FINANCIAL CONDITION
DEFIANCE COUNTY

SINGLE AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2001

JIM PETRO
AUDITOR OF STATE
STATE OF OHIO

DEFIANCE COUNTY

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REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Board of Commissioners:

We have audited the accompanying general-purpose financial statements of Defiance County (the County) as of and for the year ended December 31, 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of Defiance County, as of December 31, 2001, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

During the year ended December 31, 2001, the County adopted Governmental Accounting Statement No. 33 and 36.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2002 on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Jim Petro
Auditor of State

June 10, 2002

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DEFIANCE COUNTY

COMBINED BALANCE SHEET
ALL FUND TYPES, ACCOUNT GROUPS, AND DISCRETELY PRESENTED COMPONENT UNIT
DECEMBER 31, 2001

	Governmental Fund Types			
	General Fund	**Special Revenue**	**Debt Service**	**Capital Projects**
ASSETS AND OTHER DEBITS				
Assets:				
Equity with County Treasurer in pooled cash and cash equivalents	$4,484,433	$5,812,338	$461,589	$9,352,651
Cash in segregated accounts	136,849		2,161	
Receivables (net of allowances of uncollectibles):				
Real and other taxes	2,301,827	1,179,378		
Accounts	89,197	88,176	5,249	
Special assessments		187,419	101,312	48,912
Accrued interest	58,986	47		
Due from other governments	558,116	2,557,398		
Interfund loan receivable	87,277		1,566	
Advances to other funds	1,416,963	761		28,900
Due from other funds	157,337	1,767		
Prepayments	130,480	409,999		
Materials and supplies inventory	52,627	222,221		
Loans receivable		258,096		
Notes receivable	1,501			
Restricted assets:				
Cash and cash equivalents in segregated accounts				
Investments				
Property, plant and equipment (net of accumulated depreciation where applicable)				
Other debits:				
Amount available in debt service fund				
Amount to be provided from general government resources				
Amount to be provided from component unit resources				
Total assets and other debits	$9,475,593	$10,717,600	$571,877	$9,430,463

Proprietary Fund Types		Fiduciary Fund Type	Account Groups		Total Primary Government (Memorandum Only)		Total Reporting Entity (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations		Component Unit	
$6,583,223	$358,928	$6,892,120			$33,945,282	$752,496	$34,697,778
		222,434			361,444		361,444
					3,481,205	1,277,217	4,758,422
335,952					518,574	6,291	524,865
10,335					347,978		347,978
33,329		95			92,457		92,457
630					3,116,144	141,638	3,257,782
					88,843		88,843
					1,446,624		1,446,624
156		18,579			177,839		177,839
4,005					544,484	4,793	549,277
6,243					281,091	7,266	288,357
					258,096		258,096
					1,501		1,501
647,109					647,109		647,109
2,856,996					2,856,996		2,856,996
1,809,842			$17,559,677		19,369,519	686,877	20,056,396
				$264,403	264,403		264,403
				3,418,071	3,418,071		3,418,071
						94,692	94,692
$12,287,820	**$358,928**	**$7,133,228**	**$17,559,677**	**$3,682,474**	**$71,217,660**	**$2,971,270**	**$74,188,930**

(Continued)

DEFIANCE COUNTY

COMBINED BALANCE SHEET
ALL FUND TYPES, ACCOUNT GROUPS, AND DISCRETELY PRESENTED COMPONENT UNIT
DECEMBER 31, 2001
(Continued)

	Governmental Fund Types			
	General Fund	Special Revenue	Debt Service	Capital Projects
LIABILITIES, EQUITY AND OTHER CREDITS				
Liabilities:				
Accounts payable	$87,462	$269,925		$139,851
Accrued wages and benefits	159,464	219,027		
Compensated absences payable	14,385	41,601		
Interfund loan payable		16,000	$67,943	4,900
Advances from other funds	761		137,698	1,308,165
Due to other governments	30,161	136,364		
Due to other funds	13,579	50,324	521	113,415
Deposits held and due to others				
Deferred revenue	1,843,040	2,989,568	101,312	48,912
Accrued interest payable		8,419		38,263
Notes payable		673,530		1,850,347
Undistributed monies				
Claims and judgments payable				
Pension obligation payable	98,395	143,010		
General obligation bonds payable				
OWDA loans payable				
OPWC loans payable				
Capital lease obligation				
Estimated accrued liability for landfill closure and post-closure costs				
Total liabilities	2,247,247	4,547,768	307,474	3,503,853
Equity and other credits:				
Investment in general fixed assets				
Retained earnings:				
Unreserved				
Fund balances:				
Reserved for external investment pool participants				
Reserved for encumbrances	167,883	650,810		2,376,896
Reserved for supplies inventory	52,627	222,221		
Reserved for prepayments	130,480	409,999		
Reserved for debt service			264,403	
Reserved for loans		258,096		
Reserved for notes	1,501			
Reserved for advances	1,416,963	761		28,900
Unreserved, undesignated	5,458,892	4,627,945		3,520,814
Total equity and other credits	7,228,346	6,169,832	264,403	5,926,610
Total liabilities, equity and other credits	**$9,475,593**	**$10,717,600**	**$571,877**	**$9,430,463**

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

Proprietary Fund Types		Fiduciary Fund Type	Account Groups		Total Primary Government (Memorandum Only)	Component Unit	Total Reporting Entity (Memorandum Only)
Enterprise	**Internal Service**	**Trust and Agency**	**General Fixed Assets**	**General Long-Term Obligations**			
$26,899					$524,137	$24,844	$548,981
16,850					395,341	90,393	485,734
58,627				$603,287	717,900	99,626	817,526
					88,843		88,843
					1,446,624		1,446,624
45,849		$6,722,637			6,935,011	196	6,935,207
					177,839		177,839
		222,434			222,434		222,434
					4,982,832	1,360,178	6,343,010
511					47,193		47,193
70,040					2,593,917		2,593,917
		18,579			18,579		18,579
		69,749			69,749		69,749
10,583					251,988	37,102	289,090
85,000				2,435,000	2,520,000		2,520,000
				207,731	207,731		207,731
				409,543	409,543		409,543
				26,913	26,913		26,913
2,012,198					2,012,198		2,012,198
2,326,557		7,033,399		3,682,474	23,648,772	1,612,339	25,261,111
			$17,559,677		17,559,677	686,877	18,246,554
9,961,263	$358,928				10,320,191		10,320,191
		93,807			93,807		93,807
					3,195,589	79,350	3,274,939
					274,848	7,266	282,114
					540,479	4,793	545,272
					264,403		264,403
					258,096		258,096
					1,501		1,501
					1,446,624		1,446,624
		6,022			13,613,673	580,645	14,194,318
9,961,263	358,928	99,829	17,559,677		47,568,888	1,358,931	48,927,819
$12,287,820	**$358,928**	**$7,133,228**	**$17,559,677**	**$3,682,474**	**$71,217,660**	**$2,971,270**	**$74,188,930**

DEFIANCE COUNTY

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES, EXPENDABLE TRUST FUND, AND
DISCRETELY PRESENTED COMPONENT UNIT
FOR THE YEAR ENDED DECEMBER 31, 2001

	Governmental Fund Types	
	General Fund	Special Revenue
Revenues:		
Property taxes	$1,621,821	$1,179,002
Sales taxes	5,032,831	
Charges for services	1,214,967	2,014,901
Licenses and permits	3,860	215
Fines and forfeitures	100,501	12,761
Intergovernmental	413,790	8,669,037
Special assessments		
Investment income	2,334,536	125
Other	1,128,994	268,976
Total revenues	11,851,300	12,145,017
Expenditures:		
Current:		
General government:		
Legislative and executive	2,500,334	487,100
Judicial	1,000,439	282,882
Public safety	1,577,881	1,784,138
Public works	440,264	4,093,383
Health	42,620	106,249
Human services	339,715	6,433,676
Economic development		527,007
Other	1,414,778	48,623
Capital outlay		210,794
Debt service:		
Principal retirement		13,936
Interest and fiscal charges		30,558
Total expenditures	7,316,031	14,018,346
Excess of revenues over (under) expenditures	4,535,269	(1,873,329)
Other financing sources (uses):		
Inception of capital lease		12,802
Operating transfers in	435,114	1,387,891
Operating transfers in from primary government		
Operating transfers out	(5,106,972)	(414,460)
Operating transfers out to component unit	(1,371)	
Total other financing sources (uses)	(4,673,229)	986,233
Excess of revenues and other financing sources over (under) expenditures and other financing (uses)	(137,960)	(887,096)
Fund balance, January 1 (Restated)	7,364,908	7,021,173
Increase (decrease) in reserve for inventory	1,398	35,755
Fund balance, December 31	**$7,228,346**	**$6,169,832**

