units". The basic financial statements include all funds, agencies, boards, commissions, and component units for which the County and the County Commissioners are "accountable". Accountability as defined in GASB Statement No. 14 and GASB Statement No. 39 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 basic financial statements to be misleading or incomplete. Among the factors considered were separate legal standing; appointment of a voting majority of the 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. The County does not have any component units.

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

The County participates in nine jointly governed organizations, the Northwest Ohio Juvenile Detention, Training, and Rehabilitation Center; Four County Board of Alcohol, Drug Addiction and Mental Health Services; Corrections Commission of Northwest Ohio; Four County Solid Waste District; Multi-Area Narcotics Task Force; Quadco Rehabilitation Center; Maumee Valley Planning Organization; the Community Improvement Corporation of Defiance County; and Northwest Ohio Waiver Administration Council (See Note 20).

The County participates in two insurance pools, the County Commissioners Association Service Corporation and the Northern Buckeye Health Plan – Northwest Division of Optimal Health Initiative Consortium (See Note 21).

The County is associated with one related organization, the Defiance County Regional Airport Authority (See Note 22).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DEFIANCE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012 (Continued)

The financial statements of Defiance County have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Following are the more significant of the County's accounting policies.

A. Basis of Presentation

The County's basic financial statements consist of government-wide financial statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-Wide Financial Statements

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

The statement of net position presents the financial condition of the governmental and business-type activities of the County at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the County's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the County, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the County.

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

B. Fund Accounting

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

DEFIANCE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)

Governmental Funds - Governmental funds are those through which most governmental functions of the County are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities and deferred inflows are assigned to the fund from which they will be paid. The difference between governmental fund assets and deferred outflows and liabilities and deferred inflows is reported as fund balance. The following are the County's major governmental funds:

General fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

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

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

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

Senior center fund - This fund accounts for tax levy monies, donations, and federal, State and local monies used for senior citizen programs.

Historical jail debt service fund - This fund accounts for monies used for principal and interest payments on the long-term obligations related to the County historical jail.

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

Other governmental funds of the County are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets, (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects and (c) financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

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

DEFIANCE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012 (Continued)

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

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

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

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

Fiduciary Funds - Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the County under a trust agreement for individuals, private organizations, or other governments and are not available to support the County's own programs. The County did not have any trust funds in 2012. Agency funds are custodial in nature (assets plus deferred outflows equals liabilities plus deferred inflows) and do not involve measurement of results of operations. The County's agency funds account for assets held by the County for political subdivisions in which the County acts as fiscal agent and for taxes, State-levied shared revenues and fines and forfeitures collected and distributed to other political subdivisions.

C. Measurement Focus

Government-Wide Financial Statements - The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets, deferred outflows, liabilities and deferred inflows associated with the operation of the County are included on the statement of net position. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net position.

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

Like the government-wide financial statements, the proprietary funds are accounted for using a flow of economic resources measurement focus. All assets, deferred outflows, liabilities and deferred inflows associated with the operation of these funds are included on the statement of fund net position. The statement of revenues, expenses, and changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net

DEFIANCE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)

position. The statement of cash flows reflects how the County finances and meets the cash flow needs of its proprietary activities.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting; proprietary funds and fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows and deferred outflows, and in the presentation of expenses versus expenditures.

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

Nonexchange transactions, in which the County receives value without directly giving equal value in return, include property taxes, sales taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from sales taxes is recognized in the year in which the sales are made. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the County must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the County on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered both measurable and available at year end: sales taxes, charges for services, fines and forfeitures, State-levied locally shared taxes (including gasoline tax and motor vehicle license tax), grants and interest.

Deferred Inflows of Resources and Deferred Outflows of Resources - A deferred inflow of resources is an acquisition of net position by the County that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the County that is applicable to a future reporting period.

Property taxes for which there is an enforceable legal claim as of December 31, 2012, but which were levied to finance 2013 operations, and other revenues received in advance of the year for which they are intended to finance, have been recorded as deferred inflows.

Grants and entitlements received before the eligibility requirements are met, and delinquent property taxes due at December 31, 2012 are recorded as deferred inflows on the governmental fund financial statements.

DEFIANCE COUNTY

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

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

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

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

E. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. Budgetary information for the juvenile probation accounts and an account held for a child in custodial care are not reported in the general fund or the job and family services special revenue fund because they are not included in the entity for which the “appropriated budget” is adopted. The major documents prepared are the certificate of estimated resources and the appropriations resolution, both of which are prepared on the budgetary basis of accounting.

The certificate of estimated resources establishes a limit on the amount the County Commissioners may appropriate. The appropriations resolution is the County Commissioners' authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the County Commissioners. The legal level of control has been established by the County Commissioners at the fund, program, department and object level for all funds.

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

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

F. Cash and Investments

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

DEFIANCE COUNTY

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

Cash and cash equivalents that are held separately within departments of the County and not included in the County Treasury are recorded as "cash and cash equivalents in segregated accounts". Cash and cash equivalents that are held by a trustee for the payment of bonds and coupons are recorded as "cash and cash equivalents with fiscal agent".

During 2012, the County invested in nonnegotiable certificates of deposit, repurchase agreements, federal agency securities, U.S. Treasury notes, corporate notes, municipal bonds and the State Treasury Asset Reserve of Ohio (STAR Ohio). Investments are reported at fair value, except for nonnegotiable certificates of deposit and repurchase agreements, which are reported at cost. Fair value is based on quoted market prices. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price, which is the price the investment could be sold for on December 31, 2012.

Interest earnings are allocated to County funds according to State statutes, grant requirements, or debt related restrictions. Interest revenue credited to the general fund during 2012 was \$287,447 which includes \$222,339 assigned from other County funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2012, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed. Prepaid items are equally offset by nonspendable fund balance in the governmental funds. This indicates that prepaid items do not constitute available expendable resources even though they are a component of current net position.

H. Inventory

Inventory is presented at cost on a first-in, first-out basis and is expended/expensed when used. Inventory consists of expendable supplies held for consumption. Inventory is equally offset by nonspendable fund balance in the governmental funds. This indicates that inventory does not constitute available expendable resources even though it is a component of current net position.

I. Loans Receivable

Loans receivable represent the right to receive repayment for certain loans made by the County. These loans are based upon written agreements between the County and the various loan recipients. Loans receivable are reported net of allowance for doubtful accounts on the basic financial statements. Reported loans receivable is offset by nonspendable fund balance in the governmental funds for the long-term portion not expected to be collected in

DEFIANCE COUNTY

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

the subsequent year. This indicates that it does not constitute available expendable resources even though it is a component of current net position.

J. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by enabling legislation. Restricted assets in the landfill fund represent amounts required by the Environmental Protection Agency (EPA) to be set-aside for closure and postclosure costs.

K. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and disposals during the year. Donated capital assets are recorded at their fair market value on the date donated. The County maintains a capitalization threshold of five thousand dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-type Activities Estimated Lives</u>
Buildings & improvements	20 - 150 years	50 years
Land improvements	N/A	50 years
Roads and bridges	15 - 100 years	N/A
Machinery and equipment	5 - 20 years	5 - 20 years
Vehicles	8 - 15 years	8 - 15 years
Sewer lines	N/A	50 years

L. Interfund Receivables/Payables

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "interfund loans receivable/payable" and "due from/to other funds", respectively. Interfund balances are eliminated on the statement of net position, except for

DEFIANCE COUNTY

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

any net residual amounts due between governmental and business-type activities. These amounts are presented as "internal balances".

M. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable the County will compensate the employees for the benefits through paid time off or some other means. The County records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

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

N. Accrued Liabilities and Long-Term Obligations

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

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

On the government-wide financial statements, bond premiums are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of applicable bond premiums.

O. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "net investment in capital assets," consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through constitutional provisions or enabling legislation adopted or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The County's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

DEFIANCE COUNTY

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

P. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the County is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

Restricted - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Board of Commissioners (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the Board of Commissioners removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the County for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the Board of Commissioners.

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The County applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Q. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the County, these revenues are charges for services for landfill and sewer services, as well as charges for health insurance in the internal service fund. Operating expenses are the necessary costs incurred to provide the service that is the

DEFIANCE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)

primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating.

R. Capital Contributions

Capital contributions on the proprietary fund financial statements arise from contributions from governmental activities, from outside contributions of capital assets, from grants, or from outside contributions of resources restricted to capital acquisition and construction. During 2012, the sewer enterprise fund received capital contributions of \$368,249 in grant revenue intended for capital asset acquisition and construction.

S. Interfund Transactions

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

T. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence. The County reported neither type of transaction during 2012.

U. Estimates

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

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

On government-wide financial statements and in the enterprise funds, issuance costs are expensed during the year in which they are incurred.

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

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

DEFIANCE COUNTY

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

On the governmental-wide financial statements and proprietary fund financial statements bond premiums are recognized in the current period. The reconciliation between the bonds face value and the amount reported on the statement of net position is presented in Note 17.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For 2012, the County has implemented GASB Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements", GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements", GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", and GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities".

GASB Statement No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. An SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The implementation of GASB Statement No. 60 did not have an effect on the financial statements of the County.

GASB Statement No. 62 codifies accounting and financial reporting guidance contained in pre-November 30, 1989 FASB and AICPA pronouncements in an effort to codify all sources of GAAP for State and local governments so that they derive from a single source. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the County.

GASB Statement No. 63 provides financial and reporting guidance for *deferred outflows of resources* and *deferred inflows of resources* which are financial statement elements that are distinct from assets and liabilities. GASB Statement No. 63 standardizes the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's *net position*. The implementation of GASB Statement No. 63 has changed the presentation of the County's financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources.

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as *deferred outflows of resources* or *deferred inflows of resources*, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements *deferred outflows of resources* and *deferred inflows of resources*, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The implementation of GASB Statement No. 65 affected the financial statements of the County as discussed in Note 3.C.

B. Restatement of Governmental Fund Balances

DEFIANCE COUNTY

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

The County's governmental fund balances were restated at December 31, 2011 as a result of the following: 1) the reclassification of both the Auglaize Sewer debt service fund and Auglaize Sewer capital projects fund from the governmental funds (affecting the beginning balance of nonmajor governmental funds) to the sewer fund; and 2) reimbursements due to the job and family services fund from the children services fund (a nonmajor governmental fund) as of December 31, 2011 that were not captured in the prior year's reported amounts of due to/from other funds.

In 2011 the Auglaize Sewer capital projects fund was classified as a major governmental fund with a fund balance of \$243,242, but due to the fund's reclassification from governmental activities it is reported as a reduction to the total beginning fund balance of nonmajor governmental funds in 2012. In 2011 the historical jail debt service fund was classified as a nonmajor governmental fund with a deficit balance of \$317,838, but it is reported as a major governmental fund in 2012. In 2011 the historical jail construction fund was classified as a major governmental fund with a fund balance of \$4,412, but it is reported as a nonmajor governmental fund in 2012. The prior period adjustments had the following effect on the County's governmental fund balances as previously reported:

	Job and Family Services	Other Major Governmental	Nonmajor Governmental	Total Governmental
Fund balance as previously reported	\$ 369,366	\$ 20,498,292	\$ 5,877,444	\$ 26,745,102
Fund reclassifications:				
Historical Jail Construction		(4,412)	4,412	
Historical Jail Debt Service		(317,838)	317,838	
Auglaize Sewer debt service			222,630	222,630
Auglaize Sewer capital projects		(243,242)		(243,242)
Adjustment for due to/from other funds	168,830	_____	(168,830)	_____
Restated fund balance at January 1, 2012	\$ 538,196	\$ 19,932,800	\$ 6,253,494	\$ 26,724,490

C. Restatement of Net Position

The County's governmental activities net position and business-type activities net position were restated at December 31, 2011 as a result of the following: 1) the reclassification of both the Auglaize Sewer debt service fund and Auglaize Sewer capital projects fund from governmental activities to business-type activities as part of the sewer fund; and 2) the reclassification of the Auglaize Sewer Ohio Water Development Authority (OWDA) loan balance from governmental activities to business-type activities as part of the sewer fund. The County's governmental activities net position was also restated at December 31, 2011 to remove unamortized bond issue costs in accordance with the implementation of GASB Statement No. 65.

