



**Auditor of State
Betty Montgomery**

Defiance County

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Commissioners:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Defiance County, (the County), as of and for the year ended December 31, 2003, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Defiance County, Ohio, as of December 31, 2003, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General, Mental Retardation and Developmental Disabilities, Job and Family Services, Motor Vehicle and Gas Tax, Emergency 911 and Senior Center funds thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended December 31, 2003, the County implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. As described in Note 3, during the year ended December 31, 2003, the County changed its policy regarding capital asset capitalization. Additionally, the County reclassified its presentation of the Mental Retardation and Developmental Disabilities fund as described in Note 3.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2004, 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.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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



Betty Montgomery
Auditor of State

September 27, 2004

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Defiance County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

The discussion and analysis of Defiance County's financial performance provides an overview of the County's financial activities for the year ended December 31, 2003. The intent of this discussion and analysis is to look at the County's financial performance as a whole.

HIGHLIGHTS

Key highlights for 2003 are as follows:

In total, the County's net assets increased \$6,695,204, or approximately 9 percent. This is a generally insignificant change from the prior year.

During 2003, the Engineer received federal grants, in the amount of \$3,359,049, which were used primarily for bridge repairs; thirteen bridges were replaced or improved. The Bend Road bridge replacement, which is reflected as part of construction in progress, accounted for \$1,095,776 of bridge construction costs.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand Defiance County's financial position.

The statement of net assets and the statement of activities provide information about the activities of the County as a whole, presenting both an aggregate view and a longer-term view of the County.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term and what remains for future spending. Fund financial statements report the County's most significant funds individually and the County's non-major funds in a single column. The County's major funds are the General, Mental Retardation and Developmental Disabilities, Job and Family Services, Motor Vehicle and Gas Tax, Emergency 911, Senior Center, Engineer Construction Federal, County Improvement, Landfill, and Sewer funds.

REPORTING THE COUNTY AS A WHOLE

The statement of net assets and the statement of activities reflect how the County did financially during 2003. These statements include all assets and liabilities using the accrual basis of accounting similar to the basis used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

Defiance County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2003
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These statements report the County's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the County as a whole has increased or decreased from the prior year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Non-financial factors can include changes in the County's property tax base and the condition of the County's capital assets. These factors must be considered when assessing the overall health of the County.

In the statement of net assets and the statement of activities, the County is divided into two types of activities:

- **Governmental Activities** - Most of the County's programs and services are reported here, including legislative and executive, judicial, public safety, public works, health, human services, conservation and recreation, economic development, and intergovernmental. These services are primarily funded by property and sales taxes and from intergovernmental revenues, including federal and state grants and other shared revenues.
- **Business-Type Activities** - These services are provided on a charge for services basis and are intended to recover all or most of the costs of the services provided. The County's landfill and sewer services are reported here.

REPORTING THE COUNTY'S MOST SIGNIFICANT FUNDS

Fund financial statements provide detailed information about the County's major funds, the General, Mental Retardation and Developmental Disabilities, Job and Family Services, Motor Vehicle and Gas Tax, Emergency 911, Senior Center, Engineer Construction Federal, County Improvement, Landfill, and Sewer funds. While the County uses many funds to account for its financial transactions, these are the most significant.

Governmental Funds - The County's governmental funds are used to account for essentially the same programs reported as governmental activities on the government-wide financial statements. Most of the County's basic services are reported in these funds and focus on how money flows into and out of the funds as well as the balances available for spending at year end. These funds are reported on the modified accrual basis of accounting which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the County's general government operations and the basic services being provided.