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

Governmental Fund Types		Fiduciary Fund Type	Total Primary Government (Memorandum Only)		Total Reporting Entity (Memorandum Only)
Debt Service	Capital Projects	Expendable Trust		Component Unit	
$211			$2,801,034	$1,354,952	$4,155,986
			5,032,831		5,032,831
151			3,230,019		3,230,019
			4,075		4,075
			113,262		113,262
	$656,117		9,738,944	1,524,831	11,263,775
	1,775,338		1,775,338		1,775,338
			2,334,661		2,334,661
403,964	105,786		1,907,720	350,629	2,258,349
404,326	2,537,241		26,937,884	3,230,412	30,168,296
			2,987,434		2,987,434
			1,283,321		1,283,321
			3,362,019		3,362,019
			4,533,647		4,533,647
			148,869		148,869
			6,773,391		6,773,391
			527,007		527,007
1,078			1,464,479	3,296,605	4,761,084
	4,455,920		4,666,714		4,666,714
213,226			227,162		227,162
145,536	49,633		225,727		225,727
359,840	4,505,553		26,199,770	3,296,605	29,496,375
44,486	(1,968,312)		738,114	(66,193)	671,921
			12,802		12,802
9,356	3,955,383		5,787,744		5,787,744
				1,371	1,371
	(581,396)	(11,399)	(6,114,227)		(6,114,227)
			(1,371)		(1,371)
9,356	3,373,987	(11,399)	(315,052)	1,371	(313,681)
53,842	1,405,675	(11,399)	423,062	(64,822)	358,240
210,561	4,520,935	17,421	19,134,998	735,393	19,870,391
			37,153	1,483	38,636
$264,403	**$5,926,610**	**$6,022**	**$19,595,213**	**$672,054**	**$20,267,267**

DEFIANCE COUNTY

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS) ALL GOVERNMENTAL FUND TYPES FOR THE YEAR ENDED DECEMBER 31, 2001

	General Fund		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:			
Taxes:			
Property taxes	$1,594,700	$1,594,700	
Sales taxes	4,257,878	4,257,878	
Charges for services	1,159,091	1,160,759	$1,668
Licenses and permits	3,835	3,860	25
Fines and forfeitures	46,661	46,661	
Intergovernmental	1,115,437	1,115,437	
Special assessments			
Investment income	2,320,826	2,346,269	25,443
Other	980,995	981,021	26
Total Revenues	11,479,423	11,506,585	27,162
Expenditures:			
Current:			
General Government / legislative and executive	2,791,316	2,702,321	88,995
Judicial	1,082,067	995,653	86,414
Public safety	1,996,055	1,582,122	413,933
Public works	508,942	490,690	18,252
Health	55,625	50,853	4,772
Human services	561,077	344,409	216,668
Economic development and assistance			
Transportation	200,000		200,000
Miscellaneous	3,450,471	1,313,962	2,136,509
Capital outlay			
Debt service:			
Principal retirement			
Interest and fiscal charges	420,826		420,826
Contingency	100,000		100,000
Total Expenditures	11,166,379	7,480,010	3,686,369
Excess of Revenues Over/(Under) Expenditures	313,044	4,026,575	3,713,531
Other Financings Sources and (Uses):			
Proceeds of notes			
Advances-in and not repaid	805,949	860,769	54,820
Advances-out and not repaid	(85,322)	(85,322)	
Operating transfers in	475,114	475,114	
Operating transfers (out)	(5,529,742)	(5,152,169)	377,573
Total Other Financings Sources/(Uses)	(4,334,001)	(3,901,608)	432,393
Excess of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Financing (Uses)	(4,020,957)	124,967	4,145,924
Fund balance, January 1	3,733,260	3,733,260	
Prior year encumbrances appropriated	287,695	287,695	
Fund balance, December 31	**($2)**	**$4,145,922**	**$4,145,924**

Special Revenue Funds			Debt Service Funds		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
$1,158,056	$1,158,056		$211	$211	
1,474,896	2,059,546	$584,650			
165	215	50			
11,366	11,489	123			
8,125,324	8,242,745	117,421			
			62,939	70,274	7,335
59,275	59,275		36,139	36,138	(1)
344,659	354,940	10,281	360,268	385,436	25,168
11,173,741	11,886,266	712,525	459,557	492,059	32,502
816,176	536,445	279,731			
474,484	297,741	176,743			
4,326,855	1,845,803	2,481,052			
4,817,772	4,594,451	223,321			
130,505	108,453	22,052			
7,022,970	6,281,103	741,867			
847,117	691,463	155,654			
				1,666	(1,666)
516,948	222,272	294,676	225,000	225,000	
753,344	753,344		972,856	649,104	323,752
35,256	35,256		270,904	166,533	104,371
19,741,427	15,366,331	4,375,096	1,468,760	1,042,303	426,457
(8,567,686)	(3,480,065)	5,087,621	(1,009,203)	(550,244)	458,959
673,530	673,530		610,040	610,040	
16,000	16,000		69,322	69,322	
			(4,900)	(4,900)	
1,315,836	1,323,824	7,988	9,356	9,356	
(414,464)	(414,460)	4	(1,461)		1,461
1,590,902	1,598,894	7,992	682,357	683,818	1,461
(6,976,784)	(1,881,171)	5,095,613	(326,846)	133,574	460,420
5,686,673	5,686,673		328,015	328,015	
1,290,114	1,290,114				
$3	**$5,095,616**	**$5,095,613**	**$1,169**	**$461,589**	**$460,420**

(Continued)

DEFIANCE COUNTY

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)

	Capital Projects Funds		
	Revised Budget	**Actual**	**Variance: Favorable (Unfavorable)**
Revenues:			
Taxes:			
Property taxes			
Sales taxes			
Charges for services			
Licenses and permits			
Fines and forfeitures			
Intergovernmental	656,117	656,117	
Special assessments	1,705,252	1,705,252	
Investment income	23,912	23,912	
Other	102,925	102,925	
Total Revenues	2,488,206	2,488,206	
Expenditures:			
Current:			
General Government / legislative and executive			
Judicial			
Public safety			
Public works			
Health			
Human services			
Economic development and assistance			
Transportation			
Miscellaneous			
Capital outlay	12,704,457	6,581,968	6,122,489
Debt service:			
Principal retirement			
Interest and fiscal charges			
Contingency			
Total Expenditures	12,704,457	6,581,968	6,122,489
Excess of Revenues Over/(Under) Expenditures	(10,216,251)	(4,093,762)	6,122,489
Other Financings Sources and (Uses):			
Proceeds of notes	1,238,806	1,238,806	
Advances-in and not repaid	34,900	34,900	
Advances-out and not repaid	(890,768)	(890,768)	
Operating transfers in	3,330,736	3,930,736	600,000
Operating transfers (out)	(581,396)	(581,396)	
Total Other Financings Sources/(Uses)	3,132,278	3,732,278	600,000
Excess of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Financing (Uses)	(7,083,973)	(361,484)	6,722,489
Fund balance, January 1	6,211,916	6,211,916	
Prior year encumbrances appropriated	872,057	872,057	
Fund balance, December 31		**$6,722,489**	**$6,722,489**

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

Total (Memorandum Only)		
Revised Budget	Actual	Variance: Favorable (Unfavorable)
$2,752,967	$2,752,967	
4,257,878	4,257,878	
2,633,987	3,220,305	586,318
4,000	4,075	75
58,027	58,150	123
9,896,878	10,014,299	117,421
1,768,191	1,775,526	7,335
2,440,152	2,465,594	25,442
1,788,847	1,824,322	35,475
25,600,927	26,373,116	772,189
3,607,492	3,238,766	368,726
1,556,551	1,293,394	263,157
6,322,910	3,427,925	2,894,985
5,326,714	5,085,141	241,573
186,130	159,306	26,824
7,584,047	6,625,512	958,535
847,117	691,463	155,654
200,000		200,000
3,450,471	1,315,628	2,134,843
13,446,405	7,029,240	6,417,165
1,726,200	1,402,448	323,752
726,986	201,789	525,197
100,000		100,000
45,081,023	30,470,612	14,510,411
(19,480,096)	(4,097,496)	15,382,600
2,522,376	2,522,376	
926,171	980,991	54,820
(980,990)	(980,990)	
5,131,042	5,739,030	607,988
(6,527,063)	(6,148,025)	379,038
1,071,536	2,113,382	1,041,846
(18,408,560)	(1,984,114)	16,424,446
15,959,864	15,959,864	
2,449,866	2,449,866	
$1,170	**$16,425,616**	**$16,424,446**

DEFIANCE COUNTY

COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS ALL PROPRIETARY FUND TYPES FOR THE YEAR ENDED DECEMBER 31, 2001

	Proprietary Fund Types		
	Enterprise	Internal Service	Total (Memorandum Only)
Operating revenues:			
Charges for services	$3,068,784		$3,068,784
Other operating revenues	65,722	$1,205,922	1,271,644
Total operating revenues	3,134,506	1,205,922	4,340,428
Operating expenses:			
Personal services	399,172		399,172
Contract services	350,672	1,107,315	1,457,987
Materials and supplies	71,465		71,465
Depreciation	197,407		197,407
Landfill closure/post-closure expense	78,279		78,279
Other operating expenses	374,051		374,051
Total operating expenses	1,471,046	1,107,315	2,578,361
Operating income	1,663,460	98,607	1,762,067
Nonoperating revenues (expenses):			
Intergovernmental revenue	630		630
Interest income	47,879		47,879
Interest and fiscal charges	(9,053)		(9,053)
Total nonoperating revenues	39,456		39,456
Net income before operating transfers	1,702,916	98,607	1,801,523
Operating transfers in	226,483	100,000	326,483
Net income	1,929,399	198,607	2,128,006
Retained earnings at January 1	8,031,864	160,321	8,192,185
Retained earnings at December 31	**$9,961,263**	**$358,928**	**$10,320,191**