The prior period adjustments had the following effect on the County's governmental activities net position and business-type activities net position as previously reported:

DEFIANCE COUNTY

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

	<u>Governmental Activities</u>	<u>Landfill Fund</u>	<u>Sewer Fund</u>	<u>Business-type Activities *</u>
Net position as previously reported	\$ 85,130,831	\$ 16,820,257	\$ 11,294,397	\$ 28,091,156
Fund reclassifications:				
Auglaize Sewer debt service	222,630		(222,630)	(222,630)
Auglaize Sewer capital projects	(243,242)		243,242	243,242
Auglaize Sewer OWDA loan balance	2,006,868		(2,006,868)	(2,006,868)
Unamortized bond issue costs	<u>(131,871)</u>	<u> </u>	<u> </u>	<u> </u>
Restated net position				
at January 1, 2012	<u>\$ 86,985,216</u>	<u>\$ 16,820,257</u>	<u>\$ 9,308,141</u>	<u>\$ 26,104,900</u>

* The amounts reported for business-type activities include the December 31, 2011 adjustment for consolidation of the internal service fund related to enterprise funds in the amount of \$23,498.

The above restatement also resulted in restated beginning cash and cash equivalents of \$2,261,097 reported for the sewer enterprise fund on the statement of cash flows.

D. Deficit Fund Balances

Fund balances at December 31, 2012 included the following individual fund deficits:

<u>Major governmental fund</u>	<u>Deficit</u>
Historical jail debt service	\$ 482,092
<u>Nonmajor governmental funds</u>	
Economic development special revenue fund	69
DRETAC - prosecuting attorney special revenue fund	1,809
Moving Ohio Forward grant special revenue fund	4,322
Airport capital projects fund	92,681
Krouse Road capital projects fund	369,282
Elliot Road water and sewer capital projects fund	103,923
Black ditch capital projects fund	53,894

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities and the reporting of short-term interfund loans as a liability rather than as an other financing source.

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances.

The statements of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund, developmental disabilities fund, job and family services fund, motor vehicle license and gas tax fund, emergency 911 fund and senior center fund are presented on the budgetary basis to provide a meaningful comparison of actual

DEFIANCE COUNTY

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

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

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis);
- (e) Investments are reported at fair value (GAAP basis) rather than cost (budget basis); and,
- (f) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

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

Net Change in Fund Balance

	<u>General</u>	<u>Developmental Disabilities</u>	<u>Job and Family Services</u>	<u>Motor Vehicle License and Gas Tax</u>	<u>Emergency 911</u>	<u>Senior Center</u>
Budget basis	\$ (429,365)	\$ (9,290)	\$ (1,193)	\$ (327,862)	\$ (24,975)	\$ (61,020)
Net adjustment for revenue accruals	(28,539)	76,850	(365,778)	(33,641)	3,024	2,819
Net adjustment for expenditure accruals	(37,552)	48,425	(5,343)	47,919	15,978	561
Net adjustment for other sources/uses	147,947					
Funds budgeted elsewhere	58,247					
Adjustment for encumbrances	<u>165,135</u>	<u>116,950</u>	<u>48,497</u>	<u>723,384</u>	<u>33,077</u>	<u>24,097</u>
GAAP basis	<u>\$ (124,127)</u>	<u>\$ 232,935</u>	<u>\$ (323,817)</u>	<u>\$ 409,800</u>	<u>\$ 27,104</u>	<u>\$ (33,543)</u>

Certain funds that are legally budgeted as separate County funds are considered part of the general fund on a GAAP basis. This includes the unclaimed monies fund, trust fund, Defiance County Commissioners fund, County Recorder equipment fund, retirement payoffs fund and certificate of title administration fund.

NOTE 5 - DEPOSITS AND INVESTMENTS

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 demand 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.

DEFIANCE COUNTY

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

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 and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
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 items 1 and 2, above, and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool State Treasury Asset Reserve of Ohio (STAR Ohio);
8. Certain banker's acceptance and commercial paper notes for a period not to exceed one-hundred-eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
9. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

A. Cash on Hand

At year end, the County had \$146,194 in undeposited cash on hand which is included on the financial statements of the County as part of "equity in pooled cash and cash equivalents".

DEFIANCE COUNTY

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

B. Cash with Fiscal Agent

At year end, the County had \$2,161 in cash deposited with a fiscal agent in a bond and coupon account. This amount is not included in the amount of deposits with financial institutions below.

C. Cash in Segregated Accounts

At year end, the County had \$801,162 in cash and cash equivalents deposited separate from the County's internal investment pool. This amount is included in the amount of deposits with financial institutions below.

D. Deposits with Financial Institutions

At December 31, 2012, the carrying amount of all County deposits, including cash in segregated accounts, was \$39,532,502. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2012, \$11,930,785 of the County's bank balance of \$40,909,106 was exposed to custodial risk as discussed below, while \$28,978,321 was covered by the Federal Deposit Insurance Corporation (FDIC).

The County has no deposit policy for custodial risk beyond the requirements of State statute. Custodial credit risk is the risk that, in the event of bank failure, the County's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the County.

E. Investments

As of December 31, 2012, the County had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>			
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>Greater than 24 months</u>
Federal Home Loan Bank	\$ 1,000,490				\$ 1,000,490
Federal Farm Credit Bank	1,004,000				1,004,000
U.S. Treasury Note	127,523				127,523
Corporate Notes	1,013,135		\$ 504,930	\$ 508,205	
Municipal Bonds	994,113		994,113		
Money Market Mutual Fund	6,765,644	\$ 6,765,644			
STAR Ohio	401,106	401,106			
Total	<u>\$ 11,306,011</u>	<u>\$ 7,166,750</u>	<u>\$ 1,499,043</u>	<u>\$ 508,205</u>	<u>\$ 2,132,013</u>

The weighted average maturity of investments is 2.18 years.

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the County's investment policy limits investment portfolio maturities to five years or less. State statute requires that an investment mature

DEFIANCE COUNTY

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

within five years from the date of purchase, unless matched to a specific obligation or debt of the County and that an investment must be purchased with the expectation that it will be held to maturity. State statute limits investments in commercial paper to a maximum maturity of 180 days from the date of purchase. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2% and be marked to market daily.

Credit Risk: The County's investments in federal agency securities, the U.S. Treasury note and the corporate notes were rated AA+ and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio and the Money Market Mutual Fund an AAAM money market rating. The municipal bonds were not rated. The County has no investment policy dealing with investment credit risk beyond the requirements in State statute.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency securities, the U.S. Treasury note, the corporate notes and the municipal bonds are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent, but not in the County's name. The County has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk: The County places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the County at December 31, 2012:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Federal Home Loan Bank	\$ 1,000,490	8.85
Federal Farm Credit Bank	1,004,000	8.88
U.S. Treasury Note	127,523	1.13
Corporate Notes	1,013,135	8.96
Municipal Bonds	994,113	8.79
Money Market Mutual Fund	6,765,644	59.84
STAR Ohio	401,106	3.55
Total	<u>\$ 11,306,011</u>	<u>100.00</u>

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of December 31, 2012.

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 39,532,502
Investments	11,306,011
Cash with fiscal agent	2,161
Cash on hand	146,194
Total	<u>\$ 50,986,868</u>

DEFIANCE COUNTY

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

<u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 24,283,224
Business-type activities	17,692,020
Agency funds	<u>9,011,624</u>
Total	<u>\$ 50,986,868</u>

NOTE 6 - RECEIVABLES

Receivables at December 31, 2012, consisted of accounts (billings for user charged services); sales taxes; accrued interest; intergovernmental receivables arising from grants, entitlements, and shared revenues; interfund; property taxes; loans; and special assessments. All receivables are considered collectible in full and within one year, except for loans and special assessments. Special assessments in the governmental activities, in the amount of \$1,772,583, will not be received within one year.

Loans receivable represent low interest loans for housing and development projects granted to eligible County property owners and businesses under the Federal Community Block Grant program. During 2012, new loans for housing and development projects were issued to the County in the amount of \$473,413. The loans outstanding at December 31, 2012 have annual interest rates from 0 to 8.5% and are to be repaid over periods ranging up to ten years from the balance sheet date. During 2012, principal in the amount of \$52,218 was repaid and \$28,003 in loans receivable were written off. Loans outstanding at December 31, 2012 were \$873,685, net of allowance for doubtful accounts in the amount of \$92,018. Loans receivable, in the amount of \$751,201, will not be received within one year.

A summary of the principal items of intergovernmental receivables follows:

Governmental activities:

Major funds

General fund	
Local government	\$ 207,289
Homestead and rollback	131,619
Other intergovernmental receivables	<u>216,910</u>
Total general fund	<u>555,818</u>
Developmental disabilities fund	
Homestead and rollback	150,515
Other intergovernmental receivables	<u>123,772</u>
Total developmental disabilities fund	<u>274,287</u>
Motor vehicle license and gas tax fund	
Motor vehicle license tax	902,727
Gasoline tax	1,145,341
Other intergovernmental receivables	<u>1,202</u>
Total motor vehicle license and gas tax fund	<u>2,049,270</u>

DEFIANCE COUNTY

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

Emergency 911 fund	
Homestead and rollback	46,534
Senior center fund	
Homestead and rollback	55,840
Other intergovernmental receivables	5,823
Total senior center fund	61,663
Total major funds	\$ 2,987,572
<u>Nonmajor governmental funds</u>	
Children services fund	\$ 93,385
Community development block grant fund	72,000
Sarah's house fund	3,855
WIA fund	416,638
PSI writer grant fund	15,000
Child support enforcement agency fund	12,648
Law library resource fund	1,964
Wireless 911 fund	7,512
Public defender application fee fund	286
Regional jail fund	41,483
Dog and kennel fund	599
Total nonmajor governmental funds	665,370
Total governmental activities	\$ 3,652,942
<u>Business-type activities:</u>	
Sewer fund - Auglaize Sewer grant	\$ 116,239
<u>Agency funds</u>	
Library local government	\$ 574,744
Local government and local government revenue assistance	280,450
Permissive motor vehicle license	111,087
Motor vehicle license tax	202,400
Gasoline tax	496,450
Total agency funds	\$ 1,665,131

NOTE 7 - PERMISSIVE SALES AND USE TAX

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

Vendor collections of the tax are paid to the State Treasurer by the twenty-third day of the month following collection. The State Tax Commissioner certifies to the Office of Budget and

DEFIANCE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)

Management the amount of the taxes to be returned to the County. The Tax Commissioner's certification must be made within forty-five days after the end of each month.