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

Defiance County, Ohio
Management's Discussion and Analysis
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Proprietary Funds - The County's proprietary funds use the accrual basis of accounting, the same as that used for the business-type activities on the government-wide financial statements.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the County. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the County's programs. These funds also use the accrual basis of accounting.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1 provides a summary of the County's net assets for 2003 compared to 2002.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
<u>Assets</u>						
Current and Other Assets	\$35,313,783	\$32,106,797	\$12,156,469	\$11,615,728	\$47,470,252	\$43,722,525
Capital Assets, Net	42,726,259	39,128,136	7,678,994	6,087,715	50,405,253	45,215,851
Total Assets	<u>78,040,042</u>	<u>71,234,933</u>	<u>19,835,463</u>	<u>17,703,443</u>	<u>97,875,505</u>	<u>88,938,376</u>
<u>Liabilities</u>						
Current and Other Liabilities	7,855,755	6,240,199	96,656	543,092	7,952,411	6,783,291
Long-Term Liabilities	5,206,593	4,583,203	2,883,708	2,434,293	8,090,301	7,017,496
Total Liabilities	<u>13,062,348</u>	<u>10,823,402</u>	<u>2,980,364</u>	<u>2,977,385</u>	<u>16,042,712</u>	<u>13,800,787</u>
<u>Net Assets</u>						
Invested in Capital Assets, Net of Related Debt	40,020,541	36,271,601	7,082,320	5,865,740	47,102,861	42,137,341
Restricted	18,207,735	17,203,023	1,725,118	1,565,466	19,932,853	18,768,489
Unrestricted	6,749,418	6,936,907	8,047,661	7,294,852	14,797,079	14,231,759
Total Net Assets	<u>\$64,977,694</u>	<u>\$60,411,531</u>	<u>\$16,855,099</u>	<u>\$14,726,058</u>	<u>\$81,832,793</u>	<u>\$75,137,589</u>

As can be seen from the table above, there were few changes for either governmental or business-type activities from the prior year. Of note, however, there was a substantial increase in capital assets for governmental activities resulting from road and bridge replacement/improvement and an increase in construction in progress (this too was largely made up of bridge projects). Current and other liabilities also increased somewhat for governmental activities as a result of new notes issued for Platter Creek and Doty Run ditch improvements.

One notable change for business-type activities is the increase in construction in progress as an expansion of the County's landfill is underway. This expansion is anticipated to increase the life of the landfill in excess of one hundred years.

Defiance County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

Table 2 reflects the changes in net assets for 2003. Since this is the first year the County has prepared financial statements according to GASB Statement No. 34, revenue and expense comparisons to 2002 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Table 2
Changes in Net Assets

	Governmental Activities	Business-Type Activities	Total
	2003	2003	
<u>Revenues</u>			
Program Revenues			
Charges for Services	\$4,149,102	\$2,912,712	\$7,061,814
Operating Grants, Contributions, and Interest	10,928,958	92,278	11,021,236
Capital Grants and Contributions	3,639,153	1,172	3,640,325
Total Program Revenues	18,717,213	3,006,162	21,723,375
General Revenues			
Property Taxes	4,656,186	0	4,656,186
Payment in Lieu of Taxes	80,000	0	80,000
Sales Taxes	4,254,885	0	4,254,885
Grants and Entitlements not Restricted to Specific Programs	1,054,052	0	1,054,052
Interest	786,024	0	786,024
Other	1,477,565	0	1,477,565
Total General Revenues	12,308,712	0	12,308,712
Total Revenues	31,025,925	3,006,162	34,032,087
Transfers	(985,134)	985,134	0
Total Revenues and Transfers	30,040,791	3,991,296	34,032,087

continued

Defiance County, Ohio
Management's Discussion and Analysis
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Table 2
Changes in Net Assets
(continued)

	Governmental Activities	Business-Type Activities	Total
	2003	2003	
<u>Program Expenses</u>			
General Government			
Legislative and Executive	\$5,075,779	\$0	\$5,075,779
Judicial	1,536,525	0	1,536,525
Public Safety			
Regional Jail	1,645,036	0	1,645,036
Emergency 911	538,110	0	538,110
Other Public Safety	2,057,535	0	2,057,535
Public Works			
Engineer	3,809,448	0	3,809,448
Other Public Works	636,595	0	636,595
Health			
Mental Retardation and Developmental Disabilities	3,704,630	0	3,704,630
Other Health	126,058	0	126,058
Human Services			
Job and Family Services	2,985,273	0	2,985,273
Children Services	503,922	0	503,922
Child Support	788,370	0	788,370
Senior Center	1,175,902	0	1,175,902
Other Human Services	359,972	0	359,972
Conservation and Recreation	66,819	0	66,819
Economic Development	28,714	0	28,714
Intergovernmental	30,718	0	30,718
Internal Service Fund - External Portion	183,122	0	183,122
Interest and Fiscal Charges	222,100	0	222,100
Landfill	0	1,510,622	1,510,622
Sewer	0	351,633	351,633
Total Expenses	<u>25,474,628</u>	<u>1,862,255</u>	<u>27,336,883</u>
Increase in Net Assets	<u>\$4,566,163</u>	<u>\$2,129,041</u>	<u>\$6,695,204</u>