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

DEFIANCE COUNTY

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001

	Proprietary Fund Types		
	Enterprise	Internal Service	Total (Memorandum Only)
Cash flows from operating activities:			
Cash received from sales/service charges	$3,034,169		$3,034,169
Cash received from other operations	55,456	$1,205,922	1,261,378
Cash payments for personal services	(372,972)	(1,107,315)	(1,480,287)
Cash payments for contract services	(273,713)		(273,713)
Cash payments supplies and materials	(113,496)		(113,496)
Cash payments for other expenses	(354,972)		(354,972)
Net cash provided by operating activities	1,974,472	98,607	2,073,079
Cash flows from noncapital financing activities:			
Transfers in from other funds	226,483	100,000	326,483
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(368,170)		(368,170)
Proceeds of debt issues	70,040		70,040
Principal retirement	(108,725)		(108,725)
Interest and fiscal charges	(9,581)		(9,581)
Net cash used in capital and related financing activities	(416,436)		(416,436)
Cash flows from investing activities:			
Sale of investments	1,290,000		1,290,000
Purchase of investments	(950,000)		(950,000)
Interest received	1,377		1,377
Net cash provided by investing activities	341,377		341,377
Net increase in cash and cash equivalents	2,125,896	198,607	2,324,503
Cash and cash equivalents at beginning of year	5,104,436	160,321	5,264,757
Cash and cash equivalents at end of year	**$7,230,332**	**$358,928**	**$7,589,260**
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$1,663,460	$98,607	$1,762,067
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	197,407		197,407
Changes in assets and liabilities:			
Decrease in supplies inventory	7,367		7,367
Increase in accounts receivable	(34,438)		(34,438)
Decrease in prepayments	30,443		30,443
Decrease in accounts payable	(13,723)		(13,723)
Increase in accrued wages and benefits	2,808		2,808
Increase in compensated absences payable	19,632		19,632
Increase in estimated liability for landfill closure	78,279		78,279
Increase in pension obligation payable	3,673		3,673
Increase in due to other governments	32,654		32,654
Increase in due from other funds	(156)		(156)
Decrease in due to other funds	(2,647)		(2,647)
Decrease in special assessments receivable	5,869		5,869
Decrease in deferred revenue	(16,156)		(16,156)
Net cash provided by operating activities	**$1,974,472**	**$98,607**	**$2,073,079**

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

DEFIANCE COUNTY

STATEMENT OF CHANGES IN NET ASSETS
INVESTMENT TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2001

	Fiduciary Fund Type
	Investment Trust
Operations:	
Interest revenue	$3,289
Increase in fair value	166
Net investment income	3,455
Capital transactions:	
Proceeds of investments sold	(29,061)
Purchase of investments	39,041
Total increase in net assets	13,435
Net assets at January 1, 2001	80,372
Net assets at December 31, 2001	**$93,807**

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

NOTE 1 - REPORTING ENTITY

The County's reporting entity has been defined in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, effective for financial statements for periods beginning after December 15, 1992. The general purpose financial statements (GPFS) include all funds, account groups, agencies, boards, commissions, and component units for which Defiance County and the County Commissioners are "accountable". Accountability as defined in GASB Statement No. 14 was evaluated based on financial accountability, the nature and significance of the potential component unit's (PCU) relationship with the County and whether exclusion would cause the County's general purpose financial statements to be misleading or incomplete. Among the factors considered were separate legal standing; appointment of a voting majority of PCU's board; fiscal dependency and whether a benefit or burden relationship exists; imposition of will; and the nature and significance of the PCU's relationship with the County. Responsibility was evaluated on the basis of financial dependence and the manifestations of oversight exercised by the Commissioners. Among the factors considered were budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the County, obligation of the County to finance any deficits that may occur, reliance of the organization on continuing subsidies from the County, selection of governing authority, and designation of management.

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

DISCRETELY PRESENTED COMPONENT UNIT

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

JOINTLY GOVERNED ORGANIZATIONS

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

MVPO is governed by a Board consisting of fifteen members. The Board is made up of one County Commissioner from each member county as well as one township representative and one municipal representative for each of the five member counties. The main sources of revenue are fees charged by MVPO to administer CDBG grants and a per capita amount from each county. In 2001, the County paid administrative fees of $61,055 and per capita charges of $2,765 to MVPO.

Defiance-Fulton-Henry Counties Council - The County is a member of the Defiance-Fulton-Henry Counties Council (the "Council") which is jointly governed organization between Defiance, Fulton, and Henry Counties. The Council was formed under Ohio Revised Code Section 167.04 as a regional council of governments. The purpose of the Council is to foster cooperation among the three member counties in all areas of service.

The Council is governed by a Board consisting of one representative from each member county's Board of Commissioners. The Council establishes cooperative programs which benefit member entities. The County obtains employee health coverage through a program established the Council.

Community Improvement Corporation of Defiance County - The County is a member of the Community Improvement Corporation of Defiance County (the CIC) which is a jointly governed organization between Defiance County, the City of Defiance, and the respective Villages and Townships of Defiance County. The purpose of the CIC is to promote and encourage the establishment and growth of industrial, commercial, distribution, and research facilities within member subdivisions.

The CIC is governed by a Board of Trustees consisting of fifteen self appointed members. Not less than two-fifths of the members are to be composed of elected officials. Five of these Trustees include: a member of the Board of County Commissioners of Defiance County, the Auditor of Defiance County, the Mayor or his/her designated elected official of the City of Defiance, the Mayor or his/her designated elected official of the Village of Hicksville, and the President of the Defiance County Trustees Association (the Association) or an elected Defiance County Trustee appointed by the Association President. The remaining members represent private residents of Defiance County or employees of Defiance County businesses or firms. The County paid the CIC $44,882 in 2001.

JOINT VENTURES - WITHOUT EQUITY INTEREST

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

Commission joint venture was created in 1986 and construction was finished and occupancy was taken December 31, 1991.

The Corrections Commission is governed by a Commission Team made up of 18 members. These members consist of one judge, one chief law enforcement officer, and one county commissioner or administrative official from each entity. Sources of revenue include operating costs and capital costs contributed by members and rental revenue. The County does not have an explicit, measurable right to the net resources of the Commission. Total expenditures made by the County to the Corrections Commission in 2001 were $1,079,896, Complete financial statements for the Corrections Commission can be obtained from the Correction Commission's administrative office on County Road 24 in Stryker, Ohio.

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

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

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

Four County Solid Waste District - The County is a member of the Four County Solid Waste District (the District), which is a joint venture between Defiance, Fulton, Paulding, and Williams counties. The purpose of the District is to make disposal of waste in the four-county area more comprehensive in terms of recycling, incinerating, and landfilling. The District was created in 1989.

The Four County Solid Waste District is governed and operated through a twelve- member board of directors, comprised of three commissioners from each county. Financial records are maintained by the Williams County Auditor in Bryan, Ohio. The District's sole revenue source is derived from a waste disposal fee for in-district and out-of-district waste. The County paid disposal fees of $78,055 to the District in 2001.

The County has an ongoing financial interest in the District. The County Commissioners are able to influence the Board of Directors to use the District's surplus resources to undertake special projects of interest to the County's citizens. In the event that a county withdraws from the District, this access to the net resources has not been explicitly defined, nor is it currently measurable. The County has no ongoing financial responsibility for the District.

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

The main source of revenue for the Task Force is from federal grants and local matching shares by the entities. The County has no ongoing financial responsibility to the Task Force. The County has indirect access to the net resources of the Task Force since the County is able to influence the Task Force to use its surplus resources to undertake projects of interest to the County's residents. This access to the net resources of the Board has not been explicitly defined, nor is it currently measurable. The County did not contribute to the Task Force in 2001. Complete financial statements for the Task Force can be obtained through the Defiance County Sheriff's Office located at 113 Beide Street, Defiance, Ohio.

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

NWOJDD is governed and operated by a thirteen member board of trustees consisting of three trustees from each County and one at large member. Revenue sources are from member Counties and rental revenue. The County has no ongoing financial responsibility for NWOJDD. Total expenditures made by the County to NWOJDD in 2001 were $282,700. The County acts as the financial agent for NWOJDD; accordingly, this fiduciary responsibility is reflected in an Agency Fund in the County's financial statements.

Quadco Rehabilitation Center, Administrative Board - The County is a participant with Henry, Fulton, and Williams Counties in a joint venture to operate Quadco Rehabilitation Center, Administrative Board (Quadco). Quadco, a nonprofit corporation, provides services and facilities for training physically and mentally disabled persons. Quadco is responsible for contracting with various agencies to obtain funding to operate the organization.

Quadco is governed by an eight-member board composed of two appointees made by each of the four County Boards of Mental Retardation and Developmental Disabilities (County Boards of MR/DD). This board, in conjunction with the County Boards of MR/DD assess the needs of adult mentally retarded and developmentally disabled residents in each County and set priorities based on available funds. The County provides subsidies to the Board based on units of service provided to it. For the year ended December 31, 2001, the County remitted $671,407 to Quadco to supplement its operations.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. BASIS OF PRESENTATION - FUND ACCOUNTING

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

GOVERNMENTAL FUNDS:

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

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

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

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

PROPRIETARY FUNDS:

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

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

FIDUCIARY FUNDS:

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

ACCOUNT GROUPS:

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

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

COMPONENT UNIT:

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

B. BASIS OF ACCOUNTING

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

Revenues - Exchange and Non-exchange Transactions

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

Nonexchange transactions, in which the County receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the County must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the County on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Revenue

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

Delinquent property taxes and property taxes for which there is an enforceable legal claim as of December 31, 2001, but which were levied to finance fiscal year 2002 operations, have been recorded as deferred revenues. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

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

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

C. MEASUREMENT FOCUS

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

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

D. BUDGETARY DATA

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

1. Following submission of requests by various offices and departments, the Board of County Commissioners holds budget hearings during the Fall of each year with respective officeholders and department heads.

2. Shortly after the beginning of the fiscal year, the County Commissioners pass an Appropriation Resolution which legally authorizes the expenditure of funds for respective officeholders and department heads.