NOTE 8 - PROPERTY TAXES

Property taxes include amounts levied against all real and public utility property located in the County. Taxes collected from real property taxes (other than public utility) in one calendar year are levied in the preceding calendar year on the assessed value as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revalued every six years. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2012 public utility property taxes became a lien December 31, 2011, are levied after October 1, 2012, and are collected in 2013 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County. The County Auditor periodically remits to the taxing districts their portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes, delinquent tangible personal property taxes and other outstanding delinquencies which are measurable as of December 31, 2012 and for which there is an enforceable legal claim. In the governmental funds, the current portion receivable has been offset by a deferred inflow since the current taxes were not levied to finance 2012 operations and the collection of delinquent taxes has been offset by a deferred inflow since the collection of the taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is considered a deferred inflow.

The full tax rate for all County operations for the year ended December 31, 2012 was \$8.91 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2012 property tax receipts were based are as follows:

<u>Real property</u>	
Residential/agricultural	\$ 570,699,750
Commercial/industrial/mineral	108,815,430
<u>Public utility</u>	
Real	532,220
Personal	59,104,760
Total assessed value	<u>\$ 739,152,160</u>

NOTE 9 - CAPITAL ASSETS

Capital asset activity of governmental activities for the year ended December 31, 2012, was as follows:

DEFIANCE COUNTY

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

Governmental activities:	<u>12/31/11</u>	<u>Additions</u>	<u>Disposals</u>	<u>12/31/12</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 886,031	\$ 132,122		\$ 1,018,153
Easements	41,640	52,211		93,851
Construction in progress	<u>4,359</u>	<u>633,595</u>		<u>637,954</u>
Total capital assets, not being depreciated	<u>932,030</u>	<u>817,928</u>		<u>1,749,958</u>
<i>Capital assets, being depreciated:</i>				
Buildings & improvements	22,123,726	1,443,369	\$ (24,061)	23,543,034
Roads and bridges	61,463,176	1,623,241		63,086,417
Machinery and equipment	5,570,496	436,543	(113,660)	5,893,379
Vehicles	<u>3,774,695</u>	<u>281,871</u>	<u>(156,267)</u>	<u>3,900,299</u>
Total capital assets, being depreciated	<u>92,932,093</u>	<u>3,785,024</u>	<u>(293,988)</u>	<u>96,423,129</u>
<i>Less: accumulated depreciation:</i>				
Buildings & improvements	(4,529,088)	(660,539)	7,455	(5,182,172)
Roads and bridges	(21,990,502)	(1,519,675)		(23,510,177)
Machinery and equipment	(4,229,344)	(283,522)	113,660	(4,399,206)
Vehicles	<u>(2,229,187)</u>	<u>(270,144)</u>	<u>138,336</u>	<u>(2,360,995)</u>
Total accumulated depreciation	<u>(32,978,121)</u>	<u>(2,733,880)</u>	<u>259,451</u>	<u>(35,452,550)</u>
Total capital assets being depreciated, net	<u>59,953,972</u>	<u>1,051,144</u>	<u>(34,537)</u>	<u>60,970,579</u>
Governmental activities capital assets, net	<u>\$ 60,886,002</u>	<u>\$ 1,869,072</u>	<u>\$ (34,537)</u>	<u>\$ 62,720,537</u>

Capital asset activity of business-type activities for the year ended December 31, 2012, was as follows:

DEFIANCE COUNTY

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

	Balance		Balance
<u>Business-type activities:</u>	<u>12/31/11</u>	<u>Additions</u>	<u>12/31/12</u>
<i>Capital assets, not being depreciated:</i>			
Land	\$ 1,214,071		\$ 1,214,071
Construction in progress		\$ 142,880	142,880
Total capital assets, not being depreciated	<u>1,214,071</u>	<u>142,880</u>	<u>1,356,951</u>
<i>Capital assets, being depreciated:</i>			
Land improvements	5,626,105	212,388	5,838,493
Buildings & improvements	1,745,969	544,124	\$ 2,228,542
Sewer lines	8,909,138	74,752	(121,446)
Machinery and equipment	2,886,555	1,706,280	(367,853)
Vehicles	183,571	31,800	215,371
Total capital assets, being depreciated	<u>19,351,338</u>	<u>2,569,344</u>	<u>(550,850)</u>
<i>Less: accumulated depreciation:</i>			
Land improvements	(274,940)	(114,646)	(389,586)
Buildings & improvements	(207,755)	(20,592)	24,617
Sewer lines	(1,797,289)	(176,501)	77,725
Machinery and equipment	(2,434,197)	(213,111)	367,853
Vehicles	(142,881)	(7,466)	(150,347)
Total accumulated depreciation	<u>(4,857,062)</u>	<u>(532,316)</u>	<u>470,195</u>
Total capital assets, being depreciated net	<u>14,494,276</u>	<u>2,037,028</u>	<u>(80,655)</u>
Business-type activities capital assets, net	<u>\$ 15,708,347</u>	<u>\$ 2,179,908</u>	<u>\$ (80,655)</u>

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

Governmental activities:	
Legislative and executive	\$ 342,589
Conservation and recreation	3,789
Health	67,695
Human services	323,284
Judicial	5,027
Public safety	148,185
Public works	<u>1,843,311</u>
Total depreciation expense - governmental activities	<u>\$ 2,733,880</u>

Business-type activities:	
Landfill	\$ 283,019
Sewer	<u>249,297</u>
Total depreciation expense - business-type activities	<u>\$ 532,316</u>

NOTE 10 - INTERFUND TRANSACTIONS

DEFIANCE COUNTY

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

- A.** Interfund transfers for the year ended December 31, 2012, consisted of the following, as reported on the fund financial statements:

<u>Transfers from general fund to:</u>	<u>Amount</u>
Nonmajor governmental funds	\$ 1,458,014
Job and family services fund	86,647
Motor vehicle license and gas tax fund	13,174
County improvement fund	55,000
<u>Transfers from nonmajor governmental funds to:</u>	
Nonmajor governmental funds	<u>283,445</u>
Total	<u>\$ 1,896,280</u>

Transfers are used to (1) move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and (4) to move residual equity amounts. Transfers between governmental funds are eliminated on the government-wide financial statements. All transfers were made in accordance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

During 2012, the County passed resolutions to convert advances made in prior years from the general fund to nonmajor governmental funds in the amount of \$665,000 to transfers. The DETDITCH fund (a nonmajor governmental fund) transferred \$411 to the ditch maintenance fund (a nonmajor governmental fund) to close out the dowe ditch debt service fund, which is part of the DETDITCH fund. The DETDITCH fund and senior center debt service fund (a nonmajor governmental fund) transferred \$18,034 and \$100,000, respectively, to the black ditch capital projects fund (a nonmajor governmental fund) and senior center capital projects fund (a nonmajor governmental fund), respectively, in order to record principal and interest payments related to notes payable in the appropriate funds. The community development block grant fund (a nonmajor governmental fund) transferred \$165,000 to the Defiance County revolving loan fund (a nonmajor governmental fund) to record loans receivable in the appropriate fund.

- B.** Due from/to other funds consisted of the following at December 31, 2012, as reported on the fund financial statements:

DEFIANCE COUNTY

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General fund	Job and family services fund	\$ 2,179
General fund	Motor vehicle license and gas tax fund	5,918
General fund	Senior center fund	1,029
General fund	Landfill fund	30
General fund	Sewer fund	1,898
General fund	Nonmajor governmental funds	10,503
Motor vehicle license and gas tax fund	General fund	12,683
Motor vehicle license and gas tax fund	Landfill fund	85
Motor vehicle license and gas tax fund	Sewer fund	98
Motor vehicle license and gas tax fund	Nonmajor governmental funds	2,101
Landfill fund	Nonmajor governmental funds	55
Nonmajor governmental funds	General fund	1,025
Nonmajor governmental funds	Job and family services fund	247
Nonmajor governmental funds	Nonmajor governmental funds	<u>30,055</u>
Total		<u>\$ 67,906</u>

Amounts due from/to other funds represent amounts owed between funds for goods or services provided. The balances resulted from the time lag between the dates that payments between the funds are made. Interfund balances between governmental funds are eliminated on the government-wide financial statements. Interfund balances between governmental activities and business-type activities are reported as an internal balance on the statement of net position.

C. Interfund loans payable/receivable consisted of the following at December 31, 2012:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General fund	Historical jail debt service fund	\$ 1,700,000
General fund	Sewer fund	1,529,483
General fund	Internal service fund	200,000
General fund	Nonmajor governmental funds	<u>1,265,185</u>
Total		<u>\$ 4,694,668</u>

The interfund loan balances result from resources provided by the receivable fund to the payable fund to provide cash flow resources until anticipated revenues are received.

The entire balance of interfund receivable is reported as nonspendable fund balance as it is not expected to be received within one year. Interfund balances between governmental funds are eliminated on the government-wide financial statements. Interfund balances between governmental activities and business-type activities are reported as an internal balance on the statement of net position.

NOTE 11 - RISK MANAGEMENT

A. General Liability

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

DEFIANCE COUNTY

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

Property	78,085,660
Equipment Breakdown	100,000,000
General Liability	1,000,000
Commercial Crime	1,000,000
Excess Liability	9,000,000
Automobile Liability	1,000,000
Law Enforcement Liability	1,000,000
Errors and Omission Liability	1,000,000

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

B. Health Benefits

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

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

Claims payable is based on the requirements of Governmental Accounting Standards Board Statement No. 30 "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred, but not reported claims, be reported if information prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount can be reasonably estimated. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Claims payable at December 31, 2012 is estimated by a third party administrator at \$151,810. The changes in the claims liability for 2012 and 2011 were:

	Balance at Beginning of Year	Current Year Claims and Changes in Estimates	Claims Payments	Balance at End of Year
2012	\$ 191,645	\$ 2,160,302	\$ (2,200,137)	\$ 151,810
2011	210,551	2,456,961	(2,475,867)	191,645

C. Workers' Compensation

For 2012, the County participated in the County Commissioners Association Service Corporation (Plan), a workers' compensation insurance purchasing pool. The Plan is intended to achieve lower workers' compensation rates while establishing safer working

DEFIANCE COUNTY

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

conditions and environments for the participants. The workers' compensation experience of the participating counties is calculated as one experience and a common premium rate is applied to all participants in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. In order to allocate the savings derived by formation of the Plan, and to maximize the number of participants in the Plan, annually the Plan's executive committee calculates the total savings which accrued to the Plan through its formation. This savings is then compared to the overall savings percentage of the Plan. The Plan's executive committee then collects rate contributions from or pays rate equalization rebates to the various participants.

Participation in the Plan is limited to counties that can meet the Plans' selection criteria. The firm of Comp Management, Inc. provides administrative, cost control, and actuarial services to the Plan. Each year, the County pays an enrollment fee to the Plan to cover the costs of administering the program.

The County may withdraw from the Plan if written notice is provided sixty days prior to the prescribed application deadline of the Ohio Bureau of Workers' Compensation. However, the participant is not relieved of the obligation to pay any amounts owed to the Plan prior to withdrawal and any participant leaving the Plan allows representatives of the Plan to access loss experience for three years following the last year of participation.

NOTE 12 - SIGNIFICANT CONTRACTUAL COMMITMENTS

The County has outstanding contracts for professional services and construction. The following amounts remain on these contracts as of December 31, 2012:

<u>Vendor</u>	<u>Contract Amount</u>	<u>Amount Paid as of 12/31/12</u>	<u>Outstanding Balance</u>
Mannik and Smith Group, Inc.	\$ 370,000	\$ (267,988)	\$ 102,012
Digital Data Technologies, Inc.	126,000	(119,000)	7,000
Appraisal Research Corporation	178,200	(39,102)	139,098
BRS	140,748	(125,412)	15,336
Job Works	85,000	(62,577)	22,423
Poggemeyer Design Group, Inc.	630,215	(628,888)	1,327
Underground Utilities, Inc.	2,784,720	(2,776,985)	7,735
Helms & Sons	<u>595,000</u>	<u> </u>	<u>595,000</u>
Total	<u>\$ 4,909,883</u>	<u>\$ (4,019,952)</u>	<u>\$ 889,931</u>

NOTE 13 - PENSION PLANS

A. Ohio Public Employees Retirement System

Plan Description - The County participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The Combined

DEFIANCE COUNTY

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

Plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the Combined Plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the Traditional Pension Plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the Member-Directed Plan. While members in the State and local divisions may participate in all three plans, law enforcement (generally sheriffs, deputy sheriffs and township police) and public safety divisions exist only within the Traditional Pension Plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions. For 2012 member and contribution rates were consistent across all three plans. While members in the State and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Plan. The 2012 member contribution rates were 10.00% for members in State and local classifications. Public safety and law enforcement members contributed 11.50% and 12.10%, respectively. The County's contribution rate for 2012 was 14.00%, except for those plan members in law enforcement or public safety, for whom the County's contribution was 18.10% of covered payroll.

The County's contribution rate for pension benefits for members in the Traditional Plan for 2012 was 10.00%. The County's contribution rate for pension benefits for members in the Combined Plan was 7.95%. For those plan members in law enforcement and public safety pension contributions were 14.10%. The County's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2012, 2011, and 2010 were \$1,114,077, \$1,156,621, and \$1,030,736, respectively; 89.24% has been contributed for 2012 and 100% has been contributed for 2011 and 2010. The remaining 2012 pension liability has been reported as due to other governments payable on the basic financial statements. Contributions to the Member-Directed Plan for 2012 were \$37,260 made by the County and \$26,614 made by the plan members.

B. State Teachers Retirement System

Plan Description – Certain employees, employed by the County Board of Developmental Disabilities, participate in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org, under "Publications".

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned

DEFIANCE COUNTY

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For 2012, plan members were required to contribute 10.00% of their annual covered salaries. The County was required to contribute 14.00%; 13.00% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10.00% for members and 14.00% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The County's required contributions for pension obligations to STRS Ohio for the years ended December 31, 2012, 2011, and 2010 were \$111,580, \$109,041, and \$110,983, respectively; 100% has been contributed for 2012, 2011, and 2010.

NOTE 14 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement

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

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

Disclosures for the healthcare plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

DEFIANCE COUNTY

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

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

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2012 local government employers contributed 14.00% of covered payroll (18.10% for public safety and law enforcement). Each year the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for the funding of the post-employment health care benefits. The portion of employer contributions allocated to fund post-employment healthcare for members in the Traditional Plan for 2012 was 4.00%. The portion of employer contributions allocated to fund post-employment healthcare for members in the Combined Plan for 2012 was 6.05%.

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

The County's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2012, 2011, and 2010 were \$435,003, \$451,612, and \$566,337, respectively; 89.24% has been contributed for 2012 and 100% has been contributed for 2011 and 2010. The remaining 2012 post-employment health care benefits liability has been reported as due to other governments payable on the basic financial statements.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under State Bill 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4% of the employer contributions toward the health care fund after the end of the transition period.

B. State Teachers Retirement System

Plan Description - The County contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org, under "Publications" or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. The County's contributions for health care for the years ended December 31, 2012, 2011, and 2010 were \$8,583, \$8,388, and \$8,537, respectively; 100% has been contributed for 2012, 2011, and 2010.

DEFIANCE COUNTY

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

NOTE 15 - OTHER BENEFITS

A. Compensated Absences

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

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

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

B. Health Care Benefits

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

The employees paid from the developmental disabilities special revenue fund are provided health care, vision, and dental benefits through the Northern Buckeye Health Plan – Northwest Division of Optimal Health Initiative Consortium.

NOTE 16 - SHORT-TERM OBLIGATIONS

The County's short-term note activity for the year ended December 31, 2012, was as follows:

	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Balance 12/31/11</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/12</u>
Governmental activities:						
Black ditch - 2011	10/9/2011	1.50%	\$ 70,700		\$ (70,700)	
Senior center - 2011	3/18/2011	1.55%	100,000		(100,000)	
Black ditch - 2012	10/4/2012	1.50%	<u> </u>	\$ 53,700	<u> </u>	\$ 53,700
Total			<u>\$ 170,700</u>	<u>\$ 53,700</u>	<u>\$ (170,700)</u>	<u>\$ 53,700</u>

The black ditch notes were issued for ditch improvements. The senior center notes were issued for improvements related to the senior center building and represent the portion of the 2011 note issuance that was retired when the notes were refinanced as general obligation bonds on March 15, 2012 (See Note 17 for detail).

The County's general obligation notes are backed by the full faith and credit of the County and have a maturity of one year.

NOTE 17 - LONG-TERM OBLIGATIONS

The original issue date, interest rate, original issue amount and balance at December 31, 2012 for the County's long-term obligations are as follows:

DEFIANCE COUNTY

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

	<u>Original Issue Date</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>	<u>Balance 12/31/2012</u>
<u>General obligation bonds:</u>				
Various purpose improvement	2005	5.25%	\$ 375,000	\$ 275,000
Refunding bonds, series 2010	2010	2 - 4%	1,680,000	1,365,000
Various purpose, series 2010	2010	1.25 - 6.1%	2,385,000	2,080,000
Senior center	2012	1.5%	300,000	300,000
<u>Special assessment bonds:</u>				
Platter creek	2004	2.25 - 5%	425,000	300,000
Refunding bonds, series 2010	2010	2 - 4%	645,000	505,000
<u>Revenue bonds:</u>				
Green acres	2005	4.1%	60,000	55,700
Auglaize sewer	2012	2.75%	1,977,000	1,977,000
<u>OPWC loans:</u>				
Evansport water	1999	0%	468,050	163,817
<u>OWDA loans:</u>				
Express sewer	2002	1.5%	1,356,038	728,587
Auglaize sewer	2010	1.37%	2,006,868	54,171
<u>Capmark Commercial Mortgage:</u>				
Sewer	1980	5%	146,300	56,000

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

The County's long-term obligations were restated at December 31, 2011 due to the reclassification of the Auglaize Sewer OWDA loan that was associated with the Auglaize Sewer debt service fund and Auglaize Sewer capital projects fund. These funds were reclassified from governmental activities to business-type activities as part of the sewer fund at December 31, 2011, and therefore the associated long-term obligation was also reclassified. The County's long-term obligations activity for the year ended December 31, 2012, was as follows:

DEFIANCE COUNTY

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

	(Restated) Balance 12/31/11	Additions	Reductions	Balance 12/31/12	Due Within One Year
Governmental activities:					
<u>General obligation bonds:</u>					
Various purpose improvement	\$ 2,475,000		\$ (120,000)	\$ 2,355,000	\$ 125,000
Refunding bonds, series 2010	1,470,000		(105,000)	1,365,000	105,000
Senior center		\$ 300,000		300,000	100,000
Total general obligation bonds	<u>3,945,000</u>	<u>300,000</u>	<u>(225,000)</u>	<u>4,020,000</u>	<u>330,000</u>
<u>Special assessment bonds:</u>					
Refunding bonds, series 2010	550,000		(45,000)	505,000	45,000
Platter creek	320,000		(20,000)	300,000	20,000
Total special assessment bonds	<u>870,000</u>		<u>(65,000)</u>	<u>805,000</u>	<u>65,000</u>
<u>Other long-term obligations:</u>					
Bond anticipation notes payable	344,300		(344,300)		
OPWC loans payable	187,220		(23,403)	163,817	23,402
OWDA loans payable	795,635		(67,048)	728,587	68,057
Capital lease obligations	138,709	9,450	(67,033)	81,126	33,389
Compensated absences	996,103	644,741	(561,237)	1,079,607	537,589
Total other long-term obligations	<u>2,461,967</u>	<u>654,191</u>	<u>(1,063,021)</u>	<u>2,053,137</u>	<u>662,437</u>
Total governmental activities					
long-term obligations	<u>\$ 7,276,967</u>	<u>\$ 954,191</u>	<u>\$ (1,353,021)</u>	6,878,137	<u>\$ 1,057,437</u>
				Add: Unamortized Premium	28,196
				Total on Statement of Net Position	<u>\$ 6,906,333</u>

	(Restated) Balance 12/31/11	Additions	Reductions	Balance 12/31/12	Due Within One Year
Business-type activities:					
<u>Revenue bonds:</u>					
Sewer revenue bonds	\$ 56,500	\$ 1,977,000	\$ (800)	\$ 2,032,700	\$ 27,300
<u>Other long-term obligations:</u>					
Capmark commercial mortgage	62,000		(6,000)	56,000	6,000
OWDA loans payable	2,006,868	26,196	(1,978,893)	54,171	54,171
Closure and postclosure liability	3,839,572	180,836		4,020,408	
Compensated absences	104,599	31,999	(34,774)	101,824	32,438
Total other long-term obligations	<u>6,013,039</u>	<u>239,031</u>	<u>(2,019,667)</u>	<u>4,232,403</u>	<u>92,609</u>
Total business-type activities					
long-term obligations	<u>\$ 6,069,539</u>	<u>\$ 2,216,031</u>	<u>\$ (2,020,467)</u>	<u>\$ 6,265,103</u>	<u>\$ 119,909</u>

A. Various Purpose General Obligation Bonds, Series 2005

These general obligation bonds were issued in 2005 to provide funds for the improvement of the Doty Run ditch and the State Route 66 sewer. The general obligation bonds reported as governmental activities obligations are payable from special assessments, to the extent these resources are available.

The general obligation bonds of the County are subject to mandatory sinking redemption requirements, in part by lot, pursuant to the terms of the mandatory sinking fund redemption

DEFIANCE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)

requirements of the authorizing legislation. That mandatory redemption is to occur on December 1 in each year, at a redemption price equal to 100% of the principal amount plus accrued interest to the redemption date.

The term bonds maturing on December 1, 2020, are subject to mandatory sinking fund redemption, pursuant to the terms of the mandatory sinking fund redemption requirements of the County. The mandatory redemption is to occur on December 1 in each of the years 2010 through 2020 (with the balance of \$190,000 to be paid at stated maturity on December 1, 2020), at a redemption price equal to 100% of the principal amount redeemed, plus accrued interest to the redemption date, according to the following schedule:

<u>Year</u>	<u>Amount</u>
2013	\$ 15,000
2014	15,000
2015	15,000
2016	15,000
2017	15,000
2018	15,000
2019	15,000
2020	20,000

The term bonds maturing on December 1, 2025, are subject to mandatory sinking fund redemption, pursuant to the terms of the mandatory sinking fund redemption requirements of the County. The mandatory redemption is to occur on December 1 in each of the years 2010 through 2025 (with the balance of \$185,000 to be paid at stated maturity on December 1, 2025), at a redemption price equal to 100% of the principal amount redeemed, plus accrued interest to the redemption date, according to the following schedule:

<u>Year</u>	<u>Amount</u>
2013	\$ 10,000
2014	10,000
2015	10,000
2016	10,000
2017	10,000
2018	10,000
2019	10,000
2020	10,000
2021	10,000
2022	15,000
2023	15,000
2024	15,000
2025	15,000

The general obligation bonds are also subject to prior redemption on or after December 1, 2015 by and at the sole option of the County, either in whole or in part on any date, in integral multiples of \$5,000 and by lot within a maturity, at the redemption price of par, plus accrued interest to the redemption date.