3. The County is accorded discretion in its method of appropriating federal funds. Appropriations are provided in the amounts of approved grants by the Board of County Commissioners.

4. The Revised budget figures reflected in the combined financial statements include the prior year appropriations carried over for liquidations against prior year encumbrances, and any amendments to the original Appropriation Resolution.

5. The Commissioners appropriate at the major account level within a division and fund. The appropriation level accounts for the County include personal services, materials and supplies, contractual services and interfund transfers. For funds which are directly appropriated by the Commissioners, transfers of appropriations at the major account level or between appropriation level require a resolution signed by at least two Commissioners.

6. Supplemental appropriations are made when needed, subject to approval by at least two Commissioners. Supplemental appropriations were made during 2001.

7. Unencumbered appropriations lapse at year-end. Contracts and purchase-type encumbrances outstanding at year-end carry their appropriations with them into the next year. Contract and purchase-type encumbrances outstanding at year-end are recorded as expenditures on the budget basis of accounting.

8. The budgetary procedures described herein apply to all funds except the trust and agency funds.

E. ENCUMBRANCES

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

F. CASH AND INVESTMENTS

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

During fiscal year 2001, investments were limited to STAR Ohio, treasury notes, federal agency securities, certificates of deposit and repurchase agreements.

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

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for at December 31, 2001.

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

The following fund was credited with more interest revenue than would have been received based upon its share of the County's cash fund balance during 2001:

	Interest Actually Received	Interest Based upon Share of Cash Fund Balance	Interest Assigned by Other Funds
General Fund	$2,334,536	$285,774	$2,048,762

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

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

G. EXTERNAL INVESTMENT POOL

By statute, the County serves as fiscal agent for various legally separate entities. The County pools the moneys of these entities with the County's moneys for investment purposes. The County cannot allocate its investments between the internal and external investment pools. The external investment pool is not registered with the SEC as an investment company. The fair value of investments is determined annually. The pool does not issue shares. Each participant is allocated a pro rata share of each investment at fair value along with a pro rata share of the interest that it earns. The fair value of investments for both the internal and external investment pools is disclosed in Note 4, "Equity in Pooled Cash and Investments" Condensed financial information for the investment pool follows:

	Statement of Net Assets December 31, 2001
Assets:	
Cash	$ 4,517,965
Investments	30,179,813
Total Assets	$34,697,778
Net Assets Held in Trust for Pool Participants:	
Internal Portion	$34,603,971
External Portion	93,807
Net Assets Available to Pool Participants	$34,697,778

	Statement of Changes in Net Assets December 31, 2001
Revenue:	
Interest income	$ 2,237,503
Fair Value Increases and Decreases	101,818
Total Revenue	2,339,321
Distributions to Participants	(2,266,387)
Capital Transactions:	
Proceeds of Investments sold	(18,517,039)
Purchase of Investments	24,006,826
Total increase in net assets	5,562,721
Net Assets at January 1, 2001	29,135,057
Net Assets at December 31, 2001	$34,697,778

H. HEALTH CARE

The Comprehensive Omnibus Budget Reconciliation Act (COBRA) of 1986 required the County to offer and provide terminated or retired employees continued participation in the County's employee health care benefits program, provided that the employees pay the rate established by the plan administrator. In 2001, the County incurred expenditures of $248 in providing these services, and recognized revenues of $199 for premiums received from these previous employees.

I. INVENTORIES OF MATERIALS AND SUPPLIES

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

J. PROPERTY, PLANT, EQUIPMENT, AND DEPRECIATION

1. *General Fixed Assets Account Group*

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

2. *Enterprise Funds*

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

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

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

K. COMPENSATED ABSENCES

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

In accordance with the provisions of GASB Statement No. 16, Accounting for Compensated Absences, a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for sick leave is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future.

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

Accumulated vacation and sick leave of Governmental Fund Type employees meeting the above requirements have been recorded in the appropriate Governmental fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The balance of the liability is recorded in the General Long-Term Obligations Account Group. Vacation and sick leave benefits for employees meeting the above requirements who are paid from Proprietary funds are recorded as an expense when earned.

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

L. INTERGOVERNMENTAL REVENUES

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

M. LONG-TERM OBLIGATIONS

Long-term obligations for general obligation bonds, vested sick and vacation leave, capital lease obligations, and any claims or judgements that are expected to be paid from the governmental funds are shown in the General Long-Term Obligations Account Group, while those expected to be paid from proprietary funds are shown as a liability of those funds.

N. INTERFUND TRANSACTIONS

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

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not show transfers of resources as operating transfers.

2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund.

3. Short-term interfund loans and accrued interfund reimbursements and accrued operating transfers are reflected as interfund loans receivable or payable.

4. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources.

An analysis of interfund transactions is presented in Note 5.

O. FUND BALANCE RESERVES

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

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

P. BOND DISCOUNTS, PREMIUMS AND ISSUANCE COSTS

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

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

Q. PREPAIDS

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

R. ESTIMATES

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

S. FINANCIAL REPORTING FOR PROPRIETARY AND SIMILAR FUND TYPES

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

T. TOTAL COLUMNS ON GENERAL PURPOSE FINANCIAL STATEMENTS

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. CHANGE IN ACCOUNTING PRINCIPLE

GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions and GASB Statement No. 36 Recipient Reporting for Certain Shared Nonexchange Revenues, an amendment of GASB Statement No. 33 were implemented during fiscal 2001. These statements pertain to the financial reporting of certain types of revenue received by the County for which no value is given in return, including derived tax revenues, imposed nonexchange transactions, government-mandated nonexchange transactions and voluntary nonexchange transactions. The adoption of these statements had the following effect on fund balances as previously reported by the County at December 31, 2000:

	General	Special Revenue
Fund balances as previously reported	$7,154,152	$6,668,937
GASB No. 33 and No. 36 implementation	210,756	352,236
Restated fund balances as of January 1, 2001	$7,364,908	$7,021,173
Excess of Revenue over/under expenditures as of December 31, 2000	$4,068,376	$(888,188)
GASB No. 33 and No. 36 implementation	210,756	352,236
Net effect of restatement on the excess of revenues over/under expenditures as of December 31, 2000	$4,279,132	$(535,952)

B. DEFICIT BALANCES

The following funds had deficit fund balances as of December 31, 2001:

	Deficit Fund Balances
Special Revenue Funds:	
Economic Development	$ (1,230)
COPS	(679)
Debt Service Funds:	
Brunersburg Sewer	(59,736)
Auglaize Sewer	(77,186)
Capital Projects Funds:	
Auglaize Sewer	(14,998)
Brunersburg Sewer	(1,195,658)
Express Sewer	(84,975)
Green Acres Sewer	(13,500)
DMP Sewer	(267,449)
Airport	(332,742)

The deficits in the Special Revenue, Debt Service, and Expendable Trust funds are caused by the application of generally accepted accounting principles to these funds. These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. These GAAP deficits will be funded by anticipated future revenues or other subsidies not recognized and recorded at December 31.

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

C. AGENCY FUNDS

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

Taxes Receivable	$23,976,760
Accounts Receivable	2,529
Special Assessments Receivable	310,324

NOTE 4 - EQUITY IN POOLED CASH 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 demands upon the County treasury. Active monies must be maintained either as cash in the County treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States.

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

4. Bonds and other obligations of the State of Ohio, or its political subdivision, provided that such political subdivisions are located wholly or partly within the County;

5. Time certificates of deposit or savings or deposit accounts, including but not limited to, passbook accounts;

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

7. The State Treasurer's investment pool (STAR Ohio);

8. Securities lending agreements in which the County lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2) or cash or both securities and cash, equal value for equal value;

9. High grade commercial paper in an amount not to exceed five percent of the County's total average portfolio; and

10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the County's total average portfolio.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the County, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash in Segregated Accounts - At year end, $361,444 was on deposit in segregated accounts used by various County departments, and included in the total amount of deposits reported below; however, this amount is not part of the internal cash pool reported on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents".

Cash on hand - At year-end, the County had $325,323 in undeposited cash on hand ($8,332 cash on hand with the County Treasurer, $316,541 undeposited receipts and $450 cash on hand with departments), which is included on the combined balance sheet as part of "Equity in Pooled Cash and Cash Equivalents", but is not included in the total amount of deposits reported below.

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

Deposits - At year-end, the carrying amount of the County's deposits was $25,962,321 and the bank balance was $28,703,574. Of the bank balance:

1. $1,630,272 was covered by federal depository insurance; and

2. $23,498,302 was covered by collateral held by a third party trustee pursuant to Section 135.181, Revised Code, in collateralized pools securing all public funds on deposits with specific depository institutions or in collateralized securities specifically pledged by the financial institution,

3. $3,575,000 was covered by a Ohio Depository Bond.

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

	Category 1	Category 3	Fair Value
U.S. Government Securities	5,825,000	803,563	6,628,574
Investments not Subject to Categorization:			
Investment in State Treasurer's Investment Pool			5,647,109
Total Investments	$5,825,000	$803,563	$12,275,683

The government securities include federal agency securities, which have maturities ranging from 2002 to 2007 and treasury notes, which mature in 2016.

Net increase in the fair value of applicable investments during fiscal year 2001 per GASB Statement No. 31 is $69,568.