B. Various Purpose General Obligation Bonds, Series 2010

DEFIANCE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)

On March 11, 2010, the County issued general obligation bonds (Various Purpose General Obligation Bonds, Series 2010) to finance capital improvements related to the County's historical jail. The bonds will mature on December 1, 2029 and all principal and interest payments related to the bonds are recorded as expenditures in the historical jail debt service fund.

The bonds due December 1, 2019 are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2015, and on each December 1 thereafter at 100% of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

<u>Year Ended</u> <u>(December 1)</u>	<u>Principal Amount to</u> <u>be Redeemed</u>
2015	\$ 5,000
2016	5,000
2017	10,000
2018	10,000

Unless otherwise called for redemption, the remaining \$100,000 principal amount on the bonds due December 1, 2019 is to be paid at stated maturity.

The bonds due December 1, 2029 are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2021, and on each December 1 thereafter at 100% of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

<u>Year Ended</u> <u>(December 1)</u>	<u>Principal Amount to</u> <u>be Redeemed</u>
2021	\$ 115,000
2022	120,000
2023	125,000
2024	135,000
2025	145,000
2026	150,000
2027	160,000
2028	170,000

Unless otherwise called for redemption, the remaining \$180,000 principal amount on the bonds due December 1, 2029 is to be paid at stated maturity.

The bonds maturing on and after December 1 2020 are subject to optional redemption at the option of the County on or after December 1, 2019, in whole or in part (in the amount of \$5,000 or any integral multiple thereof) on any date at the redemption price of par, plus accrued interest to the date fixed for redemption. The bonds are subject to optional redemption by the County prior to maturity, in whole at any time or in part on any interest payment date, in the event that the payments from the federal government cease or are in an amount less than 45% of the corresponding interest payable on the bonds at a redemption price equal to the greater of:

- (1) The issue price, but not less than 100% of the principal amount of such bonds to be redeemed; or

DEFIANCE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)

(2) The sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of such bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such bonds are not to be redeemed, discounted to the date on which such bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the treasury rate plus 100 basis points.

In each case, this is in addition to accrued interest on such bonds to be redeemed at the redemption date. If fewer than all such bonds are to be redeemed, the particular bonds shall be selected on a prorate basis.

C. Various Purpose General Obligation Refunding Bonds, Series 2010

On February 25, 2010, the County issued general obligation bonds (Various Purpose General Obligation Refunding Bonds, Series 2010) to advance refund the callable portion of the Various Purpose General Obligation Bonds, Series 1999. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net position.

The reacquisition price exceeded the net carrying amount of the old debt by \$46,010. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt as a deferred outflow of resources. This advance refunding was undertaken to reduce the combined total debt service payments over the next 14 years by \$241,584 and resulted in an economic gain of \$185,280.

General obligation bonds are direct obligations of the County for which its full faith and credit are pledged for repayment.

The bonds due December 1, 2022 are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2021, and on each December 1 thereafter at 100% of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

<u>Year Ended</u> <u>(December 1)</u>	<u>Principal Amount to</u> <u>be Redeemed</u>
2021	\$ 115,000

Unless otherwise called for redemption, the remaining \$115,000 principal amount on the bonds due December 1, 2019 is to be paid at stated maturity.

The bonds due December 1, 2024 are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2023, and on each December 1 thereafter at 100% of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

<u>Year Ended</u> <u>(December 1)</u>	<u>Principal Amount to</u> <u>be Redeemed</u>
2023	\$ 125,000

Unless otherwise called for redemption, the remaining \$125,000 principal amount on the bonds due December 1, 2024 is to be paid at stated maturity.

DEFIANCE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)

The bonds maturing on and after December 1 2020 are subject to optional redemption at the option of the County on or after December 1, 2019, in whole or in part (in the amount of \$5,000 or any integral multiple thereof) on any date at the redemption price of par, plus accrued interest to the date fixed for redemption.

D. Senior Center Improvement General Obligation Bonds

On March 15, 2012, the County issued \$300,000 in general obligation bonds to finance capital improvements related to the County's senior center building. The bonds bear interest at the annual rate of 1.5% and are scheduled to mature on March 15, 2015. Principal and interest payments made on the bonds will begin on March 15, 2013 and will be paid from the senior center debt service fund (a nonmajor governmental fund).

E. Special Assessment Bonds

The special assessment bonds are backed by the full faith and credit of the County. In the event that an assessed property owner fails to make payments or insufficient amounts are assessed to fund the debt, the County will be required to pay the related debt. The special assessment bonds are paid from the DETDITCH debt service fund (a nonmajor governmental fund).

F. Brunersburg Sewer Special Assessment Refunding Bonds, Series 2010

On February 25, 2010, the County issued special assessment bonds (Brunersburg Sewer Special Assessment Refunding Bonds, Series 2010) to advance refund the callable portion of the Brunersburg Sewer Special Assessment Bonds, Series 2002. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net position.

The reacquisition price exceeded the net carrying amount of the old debt by \$6,986. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt as a deferred outflow of resources. This advance refunding was undertaken to reduce the combined total debt service payments over the next 12 years by \$51,371 and resulted in an economic gain of \$46,437.

The bonds due December 1, 2022 are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2021, and on each December 1 thereafter at 100% of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

<u>Year Ended</u> <u>(December 1)</u>	<u>Principal Amount to</u> <u>be Redeemed</u>
2021	\$ 60,000

Unless otherwise called for redemption, the remaining \$30,000 principal amount on the bonds due December 1, 2019 is to be paid at stated maturity.

G. Revenue Bonds

In 2005, the County issued sewer revenue bonds in the amount of \$60,000 for the Green Acres sewer system. On November 26, 2012, the County issued sewer revenue bonds in the amount of \$1,977,000 for the Auglaize sewer project. The County has pledged future sewer

DEFIANCE COUNTY

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

revenues to repay these revenue bonds, which are payable solely from sewer fund revenues and are payable through 2052. The total principal and interest remaining to be paid on the bonds is \$3,386,538.

H. OPWC Loans Payable

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

I. OWDA Loans Payable

The County has entered into debt financing arrangements through the Ohio Water Development Authority (OWDA) to fund construction of wastewater facilities and the Auglaize sewer. The amounts due to the OWDA related to the wastewater facilities are payable from the express sewer debt service fund (a nonmajor governmental fund). The loan related to the Auglaize sewer project was increased by \$26,196 and then reduced by \$1,978,893 in principal payments made by the sewer enterprise fund using the proceeds of sewer revenue bonds issued during 2012 (See Note 17.G for detail). The remaining balance on the Auglaize sewer loan is scheduled to mature in 2013 and will be retired by the sewer enterprise fund. The loan agreements function similar to a line-of-credit agreement. At December 31, 2012, the County has outstanding borrowings of \$782,758. The loan agreements require semi-annual payments based on the actual amount owed.

J. Capmark Financial Group Incorporated (formerly GMAC) Commercial Mortgage Payable

In 1980, the County obtained a loan through the GMAC Commercial Mortgage Corporation, in the amount of \$146,300, for the Evansport sewer system. In 2006, Capmark Financial Group, Incorporated acquired GMAC Commercial Mortgage Corporation. The loan, being repaid from the sewer enterprise fund with charges for sewer service, is backed by the full faith and credit of the County should these revenues be insufficient to service the mortgage debt requirements.

K. Bond Anticipation Notes Payable

In 2011, the County entered into bond anticipation notes for \$44,300 to finance ditch improvements and \$300,000 to finance improvements to the senior center. The County's bond anticipation notes were reported as long-term obligations as the County had consummated refinancing on a long-term basis prior to the issuance of the 2011 financial statements. The portion of the 2011 senior center note issuance that was not refinanced through the issuance of the senior center bonds on March 15, 2012 (See Note 17.D for detail) was reported as short-term notes payable in Note 16. Bond anticipation notes are backed by the full faith and credit of the County.

L. Compensated Absences Payable

The compensated absences liability will be paid from the fund from which the employees' salaries are paid. These funds include the general fund, dog and kennel fund (a nonmajor governmental fund), developmental disabilities fund, job and family services fund, real estate assessment fund (a nonmajor governmental fund), motor vehicle license and gas tax fund, the DARE fund (a nonmajor governmental fund), child support enforcement agency fund (a

DEFIANCE COUNTY

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

nonmajor governmental fund), ditch maintenance fund (a nonmajor governmental fund), emergency 911 fund, joint solid waste fund (a nonmajor governmental fund), senior center fund, Sarah's house fund (a nonmajor governmental fund), felony delinquent care custody fund (a nonmajor governmental fund), landfill enterprise fund and sewer enterprise fund.

M. Capital Lease Obligations

Capital leases will be paid from the general fund, developmental disabilities fund, child support enforcement agency fund (a nonmajor governmental fund) and senior center fund. See Note 19 for further detail.

N. Legal Debt Margin

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

The effect of the debt limitations described above is an overall debt margin of \$12,950,738 at December 31, 2012.

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

<u>Year Ended</u>	Governmental Activities					
	General Obligation Bonds			Special Assessment Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 330,000	\$ 179,076	\$ 509,076	\$ 65,000	\$ 30,880	\$ 95,880
2014	325,000	171,412	496,412	70,000	29,100	99,100
2015	320,000	163,100	483,100	70,000	27,075	97,075
2016	225,000	153,287	378,287	70,000	24,825	94,825
2017	235,000	144,175	379,175	75,000	22,325	97,325
2018 - 2022	1,225,000	563,897	1,788,897	395,000	64,125	459,125
2023 - 2027	1,010,000	262,318	1,272,318	60,000	4,500	64,500
2028 - 2029	350,000	32,330	382,330			
Total	<u>\$ 4,020,000</u>	<u>\$ 1,669,595</u>	<u>\$ 5,689,595</u>	<u>\$ 805,000</u>	<u>\$ 202,830</u>	<u>\$ 1,007,830</u>

DEFIANCE COUNTY

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

Governmental Activities				
Year Ended	OPWC Loans		OWDA Loans	
	Principal	Principal	Interest	Total
2013	\$ 23,402	\$ 68,057	\$ 10,674	\$ 78,731
2014	23,403	69,082	9,650	78,732
2015	23,402	70,122	8,610	78,732
2016	23,403	71,178	7,554	78,732
2017	23,402	72,250	6,482	78,732
2018 - 2022	46,805	377,898	15,773	393,671
Total	\$ 163,817	\$ 728,587	\$ 58,743	\$ 787,330

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

Business-type Activities							
Year Ended	Revenue Bonds			Capmark Commercial Mortgage			OWDA Loans
	Principal	Interest	Total	Principal	Interest	Total	Principal
2013	\$ 27,300	\$ 54,133	\$ 81,433	\$ 6,000	\$ 2,800	\$ 8,800	\$ 54,171
2014	29,400	55,904	85,304	6,000	2,500	8,500	
2015	30,200	55,083	85,283	6,000	2,200	8,200	
2016	30,900	54,382	85,282	7,000	1,900	8,900	
2017	32,000	53,377	85,377	7,000	1,550	8,550	
2018 - 2022	173,400	253,141	426,541	24,000	2,400	26,400	
2023 - 2027	199,000	227,510	426,510				
2028 - 2032	228,400	198,162	426,562				
2033 - 2037	262,300	164,199	426,499				
2038 - 2042	301,200	125,294	426,494				
2043 - 2047	339,600	80,684	420,284				
2048 - 2052	379,000	31,872	410,872				
Total	\$ 2,032,700	\$ 1,353,741	\$ 3,386,441	\$ 56,000	\$ 13,350	\$ 69,350	\$ 54,171

Conduit Debt:

In 2001, the County issued \$2,325,000 in Adjustable Rate Demand Economic Development Revenue Refunding Bonds. The proceeds were used for the refunding of economic development revenue bonds issued in 1982 to acquire and construct a supermarket. The County is not obligated in any way to pay the debt charges on the bonds from any of its funds, and therefore, the debt has been excluded entirely from the County's debt presentation. As of December 31, 2012, \$2,325,000 of these bonds was outstanding.

In 2005, the County issued \$700,000 in Ohio Economic Development Revenue Bonds for the purpose of making a loan to assist the Defiance Area YMCA in financing a portion of the cost of acquiring, constructing, improving, installing, and equipping gymnasiums and related facilities. The County is not obligated in any way to pay the debt charges on the bonds from any of its funds, and therefore, the debt has been excluded entirely from the County's debt presentation. As of December 31, 2012, \$563,529 of these bonds was outstanding.

DEFIANCE COUNTY

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

In 2007, the County issued \$1,407,600 in Health Care Facilities Revenue Bonds. The proceeds were used to provide Hospital Facilities at the lowest possible cost to service the residents of the Public Hospital Agencies, which hospital facilities will be available for the service of the general public. The County is not obligated in any way to pay the debt charges on the bonds from any of its funds, and therefore, the debt has been excluded entirely from the County's debt presentation. As of December 31, 2012, \$1,174,278 of these bonds was outstanding.

In 2009, the County issued \$11,500,000 in Multifamily Housing Mortgage Revenue Bonds. The proceeds were loaned to Defiance County Health Partners, LLC to finance the acquisition, construction, and equipping of an assisted living multifamily residential housing rental housing facility. The County is not obligated in any way to pay the debt charges on the bonds from any of its funds, and therefore, the debt has been excluded entirely from the County's debt presentation. As of December 31, 2012, \$11,500,000 of these bonds was outstanding.

NOTE 18 - CLOSURE AND POSTCLOSURE CARE COSTS

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

The \$4,020,408 reported as landfill closure and postclosure costs payable at December 31, 2012, represents the cumulative amount reported to date based on the use of 46% of the estimated capacity of the landfill. The County will recognize the remaining estimated costs of closure and postclosure of \$4,739,592 as the remaining estimated capacity is filled. This amount is based on what it would cost to perform all closure and postclosure care in 2012. For financial assurance purposes, Ohio EPA requires closure and postclosure costs to be reported based on the worst case scenario of when closure will occur. For 2012, the liabilities total \$1,941,312 for closure and \$2,079,096 for postclosure costs. The County expects the landfill to have a remaining life of 68 years. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The County is required by state and federal laws and regulations to either make annual contributions to an EPA controlled trust fund or demonstrate financial assurance through the "Local Government Financial Test". For 2012, the County met the Local Government Financial Test requirements.

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

NOTE 19 - CAPITALIZED LEASE - LESSEE DISCLOSURE

During 2012 and in prior years, the County entered into capitalized leases for two buses, two copiers, telephone systems and telephone equipment. These lease agreements meet the criteria of capital leases as defined by generally accepted accounting principles, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital

DEFIANCE COUNTY

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of equipment and vehicles have been capitalized in the statement of net position. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in 2012 totaled \$27,824 paid by the general fund, \$36,319 paid by the developmental disabilities fund, \$1,516 paid by the child support enforcement agency fund (a nonmajor governmental fund) and \$1,374 paid by the senior center fund. The County acquired a copier in the general fund through a capital lease during 2012 in the amount of \$9,450.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of December 31, 2012:

<u>Year Ending December 31,</u>	<u>Amount</u>
2013	\$ 37,881
2014	32,610
2015	14,015
2016	2,210
2017	<u>2,026</u>
Total minimum lease payments	88,742
Less amount representing interest	<u>(7,616)</u>
Total	<u>\$ 81,126</u>

NOTE 20 - JOINTLY GOVERNED ORGANIZATIONS

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

The Northwest Ohio Juvenile Detention, Training, and Rehabilitation Center (Center) is a jointly governed organization among Defiance, Fulton, Henry, and Williams Counties. The Center's Board of Trustees consists of thirteen members; three from each County and one at-large member. The Board of Trustees exercises total control over the operation of the Center including budgeting, contracting, and designating management. The County has no ongoing financial interest or responsibility for the Center. In 2012, Defiance County contributed \$289,675 for the Center's operations which represents 20.2% of total contributions. Information can be obtained from Nancy J. Yackee, Fulton County Auditor, 152 South Fulton Avenue, Suite 165, Wauseon, Ohio 43567.

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

The Four County Board of Alcohol, Drug Addiction, and Mental Health Services (ADAMHS) is a jointly governed organization among Defiance, Fulton, Henry, and Williams Counties to provide alcohol, drug addiction, and mental health services to individuals in the four counties. The Governing Board of ADAMHS consists of eighteen members; four members appointed by the Ohio Director of Alcohol and Drug Addiction Services, four members appointed by the

DEFIANCE COUNTY

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

Ohio Director of Mental Health Services, Defiance and Fulton County Commissioners appointing three members each, and Henry and Williams County Commissioners appointing two members each. The Governing Board exercises total control over the operation of the ADAMHS including budgeting, contracting, and designating management. The County has no ongoing financial interest or responsibility for the ADAMHS. In 2012, Defiance County contributed \$1,325,195 in property taxes for the ADAMHS' operation which represents 14% of total contributions. Information can be obtained from Marlene J. Goodwin, Defiance County Auditor, 500 Second Street, Defiance, Ohio 43512.

C. Corrections Commission of Northwest Ohio

Corrections Commission of Northwest Ohio (CCNO) is a jointly governed organization among Defiance, Fulton, Henry, Lucas, and Williams Counties and the City of Toledo. CCNO was established to provide jail space for convicted criminals in the five counties and the City of Toledo and to provide a correctional center for the inmates. CCNO was created in 1986 and occupancy started in 1991. The commission team consists of eighteen members; one judge, one chief law enforcement officer, and one county commissioner or administrative official from each entity. The commission team exercises total control over the operation of CCNO including budgeting, contracting, and designating management. The County has no ongoing financial interest or responsibility for CCNO. In 2012, Defiance County contributed \$1,310,207 for CCNO's operations which represents 9.6% of total contributions. Information can be obtained from Tonya Justus, Fiscal Manager, Corrections Commission of Northwest Ohio, 03151 County Road 2425, Route 1, Box 100-A, Stryker, Ohio 43557.

D. Four County Solid Waste District

The Four County Solid Waste District (District) is a jointly governed organization among Defiance, Fulton, Paulding, and Williams Counties to make disposal of waste in the four-county area more comprehensive in terms of recycling, incinerating, and landfilling. The District was created in 1989. The Board of Directors consists of twelve members; the three commissioners from each county. The Board of Directors exercises total control over the operation of the District including budgeting, contracting, and designating management. The County has no ongoing financial interest or responsibility for the District. In 2012, Defiance County contributed \$105,666 for the District's operations which represents 44.57% of total contributions. Information can be obtained from Deborah Nester, Williams County Auditor, One Courthouse Square, Bryan, Ohio 43506.

E. Multi-Area Narcotics Task Force

The Multi-Area Narcotics Task Force (Task Force) is a jointly governed organization among Defiance, William, Fulton, and Putnam Counties and the Cities of Defiance and Bryan. The Task Force is jointly controlled by the chief law enforcement officer of each respective entity. The main source of revenue for the Task Force is from federal grants and local matching funds from the entities. The County has no ongoing financial interest or responsibility for the Task Force. In 2012, Defiance County did not make any contributions to the Task Force's operations. Information can be obtained from the Defiance County Sheriff's office, 113 Beide Street, Defiance, Ohio 43512.

F. Quadco Rehabilitation Center

The Quadco Rehabilitation Center (Quadco) is a jointly governed organization among Defiance, Fulton, Henry, and Williams Counties. Quadco Rehabilitation Center is a non-profit

DEFIANCE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012 (Continued)

corporation which provides services and facilities for training physically and mentally disabled persons. Quadco is responsible for contracting with various agencies to obtain funding to operate the organization. Quadco is governed by an eight-member board composed of two appointees made by each of the four County Boards of Developmental Disabilities (County Boards of DD). This Board, in conjunction with the County Boards of DD, assesses the needs of adult mentally handicapped and developmentally disabled residents of each County and sets priorities based on available funds. The County provides resources to the Board based on units of service provided to the County. Quadco exercises total control over the operation of Quadco including budgeting, contracting, and designating management. The County has no ongoing financial interest or responsibility for Quadco. In 2012, the Northwest Ohio Waiver Administration Council made contributions to Quadco on the County's behalf.

G. Maumee Valley Planning Organization

Maumee Valley Planning Organization (MVPO) is a jointly governed organization among Defiance, Fulton, Henry, Paulding, and Williams Counties. MVPO is an organization established to improve the social and economic conditions of the region through development and conservation. MVPO is governed by a fifteen member executive council composed of the three county commissioners, the mayor of the largest municipality, three mayors selected by the committee of mayors that represent the incorporated cities and villages, the township trustee association president, the regional planning commission chairman, and two members at large to represent business, industry, labor, agricultural, low income, minority groups, education, and consumer protection activities. The County provides resources to the executive council based on a membership fee and services provided to the County. MVPO exercises total control over the operation of MVPO including budgeting, contracting, and designating management. The County has no ongoing financial interest or responsibility for MVPO. In 2012, Defiance County contributed \$142,876 for MVPO's operations which represents 20.2% of total contributions. Information can be obtained from Nancy J. Yackee, Fulton County Auditor, 152 South Fulton Avenue, Suite 165, Wauseon, Ohio 43567.

H. Community Improvement Corporation of Defiance County

Community Improvement Corporation of Defiance County (CIC) is a jointly governed organization among Defiance County, the City of Defiance, and the respective villages and townships of Defiance County. The purpose of the CIC is to promote and encourage the establishment and growth of industrial, commercial, distribution, and research facilities within member subdivisions. CIC is governed by a Board of Trustees consisting of fifteen self-appointed members. Not less than two-fifths of the members are to be composed of elected officials. Five of these trustees include: a member of the Board of County Commissioners of Defiance County, the Auditor of Defiance County, the Mayor or his/her designated elected official of the City of Defiance, the Mayor or his/her designated elected official of the Village of Hicksville, and the President of the Defiance County Trustees. The remaining members represent private residents of Defiance County or employees of Defiance County businesses or firms. The County provides resources to the Board of Trustees based on a membership fee. CIC exercises total control over the operation of CIC including budgeting, contracting, and designating management. The County has no ongoing financial interest or responsibility for the CIC. In 2012, Defiance County contributed \$50,000 for CIC's operations which represents 23% of total contributions. Information can be obtained from the Jerry Hayes, Executive Director, 1300 East Second Street, Suite 201, Defiance, Ohio 43512.