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

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

	Equity in Pooled Cash and Cash Equivalents	Investments
Per GASB Statement No. 9	$35,344,887	$ 2,856,996
Combined Balance Sheet Reclassifications:		
State Treasurer's Investment Pool	(5,647,109)	5,647,109
Certificates of Deposit	1,325,000	(1,325,000)
U.S. Government Securities	(5,096,578)	5,096,578
Cash on hand	(325,323)	
Cash in segregated accounts	361,444	
Total Per GASB Statement No. 3	$25,962,321	$12,275,683

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund balances at December 31, 2001, consist of the following individual fund receivables and payables which are long-term in nature (outstanding longer than one year):

	Advances to Other Funds	Advances from Other Funds
General Fund	$1,416,963	$ (761)
Special Revenue Funds	761	
Debt Service Funds		(137,698)
Capital Projects Funds	28,900	(1,308,165)
Total Long-Term Advances	$1,446,624	$(1,446,624)

B. Interfund balances at December 31, 2001, consist of the following individual fund receivables and payables which are short term in nature (outstanding less than one year):

	Interfund Loans Receivable	Interfund Loans Payable
General Fund	$87,277	
Special Revenue Funds		$(16,000)
Debt Service Funds	1,566	(67,943)
Capital Projects Funds		(4,900)
Total Interfund Loans	$88,843	$(88,843)

C. Quasi-external transactions (reimbursements) at December 31, 2001, consist of the following individual fund receivables and payables:

	Due from Other Funds	Due to Other Funds
General Fund	$157,337	$ (13,579)
Special Revenue Funds	1,767	(50,324)
Debt Service Funds		(521)
Capital Projects Funds		(113,415)
Enterprise Funds	156	
Agency Funds	18,579	
Total Quasi-External Transactions	$177,839	$(177,839)

D. The following is a reconciliation of the County's operating transfers for 2001:

Fund	Transfers In	Transfers Out
General Fund	$ 435,114	$(5,108,343)
Special Revenue Funds	1,387,891	(414,460)
Debt Service Funds	9,356	
Capital Projects Funds	3,955,383	(581,396)
Expendable Trust Funds		(11,399)
Internal Service Fund	100,000	
Enterprise Funds	226,483	
Total, Primary Government	6,114,227	(6,115,598)
Component Unit	1,371	
Total Transfers	$6,115,598	$(6,115,598)

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the County. Real property taxes and public utility taxes are levied after October 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by state law at 35% of appraised market value. Public utility property taxes are assessed on tangible personal property, as well as land and improvements, at true value. Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25% of true value. The assessed value upon which the 2001 taxes were collected was $630,361,391. The full tax rate for all County operations applied to real property for fiscal year ended December 31, 2001, was $9.95 per $1,000 of assessed valuation.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due February 9, 2001. If paid semi-annually, the first payment is due February 9, 2001 and the remainder payable by July 20, 2001. Under certain circumstances, state statute permits earlier or later payment dates to be established.

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

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

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

Since the current levy is not intended to finance 2001 operations, the receivable is offset by a credit to "Deferred Revenue". The delinquent real, public utility and tangible personal property taxes that will become available to the County within the first 60 days of 2002 are shown as 2001 revenue; the remainder is shown as "Deferred Revenue".

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

NOTE 7 - PERMISSIVE SALES AND USE TAX

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

Proceeds of the sales and use tax are credited to the General Fund. Amounts that have been collected by the state and are to be received within the available period are accrued as revenue. Sales and use tax revenue for 2001 amounted to $5,032,831, which includes a receivable of $774,953 at December 31, 2001.

NOTE 8 - FIXED ASSETS

A. A summary of the proprietary fund property, plant, and equipment at December 31, 2001 is as follows:

Land	$ 629,469
Buildings and Improvements	592,787
Vehicles	207,463
Machinery and Equipment	1,563,269
Construction in Progress	270,620
Total Gross Assets	3,263,608
Less: Accumulated Depreciation	(1,453,766)
Total Net Assets	$ 1,809,842

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

	Balance January 1, 2001	Additions	Disposals	Balance December 31, 2001
Land	$ 545,375	$ 124,714	$(207,972)	$ 462,117
Buildings	8,114,629	442,371		8,557,000
Machinery and Equipment	4,185,239	339,065	(13,401)	4,510,903
Vehicles	3,940,009	324,060	(234,412)	4,029,657
Construction in Progress	406,446		(406,446)	
Total	$17,191,698	$1,230,210	$(862,231)	$17,559,677
Component Unit	$ 649,795	$ 37,082	$ 0	$ 686,877

NOTE 9 - VACATION AND SICK LEAVE LIABILITY

Vacation and sick leave accumulated by governmental fund type employees has been recorded in the General Long-Term Obligations Account Group. Vacation and sick leave earned by proprietary funds type employees is expensed when earned.

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

At December 31, 2001 vested benefits for vacation leave for governmental fund type employees totaled $413,547 and vested benefits for sick leave totaled $30,842. In accordance with GASB No. 16, a liability of $164,441 was also accrued to record termination (severance) payments for employees expected to become eligible to retire in the future. The total long-term liability for compensated absences for all governmental fund types and component units is $697,979.

NOTE 10 - CAPITALIZED LEASES - LESSEE DISCLOSURE

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

Capital lease payments have been reclassified and are reflected as debt service expenditures in the Combined Financial Statement of Revenues, Expenditures and Changes in Fund Balances-All Governmental Fund Types, Expendable Trust Fund, and Discretely Presented Component Units. These expenditures are reflected as program/function expenditures on a budgetary basis. General fixed assets acquired by lease have been capitalized in the General Fixed Asset Account Group in the amount of $67,422, which is equal to the present value of the future minimum lease payments as of the date of their inception. A corresponding liability was recorded in the General Long-Term Obligations Account Group. Principal payments in the 2001 fiscal year totaled $13,936. This amount is reflected as debt service principal retirement in the Special Revenue Funds.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of December 31, 2001.

General Long-Term Obligations

Year Ending December 31	Equipment
2002	$18,778
2003	3,567
2004	5,402
Total future minimum lease payments	27,747
Less: Amount Representing Interest	(834)
Present Value of Future Minimum Lease Payments	$26,913

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

NOTE 11 - LONG-TERM DEBT

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

	Outstanding 1/1/01	Additions	Reductions	Outstanding 12/31/01	Maturity Date
General Obligation Bonds:					
1999 - 3.9% to 5.6%					
Various Purpose Improvements	$2,520,000	$ 0	$ (85,000)	$2,435,000	12/1/24
Other Long-Term Obligations:					
OWDA loans payable	302,865	9,687	(104,821)	207,731	Various
OPWC loan payable	432,946		(23,403)	409,543	07/1/19
Compensated Absences	549,138	425,085	(370,936)	603,287	N/A
Capital Lease	28,047	12,802	(13,936)	26,913	04/1/03
Total General Long-Term Obligations	$3,832,996	$447,574	$(598,096)	$3,682,474	
Enterprise Fund:					
General Obligation Bonds:					
1999 - 3.9% to 5.6%					
Christi Meadows					
Sewer Improvements	$ 95,000	$ 0	$ (10,000)	$ 85,000	12/1/24

General obligation bonds are general obligations of the County for which the full faith and credit of the County is pledged for repayment. Accordingly, such unmatured obligations of the County are accounted for in the General Long-Term Obligations Account Group. Payments of principal and interest relating to these liabilities are recorded as expenditures in the Debt Service Fund.

In 1999, the County issued $2.675 million in general obligation bonds. $705,000 of the proceeds were used to retire various bond anticipation notes, and $1,970,000 will be used for construction of facilities at the Evergreen Home. The source of repayment for this bond is general operating revenues of the County. $100,000 of the $2.675 million in general obligation bonds was used for Christi Meadows Sewer improvements and is recorded as a liability of the enterprise funds.

The County has two loans outstanding with the Ohio Water Development Authority (OWDA). The first loan, dated April 25, 1996, is for $91,479. The interest rate is 3.2% and the loan term is five years. The loan balance outstanding at December 31, 2001 is $9,815. The second loan, dated June 3, 1998 has a five year term and an interest rate of 3.2%. Additional proceeds of $9,687 were issued during fiscal 2001. The amount outstanding on this loan at December 31, 2001 is $197,916.

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

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

	General Obligation Bonds		OWDA Loans		OPWC Loan	Total Long-Term Obligations	
	Principal	Interest	Principal	Interest	Principal	Principal	Interest
2002	$ 95,000	$ 134,530	$ 54,889	$3,324	$ 11,701	$ 161,590	$ 137,854
2003	100,000	130,445	92,324	4,158	23,403	215,727	134,603
2004	105,000	125,995	60,518	1,180	23,402	188,920	127,175
2005	105,000	121,218			23,403	128,403	121,218
2006	120,000	116,335			23,402	143,402	116,335
2007-2011	545,000	486,390			117,013	662,013	486,390
2012-2016	470,000	356,160			117,012	587,012	356,160
2017-2021	580,000	210,560			70,207	650,207	210,560
2022-2024	400,000	45,640				400,000	45,640
Total	$2,520,000	$1,727,273	$207,731	$8,662	$409,543	$3,137,274	$1,735,935

B. The Ohio Revised Code provides that the net general obligation debt of the County, exclusive of certain exempt debt, issued without a vote of the electors shall never exceed one percent of the total assessed valuation of the County.

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

The effects of the debt limitations described above at December 31, 2001 are an overall debt margin of $9,409,521 and an unvoted debt margin of $1,454,100, including available funds of $264,403.