I. Northwest Ohio Waiver Administration Council (NOWAC)

DEFIANCE COUNTY

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

The Northwest Ohio Waiver Administration Council (NOWAC) is a jointly governed organization created under the provisions of Chapter 167 of the Ohio Revised Code. NOWAC is organized as a voluntary organization of local County Boards of Developmental Disabilities in Defiance County, Williams County, Allen County, Henry County, Fulton County, Van Wert County and Paulding County. Each of the participating counties has equal representation and no financial responsibility. NOWAC's purpose is to foster a cooperative effort in regional planning, programming, and the implementation of regional plans and programs. Its primary function is to oversee and obtain contracted services for its clientele in member counties. These services include various types of assistance provided by outside individuals or health care organizations for living maintenance of disabled clients so they can remain in their homes. Defiance County contributed \$1,341,290 towards NOWAC's operation in 2012. Complete financial statements can be obtained from the Northwest Ohio Waiver Administration Council, 815 East Second Street, Suite B, Defiance, Ohio 43512-2511.

NOTE 21 - INSURANCE POOLS

A. County Commissioners Association Service Corporation

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

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

B. Northern Buckeye Health Plan – Northwest Division of OHIC

Up through 2011, the County participated in the Northern Buckeye Education Council Employee Insurance Benefits Program. However, effective January 1, 2012, the Employee Insurance Benefits Program merged with the Optimal Health Initiative Consortium (OHIC) to form the Northern Buckeye Health Plan – Northwest Division of OHIC (the "Plan"). The Plan is a public entity shared risk pool consisting of educational entities within Defiance, Fulton, Henry, and Williams Counties. The Plan is governed by a board elected from an Assembly consisting of a representative from each participating member.

NOTE 22 - RELATED ORGANIZATION

The Defiance County Regional Airport Authority (the "Airport Authority") was created by resolution of the County Commissioners under the authority of Chapter 308 of the Ohio Revised Code. The Airport Authority is governed by a five member board of trustees appointed by the County Commissioners. The board of trustees has the authority to exercise all of the powers and privileges provided under the law. These powers include the ability to sue or be sued in its corporate name; the power to establish and collect rates, rentals, and other charges; the authority

DEFIANCE COUNTY

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

to acquire, construct, operate, manage, and maintain airport facilities; the authority to buy and sell real and personal property; and the authority to issue debt for acquiring or constructing any facility or permanent improvement. The Airport Authority serves as custodian of its own funds and maintains all records and accounts independent of Defiance County. Based on the nature of the financial activities of the Airport Authority and the County, there is no benefit/burden relationship between the two entities, thus designating the Airport Authority as a related organization of the County. Although the County has no obligation to provide financial resources to the Airport Authority, the County Commissioners have in prior years allocated certain funds to the Airport Authority. In 2012, the County contributed \$25,200 to the Airport Authority.

NOTE 23 - CONTINGENT LIABILITIES

A. Litigation

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

B. Federal and State Grants

For the period January 1, 2012 to December 31, 2012, the County received federal and State grants for specific purposes that are subject to review and audit by the grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the County believes such disallowances, if any, would be immaterial.

NOTE 24 - OTHER COMMITMENTS

The County utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the County's commitments for encumbrances in the governmental funds were as follows:

<u>Fund</u>	<u>Year-End Encumbrances</u>
General fund	\$ 120,143
Developmental disabilities fund	103,763
Job and family services fund	43,209
Motor vehicle license and gas tax fund	696,812
Emergency 911 fund	28,201
Senior center fund	8,451
Nonmajor governmental funds	<u>255,391</u>
Total	\$ 1,255,970

NOTE 25 - FUND BALANCE

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the County is bound to observe constraints imposed upon the use of resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

DEFIANCE COUNTY

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

Fund Balance	General	Developmental Disabilities	Job and Family Services	Motor Vehicle License and Gas Tax	Emergency 911
Nonspendable:					
Long-term loans					
Long-term interfund loans	\$ 4,694,668				
Prepayments	254,409	\$ 395,066	\$ 22,261	\$ 31,401	\$ 9,586
Materials and supplies inventory	71,041	12,626	10,793	528,691	987
Unclaimed monies	90,937				
Total nonspendable	<u>5,111,055</u>	<u>407,692</u>	<u>33,054</u>	<u>560,092</u>	<u>10,573</u>
Restricted:					
Human services programs			181,325		
Public works projects				1,737,138	
Public safety programs					886,646
Health services		3,201,667			
Debt service					
Capital projects					
Other purposes					
Total restricted		<u>3,201,667</u>	<u>181,325</u>	<u>1,737,138</u>	<u>886,646</u>
Committed:					
General government	38,404				
Public safety programs					
Economic development					
Debt service					
Capital projects					
County commissioners	192				
Retirement payoffs	53,006				
Other purposes					
Total committed	<u>91,602</u>				
Assigned:					
General government	34,009				
Human services programs	7,321				
Public safety programs	26,514				
Capital projects					
Subsequent year appropriation	4,398,941				
Other purposes	3,100				
Total assigned	<u>4,469,885</u>				
Unassigned (deficit)	409,141				
Total fund balances (deficit)	<u>\$ 10,081,683</u>	<u>\$ 3,609,359</u>	<u>\$ 214,379</u>	<u>\$ 2,297,230</u>	<u>\$ 897,219</u>

- Continued

DEFIANCE COUNTY

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

Fund Balance	Senior Center	Jail Debt Service	County Improvement	Governmental Funds	Governmental Funds
Nonspendable:					
Long-term loans				\$ 751,201	\$ 751,201
Long-term interfund loans					4,694,668
Prepayments	\$ 11,693			398,869	1,123,285
Materials and supplies inventory	1,389			42,278	667,805
Unclaimed monies					90,937
Total nonspendable	<u>13,082</u>			<u>1,192,348</u>	<u>7,327,896</u>
Restricted:					
Human services programs	281,237			692,828	1,155,390
Public works projects				126,253	1,863,391
Public safety programs				124,759	1,011,405
Health services				61,190	3,262,857
Debt service				1,278,877	1,278,877
Capital projects				117,810	117,810
Other purposes				1,860,596	1,860,596
Total restricted	<u>281,237</u>			<u>4,262,313</u>	<u>10,550,326</u>
Committed:					
General government				2,848	41,252
Public safety programs				1,752,397	1,752,397
Economic development				135,622	135,622
Debt service				149	149
Capital projects				94,870	94,870
County commissioners					192
Retirement payoffs					53,006
Other purposes				229,687	229,687
Total committed				<u>2,215,573</u>	<u>2,307,175</u>
Assigned:					
General government					34,009
Human services programs					7,321
Public safety programs					26,514
Capital projects			\$ 3,550,885		3,550,885
Subsequent year appropriation					4,398,941
Other purposes					3,100
Total assigned			<u>3,550,885</u>		<u>8,020,770</u>
Unassigned (deficit)		<u>\$ (482,092)</u>		<u>(625,980)</u>	<u>(698,931)</u>
Total fund balances (deficit)	<u>\$ 294,319</u>	<u>\$ (482,092)</u>	<u>\$ 3,550,885</u>	<u>\$ 7,044,254</u>	<u>\$ 27,507,236</u>

DEFIANCE COUNTY

FEDERAL AWARDS EXPENDITURE SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2012

FEDERAL GRANTOR Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Education</i>			
National School Lunch Program			
Noncash Assistance		10.555	\$ 944
Cash Assistance		10.555	13,628
Total National School Lunch Program			<u>14,572</u>
<i>Direct Assistance</i>			
ARRA Water and Waste Disposal System for Rural Communities		10.781	633,501
Total U.S. Department of Agriculture			<u>648,073</u>
U.S. DEPARTMENT OF EDUCATION			
<i>Passed Through Ohio Department of Education</i>			
<i>Special Education Cluster:</i>			
Special Education - Grants to States		84.027	46,792
Special Education - Preschool Grant		84.173	21,586
Total Special Education Cluster			<u>68,378</u>
<i>Passed Through Ohio Department of Health</i>			
Help Me Grow	02010021HG0312	84.181	23,608
Total U.S. Department of Education			<u>91,986</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<i>Passed Through The Area Office of Aging</i>			
<i>Aging Cluster:</i>			
Grants for Supportive Services and Senior Centers		93.044	47,500
Nutrition Services Incentive Program		93.053	41,342
Special Programs for the Aging - Title III Part C - Nutrition Services		93.045	101,541
Total Aging Cluster			<u>190,383</u>
<i>Passed Through Ohio Department of Developmental Disabilities</i>			
Social Services Block Grant		93.667	11,079
<i>Passed Through Ohio Department of Job and Family Services</i>			
State Administrative Matching Grants for the Supplemental Assistance Program	G-1213-11-0028	10.561	199,024
Promoting Safe and Stable Families	G-1213-11-0028	93.556	5,522
Temporary Assistance for Needy Families	G-1213-11-0028	93.558	407,678
Child Support Enforcement	G-1213-11-0029	93.563	382,918
<i>Child Care Cluster:</i>			
Child Care and Development Block Grant	G-1213-11-0028	93.575	40,670
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	G-1213-11-0028	93.596	(6,230)
Total Child Care Cluster			<u>34,440</u>
Child Welfare Services State Grants	G-1213-11-0028	93.645	29,047
Social Services Block Grant	G-1213-11-0028	93.667	244,067
Total Social Service Block Grants - CFDA 93.667			<u>255,146</u>
Medical Assistance Program	G-1213-11-0028	93.778	185,906
Foster Care Title IV-E	G-1213-11-0028	93.658	123,238
Foster Care Title IV-E Administration	G-1213-11-0028	93.658	37,097
ARRA Foster care Title IV-E	G-1213-11-0028	93.658	(195)
Total Foster Care Title IV-E			<u>160,140</u>
Adoption Assistance Administration	G-1213-11-0028	93.659	127,197
Non-Recurring Adoption	G-1213-11-0028	93.659	607
Total Adoption Assistance			<u>127,804</u>
Total Passed Through Ohio Department of Job and Family Services			<u>1,776,546</u>
Total U.S. Department of Health and Human Services			<u>1,978,008</u>

(Continued)