NOTE 12 - NOTES PAYABLE

The County had the following general obligation bond anticipation notes outstanding at December 31, 2001:

General Obligation Bond Anticipation Notes:	Issue Date	Balance 12/31/00	Issued	Retired	Balance 12/31/01	Maturity Date
Special Revenue Fund:						
4.68% Equipment Acquisition	8/4/00	$ 50,000		$ (50,000)		8/3/01
4.68% Bridge Repair	8/2/01	703,344	$673,530	(703,344)	$673,530	8/1/02
Total Special Revenue Fund		$753,344	$673,530	$(753,344)	$673,530	
Capital Project Funds:						
3.10% Airport Improvement	12/20/01		$ 225,000		$ 225,000	12/19/02
3.00% Coakley Tile	8/2/01	$ 3,641	2,510	$ (3,641)	2,510	8/1/02
4.80% Clemens Ditch	3/30/01	21,076	19,160	(21,076)	19,160	3/28/02
3.00% DMP Sewer	8/2/01	250,000	249,590	(250,000)	249,590	8/1/02
NA Limbaugh Ditch	8/4/00	229			229	7/31/02
4.49% Kennerk Tile	6/1/01	1,794	1,385	(1,794)	1,385	5/31/02
NA Mulligan's Bluff	3/31/00	807		(119)	688	3/29/02
NA Zachrich Ditch	10/12/01		582		582	10/11/02
6.00% Treece Ditch	6/2/00	2,685		(2,685)		NA
NA Domersville Ditch	4/3/98	19		(19)		NA
4.68% Ayersville Tile	3/31/00	484		(484)		NA
6.00% Verhoff Ditch	6/2/00	3,050		(3,050)		NA
NA Rohn Ditch	10/13/00	469		(469)		NA
NA Raimonde Ditch	8/6/99	203		(203)		NA
3.00% Hardy Tile	8/2/01	19,015	16,250	(19,015)	16,250	8/1/02
NA Hardy Ditch	8/7/98	1,242		(1,240)	2	7/31/02
3.50% Behrens Ditch	10/12/01	9,740	6,600	(9,740)	6,600	10/11/02
4.49% Glenburg Ditch	6/1/01	8,730	7,560	(8,730)	7,560	5/31/02
4.49% Shoemaker Ditch	6/1/01	1,550	1,115	(1,550)	1,115	5/31/02
4.49% Schlack Ditch	6/1/01	6,045	4,780	(6,045)	4,780	5/31/02
4.80% Wisda - Prairie Ditch	3/30/01	16,850	12,375	(16,850)	12,375	3/28/02

4.80% Donley Ditch	3/30/01	11,910	6,900	(11,910)	6,900	3/28/02
5.05% Zachrich Ditch	10/13/00	1,740		(1,740)		NA
4.80% Morhart Ditch	3/30/01	16,495	13,675	(16,495)	13,675	3/28/02
4.49% Lake Road Ditch	6/1/01	12,535	10,020	(12,535)	10,020	5/31/02
3.00% Mitchell Ditch	8/2/01	23,840	17,400	(23,840)	17,400	8/1/02
3.00% Preston Run Ditch	8/4/00	25,182	15,720	(25,182)	15,720	8/1/02
4.80% Ramus Ditch	3/30/01		19,628		19,628	3/28/02
4.49% Arrowsmith Waterway Imp.	6/1/01		19,178		19,178	5/31/02
3.38% Brunersburg Sewer	4/5/01		1,200,000		1,200,000	4/4/02
Total Capital Project Funds		$439,331	$1,849,428	$(438,412)	$1,850,347	

General Obligation Bond Anticipation Notes:	Issue Date	Balance 12/31/00	Issued	Retired	Balance 12/31/01	Maturity Date
Enterprise Funds:						
3.50% Noble Township Sewer	10/12/01	$74,950	$48,640	$(74,950)	$48,640	10/11/02
3.50% Beldon Wastewater	10/12/01	23,775	21,400	(23,775)	21,400	10/11/02
Total Enterprise Funds		$98,725	$70,040	$(98,725)	$70,040	

NOTE 13 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The County maintains three separate enterprise funds to account for the operations of a sewer district, a county landfill, and mining reclamation. Segment information for the year ended December 31, 2001 follows:

	County Landfill	Sanitary Sewer	Mining Reclamation	Total
Operating Revenue	$2,933,551	$198,611	$2,344	$3,134,506
Operating Expenses before Depreciation	1,124,829	148,810		1,273,639
Depreciation Expense	178,969	18,438		197,407
Operating Income	1,629,753	31,363	2,344	1,663,460
Operating Transfers:				
In	211,983	14,500		226,483
Net Income	1,889,615	37,440	2,344	1,929,399
Property, Plant and Equipment (Net of Accumulated Depreciation)	1,565,227	244,615		1,809,842
Net Working Capital	10,236,650	62,881	5,344	10,304,875
Total Assets	11,896,413	386,063	5,344	12,287,820
Long-term liabilities payable from fund revenues	2,047,397	106,057		2,153,454
Total Equity	9,754,480	201,439	5,344	9,961,263
Encumbrances (Budget Basis)	113,218	18,781		131,999

NOTE 14 - DEFINED PENSION PLANS

A. PUBLIC EMPLOYEES RETIREMENT SYSTEM

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

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate for 2001 was 8.5 percent for employees other than law enforcement. In January 2001, House Bill 416 divided the PERS law enforcement program into two separate divisions with separate employee contribution rates and benefits. The law enforcement classification consisted of sheriffs, deputy sheriffs, and township police with an employee contribution rate of 10.1%. All other members of the PERS law enforcement program were placed in a newly named public safety division and continued to contribute at 9%. The employer contribution rate for employees other than law enforcement was 13.55 percent of covered payroll; 9.25 percent was the portion used to fund pension obligations for 2001. The employer contribution rate for law enforcement employees was 16.70 percent of covered payroll; 11.40 percent was the portion used to fund pension obligations for 2001. The County's contributions for pension obligations to PERS for the years ended December 31, 2001, 2000, and 1999 were $1,401,691, $1,094,930 and $1,190,153, respectively; 79 percent has been contributed for 2001 and 100 percent for 2000 and 1999. $289,090, representing the unpaid contribution for 2001, is recorded as a liability within the respective funds.

B. STATE TEACHERS RETIREMENT SYSTEM

Certified teachers employed by the school for the Mental Retarded/Developmentally Disabled participate in the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3% of their annual covered salary and the County is required to contribute 14%; 9.5% was the portion used to fund pension obligations. Contribution rates are established by STRS Ohio Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The County's contributions for pension obligations to STRS Ohio for the years ended December 31, 2001, 2000, and 1999 were $128,791, $119,204 and $104,464, respectively; 97% has been contributed for 2001 and 100% for the years 2000 and 1999. $4,340, representing the unpaid contributions for 2001, is recorded as a liability within the respective funds.

NOTE 15 - POSTEMPLOYMENT BENEFITS

A. PUBLIC EMPLOYEES RETIREMENT SYSTEM

PERS provides post-retirement health care coverage to age and service retirants with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers. A portion of each employer's contribution to PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2001 employer contribution rate for local government employers was 13.55% of covered payroll; 4.30% was the portion that was used to fund health care. The law enforcement employer rate for 2000 was 16.70% of covered payroll; 4.30% was the portion used to fund health care.

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS. The County's contribution actually made to fund post employment benefits was $436,667. Of this amount, $401,834 was used to fund health care for the year for regular employees, while $34,883 was used to fund health care for the year for law enforcement employees.

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

An entry age normal actuarial cost method of valuation is used in determining the fair value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation of depreciation on investment assets. The investment assumption rate for 2000 was 7.75%. An annual increase of 4.75% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.75% base increase, were assumed to range from 0.54% to 5.1% Health care costs were assumed to increase 4.74% annually.

As of December 31, 2000 (the latest information available), the unaudited estimated net assets available for future OPEB payments were $11,735.9 million. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $14,364.6 million and $2,628.7 million, respectively, at December 31, 2000. The number of benefit recipients eligible for OPEB at December 31, 2000 was 411,076.

In January 2001, House Bill 416 divided the PERS law enforcement program into two separate divisions with separate employee contribution rates and benefits. The law enforcement classification consisted of sheriffs, deputy sheriffs, and township police with an employee contribution rate of 10.1%. All other members of the PERS law enforcement program were placed in a newly named public safety division and continue to contribute at 9.0%. The employer contribution rate for both the law enforcement and public safety divisions is 16.70%.

Law enforcement officer benefits permit age and service retirement at an earlier age with a different formula than that for PERS members not covered under this division.

B. STATE TEACHERS RETIREMENT SYSTEM

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

All benefit recipients are required to pay a portion of the health care cost in the form of a monthly premium. Benefits are funded on a pay-as-you-go basis through an allocation of employer contributions to the Health Care Reserve Fund equal to 4.5% of covered payroll for the fiscal year ended June 30, 2001. For the County, this amount equaled $41,397 during calendar year 2001. As of June 30, 2001, the balance in the Health Care Reserve Fund was $3.256 billion and eligible benefit recipients totaled 102,132 for STRS Ohio as a whole. For the fiscal year ended June 30, 2001, net health care costs paid by STRS Ohio were $300,772,000.

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

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

EXCESS OF REVENUES AND OTHER FINANCING SOURCES
OVER/(UNDER) EXPENDITURES AND OTHER FINANCING USES

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Budget Basis	$ 124,967	$(1,881,171)	$133,574	$ (361,484)
Net adjustment for revenue accruals	344,715	(323,899)	(87,733)	49,035
Net adjustment for expenditure accruals	(72,958)	1,213,989	682,463	(553,748)
Net adjustment for other financing sources/(uses)	(771,621)	(612,661)	(674,462)	(358,291)
Encumbrances (Budget Basis)	236,937	716,646		2,630,163
GAAP Basis	$(137,960)	$ (887,096)	$ 53,842	$1,405,675

NOTE 17 - CONTINGENT LIABILITIES

A. Grants

The County receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the County at December 31, 2001.

B. Litigation

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

NOTE 18 - CLOSURE AND POSTCLOSURE CARE COSTS

State and federal laws and regulations require that the County place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and postclosure care costs is based on the amount of the landfill used during the year. The estimated liability for landfill closure and postclosure care costs has a balance of $2,012,198 as of December 31, 2001, which is based on 66.32% usage (filled) of the landfill. It is estimated that an additional $1,021,667 will be recognized as closure and postclosure care expenses between the date of the balance sheet and the date the landfill is expected to be filled to capacity (2005). The estimated total current cost of the landfill closure and postclosure care of $3,033,865 is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain all equipment, facilities, and services required to close, monitor, and maintain the landfill were acquired as of December 31, 2001. However, the actual costs of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

The County is required by state and federal laws and regulations to make annual contributions to finance closure and postclosure care. The County is in compliance with these requirements, and at December 31, 2001, $3,504,105 was for these purposes. These amounts are presented on the County's balance sheet as "Restricted Assets: Investments" and "Restricted Assets: Cash and Cash Equivalents." It is anticipated that future inflation costs will be financed in part from earnings on investments. The remaining portion of anticipated future inflation costs (including inadequate earnings on investments, if any) and additional costs that might arise from changes in postclosure requirements (due to changes in technology or more rigorous environmental regulations, for example) may need to be covered by charges to future landfill users, taxpayers, or both.

NOTE 19 - PUBLIC ENTITY RISK POOLS

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

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

CORSA has issued certificates of participation in order to provide adequate cash reserves. The certificates are secured by the member counties' obligations to make coverage payments to CORSA. The participating counties have no responsibility for the payment of the certificates. The County does not have an equity interest in CORSA. The County's payment for insurance to CORSA in 2001 was $148,554.

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

B. Defiance-Fulton-Henry Counties Council Employee Insurance Benefits Program

The County participates in the Defiance-Fulton-Henry Counties Council Employee Insurance Benefits Program (the Program), a public entity shared risk pool consisting of Defiance, Fulton, and Henry Counties. The purpose of the plan is for its members to pool funds or resources to purchase health and dental insurance products and enhance the wellness opportunities for employees.

Each member pays a monthly premium amount, which is established annually by the Board, to Reliance Financial Services (Reliance). Reliance is the fiscal agent for the Council and has a trust agreement with the Council to account for all Council finances and assets. The Program is governed by a Board consisting of one representative from each member County's Board of Commissioners. The degree of control exercised by any participating member is limited to its representation on the Board. Upon withdrawal from the Program, a program agreement shall govern the disposition of any contributions by the withdrawing member to each program of the Council in excess of that member's share of the costs of that program. In fiscal year 2001, Defiance County contributed a total of $1,092,846 for this plan.

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DEFIANCE COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2001

FEDERAL GRANTOR *Pass Through Grantor* Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through Ohio Department of Education:			
National School Lunch Program	065946-03-PU-01	10.555	$7,132
Total U.S. Department of Agriculture			7,132
U.S. DEPARTMENT OF EDUCATION			
Passed Through Ohio Department of Education:			
Special Education Cluster:			
Special Education - Grants to States (Title VI-B)	065946-6B-SF-01P	84.027	32,373
	065946-6B-SF-02P		11,813
Total Special Education - Grants to States			44,186
Special Education - Preschool Galileo	065946-PG-SC-00-P	84.173	2,499
Special Education - Preschool Grant (Title 1)	065946-PG-51-00P	84.173	9,766
	065946-PG-51-01P		14,278
Total Special Education - Preschool Grant			24,044
Total Special Education Cluster			70,729
Passed Through Ohio Department of Health:			
Special Education Grants for Infants and Families with Disabilities (Early Intervention)	20-1-002-1-AN-01	84.181	61,236
Total U.S. Department of Education			131,965
U.S. DEPARTMENT OF FEDERAL EMERGENCY MANAGEMENT DISASTER ASSISTANCE			
Passed Through Ohio Department of Emergency/ Management Disaster Assistance:			
Federal Emergency Management Agency - EMPG	H418	83.552	19,700
Federal Emergency Management Agency - Special Project	OH-99-023		1,875
Total U.S. Department of Federal Emergency Management Disaster Assistance			21,575
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through The Area Office of Aging:			
Aging Cluster:			
Special Programs for the Aging -Title III Part B- Grants for Supportive Services and Senior Centers	-	93.044	33,404
Special Programs for the Aging -Title III Part C- Nutrition Services	-	93.045	242,567
Total Aging Cluster			275,971

(Continued)

DEFIANCE COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)

FEDERAL GRANTOR *Pass Through Grantor* Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
Special Programs for the Aging - Title III Part D - Sixty Plus Program	-	93.043	6,335
Special Programs for the Aging - A12 - Alzheimer	-	93.951	34,935
Total Area Office of Aging			317,241
Passed Through Ohio Department of Health:			
Social Services Block Grant (Title XX)	-	93.667	56,448
Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:			
Medical Assistance Program (Medicaid: Title XIX)	-	93.778	130,704
Passed Through Ohio Job and Family Services:			
Child Welfare Subsidy (Title IV-B)	20-6010-02	93.645	25,289
Child Welfare Subsidy (Title IV-B)	20-6010-01	93.645	16,587
ESSA Family Preservation	20-6035-01	93.645	271
Total			42,147
Basic Child Abuse and Neglect	20-6020-01	93.669	2,108
Total U.S. Department of Health and Human Services			548,648
U.S. DEPARTMENT OF LABOR			
Passed Through Ohio Job and Family Services:			
Employment and Training Administration, Department of Labor	-	17.255	526,275
Passed Through Williams County:			
Employment and Training Administration, Department of Labor	-	17.255	160,285
Passed Through Paulding County:			
Employment and Training Administration, Department of Labor	-	17.255	178,019
Total U.S. Department of Labor			864,579
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Home Investment Partnerships Program (Chip)	B-C-00-019-2	14.239	62,922
Passed Through Ohio Department of Development:			
Community Development Block Grant (Formula Grant)	B-F-99-019-1	14.228	22,000
	B-F-00-019-1		83,036
Total CDBG (Formula Grant)			105,036

(Continued)

DEFIANCE COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)

FEDERAL GRANTOR *Pass Through Grantor* Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
Community Development Block Grant (Emergency Shelter)	B-L-00-019-1	14.228	40,265
	B-L-01-019-1		16,300
Total CDBG (Emergency Shelter)			56,565
Community Development Block Grant (Economic Development)	B-E-99-019-1	14.228	80,612
Community Development Block Grant - (Microenterprise)	B-M-00-019-1	14.228	22,900
Community Development Block Grant - (Water and Sewer)	B-W-98-019-1	14.228	43,680
Community Development Block Grant (Chip)	B-C-00-019-1	14.228	44,261
Total U.S. Department of Housing and Urban Development			415,976
U.S. DEPARTMENT OF JUSTICE			
Community Oriented Policing Services Grant (COPS)	199UMWX2810	16.726	69,261
Passed Through the Office of Criminal Justice Services:			
Byrne Memorial Drug Control and Systems (Improvement Grant)	00-DG-A01-7014	16.579	227,810
Byrne Memorial Grant - Rape Crisis Advocate	01-DG-D02-7004	16.579	20,400
Total Byrne Memorial Grant			248,210
Victims of Crimes Act Grant	01-VAG-ENE-061	16.575	61,613
	02-VAG-ENE-061		15,276
Total Victims of Crimes Act Grant			76,889
Total U.S. Department of Justice			394,360
Total			**$2,384,235**

The accompanying notes are an integral part of this schedule.

NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FISCAL YEAR ENDED DECEMBER 31, 2001

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FOOD DISTRIBUTION

Non-monetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At December 31, 2001, the County had no significant food commodities in inventory

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

The County has established a revolving loan program to provide low-interest loans to businesses to create jobs for persons from low-moderate income households. The Federal Department of Housing and Urban Development (HUD) grants money for these loans to the County passed through the Ohio Department of Development. The initial loan of this money is recorded as a disbursement on the accompanying Schedule of Federal Awards Expenditures (the Schedule). Loans repaid, including interest, are used to make additional loans. Such subsequent loans are subject to certain compliance requirements imposed by HUD, but are not included as disbursements on the Schedule.

These loans are collateralized by mortgages on the property. At December 31, 2001, the gross amount of loans outstanding under this program was $258,096.

NOTE D - MATCHING REQUIREMENTS

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

STATE OF OHIO
OFFICE OF THE AUDITOR

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REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

To the Board of Commissioners:

We have audited the financial statements of Defiance County (the County) as of and for the year ended December 31, 2001, and have issued our report thereon dated June 10, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of County in a separate letter dated June 10, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of Defiance County in a separate letter dated June 10, 2002.

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

Jim Petro
Auditor of State

June 10, 2002

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

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

To the Board of Commissioners:

Compliance

We have audited the compliance of Defiance County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2001. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

As described in item 2001-60120-001, 2001-60120-002, 2001-60120-003, 2001-60120-004 and 2001-60120-005 in the accompanying schedule of findings and questioned costs, the County did not comply with requirements regarding eligibility, allowable costs, and allowable activities that are applicable to its Employment and Training Administration, Department of Labor Program. Compliance with such requirements is necessary, in our opinion, for the County to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2001. We noted a certain instance of noncompliance that does not require inclusion in this report that we have reported to management of the County in a separate letter dated June 10, 2002.

Internal Control Over Compliance

The management of the County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the County's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2001-60120-006, and 2001-60120-007.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 2001-60120-006 to be a material weakness. We also noted a matter involving the internal control over federal noncompliance that does not require inclusion in this report that we have reported to management of the County in a separate letter dated June 10, 2002.