DEFIANCE COUNTY

FEDERAL AWARDS EXPENDITURE SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF HOMELAND SECURITY			
<i>Passed Through Ohio Department of Public Safety Emergency Management Agency</i>			
<i>Homeland Security Cluster:</i>			
State Homeland Security Program	2009-SS-T9-0089	97.067	17,623
State Homeland Security Program	2010-SS-T0-0012	97.067	52,803
Citizens Corp Program Grant	2009-SS-T9-0089	97.067	5,187
Total Homeland Security Cluster			<u>75,613</u>
Emergency Management Performance Grant	EMW-2011-EP-00003-S01	97.042	21,705
Emergency Management Performance Grant	EMW-2012-EP-00004-S01	97.042	23,698
Total Emergency Management Performance Grant			<u>45,403</u>
Total U.S. Department of Homeland Security			<u>121,016</u>
U.S. DEPARTMENT OF LABOR			
<i>Passed Through Montgomery County Workforce Investment Act Area 7</i>			
<i>Workforce Investment Act Cluster:</i>			
Workforce Investment Act - Adult	2012-7120-1 / 2011-7120-1	17.258	114,830
Workforce Investment Act - Adult Administration	2012-7120-1 / 2011-7120-1	17.258	782
Total Workforce Investment Act - Adult			<u>115,612</u>
Workforce Investment Act - Youth	2012-7120-1 / 2011-7120-1	17.259	83,013
Workforce Investment Act - Dislocated Worker	2012-7120-1 / 2011-7120-1	17.278	228,073
Workforce Investment Act - Dislocated Worker Administration	2012-7120-1 / 2011-7120-1	17.278	12,648
Total Workforce Investment Act - Dislocated Worker			<u>240,721</u>
Total Workforce Investment Act Cluster			<u>439,346</u>
ARRA Workforce Investment Act - National Emergency Grant	2012-7120-1 / 2011-7120-1	17.277	45,716
Total U.S. Department of Labor			<u>485,062</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Passed Through Ohio Department of Development:</i>			
Community Development Block Grant (Formula Grant)	B-F-10-1AS-1	14.228	7,500
Community Development Block Grant (Formula Grant)	B-F-11-1AS-1	14.228	83,000
Community Development Block Grant (Chip)	B-C-10-1AS-1	14.228	51,061
Community Development Block Grant Revolving Loans	B-E-11-1AS-1	14.228	180,901
Total Community Development Block Grant			<u>322,462</u>
Home Investment Partnerships Program (Chip)	B-C-10-1AS-2	14.239	391,750
Total U.S. Department of Housing and Urban Development			<u>714,212</u>
U.S. DEPARTMENT OF TRANSPORTATION			
<i>Passed Through Ohio Department of Transportation</i>			
Highway Planning and Construction	TR-138-2.50 and TR-134-5.82	20.205	994,927
<i>Passed Through Ohio Department of Public Safety Emergency Management Agency</i>			
Hazardous Materials Public Sector	HM-HMP-0243-11-01-00	20.703	6,932
<i>Federal Aviation Administration Direct Assistance</i>			
Airport Improvement Program		20.106	209,229
<i>Passed Through the Ohio Department of Public Safety Office of Criminal Justice Services</i>			
High Visibility Enforcement Overtime	HVEO-2012-20-00-00353-00	20.600-20.601	23,651
Total U.S. Department of Transportation			<u>1,234,739</u>

(Continued)

DEFIANCE COUNTY

FEDERAL AWARDS EXPENDITURE SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF JUSTICE			
<i>Passed Through the Ohio Department of Public Safety Office of Criminal Justice Services</i>			
Crime Victims Assistance	2012VAGENE061	16.575	45,226
Crime Victims Assistance	2013VAGENE061	16.575	2,668
Total Crime Victims Assistance			<u>47,894</u>
Edward Byrne Memorial Justice Assistance Grant Formula Program	2011-JG-A01-6407	16.738	<u>56,100</u>
Total U.S. Department of Justice			<u>103,994</u>
U.S. ELECTION ASSISTANCE COMMISSION			
<i>Passed Through the Ohio Secretary of State</i>			
HAVA Title II		90.401	<u>3,299</u>
Voting Access for Individuals with Disabilities - Grants to States		93.617	<u>1,840</u>
Total U.S. Election Assistance Commission			<u>5,139</u>
U.S. DEPARTMENT OF DEFENSE - U.S. ARMY CORPS OF ENGINEERS			
Direct Assistance			
U.S. Army Corps of Engineers: Section 594 Environmental Infrastructure		12.xxx	<u>54</u>
Total			<u><u>\$ 5,382,283</u></u>

The accompanying notes are an integral part of this schedule.

DEFIANCE COUNTY

NOTES TO THE FEDERAL AWARDS EXPENDITURE SCHEDULE FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditure Schedule (the Schedule) reports Defiance County's (the "County") federal award programs' disbursements. The Schedule has been prepared on the cash basis of accounting.

NOTE B - SUBRECIPIENTS

The County passes certain federal awards received from the Ohio Department of Job and Family Services (ODJFS) to other governments or not-for-profit agencies (subrecipients). As Note A describes, the County reports expenditures of federal awards to subrecipients when paid in cash.

As a subrecipient, the County has certain compliance responsibilities, such as monitoring its subrecipients to help assure they use these subawards as authorized by laws, regulations and the provisions of contracts or grant agreements, and that subrecipients achieve the award's performance goals.

NOTE C - CHILD NUTRITION CLUSTER

The County commingles cash receipts from the United States Department of Agriculture (USDA) with similar State grants. When reporting expenditures on this Schedule, the County assumes it expends federal monies first.

NOTE D - FOOD DONATION PROGRAM

The County reports commodities consumed on the Schedule at their fair value. The County allocated donated food commodities to the program that benefitted from the use of those donated food commodities.

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

The County has a revolving loan fund (RLF) program to provide low-interest loans to businesses to create jobs for low to moderate income persons and also to lend money to eligible persons to rehabilitate homes. The Federal Department of Housing and Urban Development (HUD) grants money for these loans to the County, passed through the Ohio Department of Development. The Schedule reports loans made and administrative costs as disbursements on the Schedule. Subsequent loans are subject to the same compliance requirements imposed by HUD as the initial loans.

These loans are collateralized by mortgages on the property and by uniform commercial codes on equipment. Expenditures on mortgage loans made by the County were recognized on the Schedule when the disbursements for home repairs were made on the project and not when the mortgage loans were issued.

Activity in the CDBG revolving loan fund during 2012 is as follows:

DEFIANCE COUNTY

**NOTES TO THE FEDERAL AWARDS EXPENDITURE SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

Beginning loans receivable balance as of January 1, 2012	\$	480,493
Revolving loans made		165,000
Mortgage loans made		308,413
Loans principal repaid		(52,218)
Loans written off		(28,003)
		<hr/>
Ending loans receivable balance as of December 31, 2012	\$	<u>873,685</u>
Cash balance on hand in the revolving loan fund as of December 31, 2012	\$	314,629
Administrative costs expended during 2012	\$	15,901

NOTE F - MATCHING REQUIREMENTS

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

NOTE G – AMERICAN RECOVERY AND REINVESTMENT ACT eFMAP EXPENDITURES

During the calendar year, the County Board of Developmental Disabilities received a refund for eFMAP (ARRA) funds for the Medicaid Program (CFDA #93.778) in the amount of \$2,603 from the Ohio Department of Developmental Disabilities. This refund was a correction to the eFMAP percentage for four billing cycles during July and August 2009. This amount is not listed on the County's Federal Awards Expenditure Schedule since the underlying expenses occurred in prior reporting periods.

This page intentionally left blank.



Dave Yost • Auditor of State

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

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

To the Board of Commissioners:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Defiance County, Ohio, (the County) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements and have issued our report thereon dated September 16, 2013, wherein the County adopted the provisions of Governmental Accounting Standard No. 63 and No. 65 in 2012.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the County's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the County's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the County's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

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

One Government Center, Suite 1420, Toledo, Ohio 43604-2246
Phone: 419-245-2811 or 800-443-9276 Fax: 419-245-2484

www.ohioauditor.gov

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the County's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

September 16, 2013



Dave Yost • Auditor of State

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

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

To the Board of Commissioners:

Report on Compliance for Each Major Federal Program

We have audited Defiance County's, Ohio (the County) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the County's major federal programs for the year ended December 31, 2012. The *Summary of Audit Results* in the accompanying schedule of findings identifies the County's major federal programs.

Management's Responsibility

The County's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the County's compliance for each of the County's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. 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 our audit provides a reasonable basis for our compliance opinion on the County's major programs. However, our audit does not provide a legal determination of the County's compliance.

Basis for Qualified Opinion on Community Development Block Grant Program and HOME Investment Partnership Program

As described in finding 2012-001 in the accompanying schedule of findings, the County did not comply with requirements regarding cash management applicable to its Community Development Block Grant and HOME Investment Partnership major federal programs. Compliance with this requirement is necessary, in our opinion, for the County to comply with requirements applicable to these programs.

Qualified Opinion on Community Development Block Grant Program and HOME Investment Partnership Program

One Government Center, Suite 1420, Toledo, Ohio 43604-2246
Phone: 419-245-2811 or 800-443-9276 Fax: 419-245-2484

www.ohioauditor.gov

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on the Community Development Block Grant Program and HOME Investment Partnership Program* paragraph, the County complied, in all material respects, with the requirements referred to above that could directly and materially affect its Community Development Block Grant Program and HOME Investment Partnership Program, for the year ended December 31, 2012.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, Defiance County complied in all material respects with the requirements referred to above that could directly and materially affect each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings for the year ended December 31, 2012.

Other Matters

The County's response to our noncompliance finding is described in the accompanying schedule of findings. We did not audit the County's response and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

The County's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the County's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Therefore, we cannot assure we have identified all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as item 2012-001 to be a material weakness.

The County's response to the internal control over compliance finding is described in the accompanying schedule of findings. We did not audit the County's response and, accordingly, we express no opinion on it.

Defiance County
Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Federal Program and on Internal Control
Over Compliance Required by *OMB Circular A-133*
Page 2

This report only describes the scope of our tests of internal control over compliance and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

September 16, 2013

DEFIANCE COUNTY
SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2012

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	Yes
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Qualified – Community Development Block Grant and HOME Investment Partnerships Program. Unmodified – Water and Waste Disposal for Rural Communities, Highway Planning and Construction, and Child Support Enforcement.
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	Water and Waste Disposal for Rural Communities – ARRA – CFDA 10.781 Community Development Block Grant – CFDA 14.228 HOME Investment Partnerships Program – CFDA 14.239 Highway Planning and Construction – CFDA 20.205 Child Support Enforcement – CFDA 93.563

(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**

None

3. FINDINGS FOR FEDERAL AWARDS

Finding Number	2012-001
CFDA Title and Number	Community Development Block Grant CFDA 14.228 HOME Investment Partnership Program CFDA #14.239
Federal Agency	United States Department of Housing and Urban Development
Pass-Through Agency	Ohio Department of Development

Noncompliance Citation and Material Weakness

Chapter 6, Section 3(f) of the State of Ohio Department of Development/Office of Local Government Services Community Development Block Grant Small Cities Program Handbook, requires Community Development Block Grant (CDBG) and HOME Investment Partnership funds to be expended to a balance of less than \$5,000 within fifteen days of being received.

The County did not sufficiently monitor the timing of request for funds. In 10 of the 15 instances the County maintained balances in excess of \$5,000 for up to one hundred thirty-six days after receiving a draw. Noncompliance with the 15-Day Rule may jeopardize future funding.

We recommend the County monitor request for funds to ensure excess amounts of cash are not maintained.

Officials' Response:

See Corrective Action Plan on the following page.

DEFIANCE COUNTY

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315 (c)
DECEMBER 31, 2012**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2012-001	<p>The Ohio Community Development grant funds can require in excess of 30 days from draw to receipt; therefore, in 2012 MVPO was estimating the draw amounts based upon contractor's information of anticipated project completion. Due to circumstances or weather conditions unforeseen by the contractor, delays in the project could happen postponing the completion and invoicing process. As indicated before the County has the option of paying invoices prior to receiving Ohio Community Development funds, although it is unlikely the County has sufficient working capital to do so. Therefore, MVPO as of January 1, 2013, implemented the process of drawing funds from the State based only on invoices as they are received by the contractors to avoid 15-day rule findings.</p>	September 16, 2013	Stephanie Metz

DEFIANCE COUNTY

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
DECEMBER 31, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-001	Material weakness regarding monitoring of financial statements.	No	Partially Corrected. Reissued in the Management Letter.
2011-002	Significant deficiency regarding Clerk of Courts monthly reconciliation procedures.	No	Partially Corrected. Reissued in the Management Letter.

This page intentionally left blank.



Dave Yost • Auditor of State

DEFIANCE COUNTY 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
OCTOBER 1, 2013