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

Jim Petro
Auditor of State

June 10, 2002

DEFIANCE COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2001

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	2001-60120-001
CFDA Title and Number	17.255
Federal Award Number / Year	January 1 to December 31, 2001
Federal Agency	U.S. Department of Labor
Pass - Through Agency	Ohio Department of Job and Family Services, Williams and Paulding Counties

Questioned Cost:

OMB Circular No. A-87 Section C, "Basic Guidelines" requires federal costs to be authorized or not prohibited under State or local laws or regulations. In addition, the Northwest Ohio Workforce Development Agency (NOWDA, an agency of Defiance County) entered into contracts with Four County Career Center and Vantage Career Center to operate the One-Stop Operations and provide youth services for Defiance/Williams and Paulding Counties.

The Four County Career Center received an advance in June and October, 2001 in the amounts of $25,000 and $25,000 respectively, from NOWDA to provide initial start-up monies for the One-Stop Operations and the youth program. There were no provisions for these advances mentioned in the contract. Likewise, there was no language in the contract to indicate the procedures for liquidation and /or recovery of the advances.

The Vantage Career Center contract started July 1, 2001, but was not signed by all necessary parties until August 6, 2001. There was no pre-award statement on file to authorize the commencement of activities prior to the completed contract document. The Vantage Career Center contract incurred costs of $7,089 during the time period specified.

Questioned Costs:	
Initial Start-up Advances	$50,000
Incurred Costs Prior to Approval Contract	7,089
Total	$57,089

If NOWDA wishes to advance funds to contracting agencies in the future, we recommend NOWDA specify in its contracts the permissibility of such advance of funds as well as provisions for the repayment of these advances. In addition, the Executive Director should monitor these contract expenditures to ensure that no payments are made prior to the date authorized in the contracts.

Finding Number	2001-60120-002
CFDA Title and Number	17.255
Federal Award Number / Year	January 1 to December 31, 2001
Federal Agency	U.S. Department of Labor
Pass - Through Agency	Ohio Department of Job and Family Services, Williams and Paulding Counties

Questioned Cost:

Section 663.310 of the Workforce Investment Act (WIA) Regulations states training services may be made available to employed and unemployed adults and dislocated workers who:

1. Have met the eligibility requirements for intensive services, have received at least one intensive service under Sec. 663.240, and have been determined to be unable to obtain employment through such services;

2. After an interview, evaluation, or assessment, and case management, have been determined by a One-Stop operator or One-Stop partner, to be in need of training services and to have the skills and qualifications to successfully complete the selected training program;

Section 663.700(a) of the WIA Regulations further states on-the-job training (OJT) is defined at WIA section 101 (31). OJT is provided under a contract with an employer in the public, private non-profit, or private sector. Through the OJT contract, occupational training is provided for the WIA participant in exchange for the reimbursement of up to 50 percent of the wage rate to compensate for the employer's extraordinary costs. (WIA sec. 101 (31)(B))

The Northwest Ohio Workforce Development Agency (NOWDA, an agency of Defiance County) contracted with five area companies to provide OJT or Customized Training for the employees of these companies. NOWDA has a list of enrolled clients. If an employee of a company is on this enrolled client list, Section 663.700 of the WIA Regulations allows for a reimbursement of up to 50 percent of the wage rate to compensate for the employer's extraordinary costs.

One company had an employee on the enrolled client list; however, this company was reimbursed for the employee's training at 100 percent instead of 50 percent for a questioned cost of $226.14. The remaining employees from these five companies who received training were not included on the agency's list for a questioned cost of $22,633.01 for the year ended December 31, 2001.

Questioned Costs:	
Reimbursed at 100% instead of 50%	$226.14
Employees not on approved list	22,633.01
Total	$22,859.15

We recommend the Executive Director review contracts with companies to ensure only eligible employees can take part in the customized training. The Executive Director should also review reimbursements for compliance with WIA Regulations before payments are made.

Finding Number	2001-60120-003
0CFDA Title and Number	17.255
Federal Award Number / Year	January 1 to December 31, 2001
Federal Agency	U.S. Department of Labor
Pass - Through Agency	Ohio Department of Job and Family Services, Williams and Paulding Counties

Questioned Cost:

Section 122:(B)(1) of the Workforce Investment Act Regulations Act requires service providers to be a postsecondary institution submitting an application to the local workforce investment/policy board. The locally approved applications are forwarded to the State of Ohio for final approval and placement on the State's list of eligible training providers.

One out of sixteen service providers was not included on the State's list of eligible training providers. This resulted in all payments related to that service provider ($11,166.62) being a questioned costs for the year ended December 31, 2001.

Questioned Costs:	
Total Tuition and Supportive Services Costs	$11,166.62

We recommend an appropriate Northwest Ohio Workforce Development Agency (NOWDA, an agency of Defiance County) employee monitor the filing of these applications with the State for all service providers the NOWDA intends to utilize.

Finding Number	2001-60120-004
CFDA Title and Number	17.255
Federal Award Number / Year	January 1 to December 31, 2001
Federal Agency	U.S. Department of Labor
Pass - Through Agency	Ohio Department of Job and Family Services, Williams and Paulding Counties

Noncompliance Finding:

29 CFR 97.20 (b)(7) provides that procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. When advances are made the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.

Neither the Northwest Ohio Workforce Development Agency (NOWDA, an agency of Defiance County), nor the fiscal agent (Defiance County Department of Job and Family Services) have a system that indicates either accrual or cash balances of WIA programs. Consequently, there is no way to monitor the cash requirements of WIA programs. This weakness significantly increases the risk that program expenditures could be over or under-expended. This has resulted in the July 1, 2001 cash balance of total WIA programs being approximately eight times higher than average monthly expenditures in calendar year 2001.

To ensure cash advances are limited to the minimum amounts needed, we recommend the fiscal agent or (perhaps the County Auditor) create reports that indicate running cash balances of individual WIA programs. These cash balance reports should be provided to the Executive Director, the Workforce Development Policy Board, as well as the joint board of County Commissioners on a regular basis to monitor the expenditure of WIA funds. In addition, a system should be developed that would indicate reserves of future contractual commitments against available funds. This procedure would also help ensure that WIA funds are not over-expended.

Finding Number	2001-60120-005
CFDA Title and Number	17.255
Federal Award Number / Year	January 1 to December 31, 2001
Federal Agency	U.S. Department of Labor
Pass - Through Agency	Ohio Department of Job and Family Services, Williams and Paulding Counties

Noncompliance Finding:

Section 667.300 (C)(3) of the Federal Regulations states reported expenditures and program income earned must be on the accrual basis of accounting and cumulative by fiscal year of appropriation. If the recipient’s accounting records are not normally kept on the accrual basis of accounting, the recipient must develop accrual information through an analysis of the documentation on hand.

The fiscal agent (Defiance County Department of Job and Family Services) did not report WIA financial information on the accrual basis of accounting. In addition, no accrual information was developed through an analysis of documentation on hand. We recommend the fiscal agent report WIA expenditures and program income on the accrual basis of accounting as required by the Federal Regulations.

Finding Number	2001-60120-006
CFDA Title and Number	17.255
Federal Award Number / Year	January 1 to December 31, 2001
Federal Agency	U.S. Department of Labor
Pass - Through Agency	Ohio Department of Job and Family Services, Williams and Paulding Counties

Material Weakness:

The Northwest Ohio Workforce Policy Board's Northwest Job Guidelines requires oversight and monitoring of expenses and contracts. The Guidelines require among other things that:

1. The Executive Director, representing the Board and the local elected officials will conduct oversight of the Agency workforce related programs. The Board and the Commissioners will review Agency operation of all workforce related programs under their authority. This includes a specific review of all program and contractor performance. Written reports are provided to both bodies outlining performance, operation and monitoring of all workforce related programs.

2. The Agency staff members and contract consultant will monitor all workforce services provided under the Board authority.

3. Agency staff members and contract consultants will use standard written monitoring programs for assessing the compliance of each contractor. The program will ensure compliance with Federal/State laws, regulations and other authoritative pronouncements, contractual and grant requirements, proper expenditure of, and accurate accounting for federal/state funds.

4. The Agency monitors will review any new contractor before or as quickly as can be reasonably scheduled after funds are provided for program activities.

There is no evidence to indicate that the Executive Director or staff members reviewed or monitored expenses and contracts for allowable activities and allowable costs. The lack of sufficient monitoring of expenses and contracts resulted in unallowable activities and unallowable costs being paid with WIA funds, as noted in findings 2001-60120-001 and 2001-60120-002.

We recommend the Policy Board's Job Guidelines be followed for monitoring expenses and contracts. We also recommend that an organizational chart be developed with a clear line of authority for proper monitoring of allowable costs and allowable activities.

Finding Number	2001-60120-007
CFDA Title and Number	17.255
Federal Award Number / Year	January 1 to December 31, 2001
Federal Agency	U.S. Department of Labor
Pass – Through Agency	Ohio Department of Job and Family Services, Williams and Paulding Counties

Reportable Condition:

To ensure that expenses on Individual Training Accounts (ITA) are valid, there should be a reconciliation of ITA with fund cash disbursements. None of the thirty ITA tested were reconciled to fund cash disbursements. This weakness increases the risk that unallowable expenditures could be made without detection by employees in performing their duties. We recommend the fiscal agent (Defiance County Department of Job and Family Services) develop procedures to reconcile the ITA debits to fund cash disbursements on a regular basis.

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JIM PETRO, AUDITOR OF STATE

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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
JULY 2, 2002