Defiance County, Ohio
Management's Discussion and Analysis
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Unaudited

Program revenues for governmental activities represented 60 percent of total revenues, and of these program revenues, 78 percent are the result of operating and capital grants. Both the health and human services programs receive a substantial amount of grant revenue. The public works program, specifically the Engineer, received a considerable amount of grant revenue in 2003. These resources were applied to road and bridge projects throughout the County. The primary sources for the County's general revenues are from property and sales taxes.

As reflected in the above table, the programs having the greatest costs in 2003 include legislative and executive (which are the primary general government operations), judicial (the court system), the regional jail, other public safety (which includes the sheriff), the engineer, mental retardation and developmental disabilities (Good Sam), job and family services, and the senior center. These programs account for over 86 percent of all governmental expenses.

Revenues of the County's business-type activities are provided through program revenues, primarily charges for services.

Table 3, indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted intergovernmental revenues. Comparisons to 2002 have not been made since they are not available for this year.

Table 3
Governmental Activities

	Total Cost of Services 2003	Net Cost of Services 2003
General Government		
Legislative and Executive	\$5,075,779	\$3,277,778
Judicial	1,536,525	677,000
Public Safety		
Regional Jail	1,645,036	1,252,196
Emergency 911	538,110	494,538
Other Public Safety	2,057,535	1,662,096
Public Works		
Engineer	3,809,448	(3,656,649)
Other Public Works	636,595	(263,453)
Health		
Mental Retardation and Developmental Disabilities	3,704,630	1,905,986
Other Health	126,058	32,218

(continued)

Defiance County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

Table 3
Governmental Activities
(continued)

	Total Cost of Services	Net Cost of Services
	2003	2003
Human Services		
Job and Family Services	\$2,985,273	\$263,854
Children Services	503,922	(188,278)
Child Support	788,370	(14,661)
Senior Center	1,175,902	679,987
Other Human Services	359,972	359,972
Conservation and Recreation	66,819	16,478
Economic Development	28,714	2,372
Intergovernmental	30,718	30,718
Internal Service Fund - External Portion	183,122	3,163
Interest and Fiscal Charges	222,100	222,100
Total Expenses	<u>\$25,474,628</u>	<u>\$6,757,415</u>

Over 26 percent of governmental activities costs are provided for with general revenues, primarily property taxes, sales, taxes, and state shared revenues. For a number of the County's programs, the net costs outlined in the above table deserve some further discussion.

For 2003, 35 percent of legislative and executive costs were provided for through charges for services. These charges are generally made up of fees and include items such as settlement fees, conveyance and transfer fees, and recording fees. A substantial portion of judicial costs were also provided for through program revenues. Almost half of the judicial program is supported through fines and court costs as well as through several operating grants.

The overall public works program had program revenues which exceeded program costs for 2003. The engineer received a considerable amount of operating and capital grants in 2003. These grants permitted the County to undertake a large number of road and bridge projects during the year.

Almost half of the costs of providing mental retardation and developmental disabilities services were provided for through various state and federal grant programs. State and federal grants also provided over 91 percent of the costs of operating the job and family services department. Due to various operating grants received, program revenues exceeded costs for both children services and child support activities.

While program revenues, generally grants, provided for 42 percent of the costs for the senior center, the senior center largely depends on the resources provided from a tax levy for its operations.

Defiance County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

GOVERNMENTAL FUNDS FINANCIAL ANALYSIS

The County's major governmental funds are the General Fund, the Mental Retardation and Developmental Disabilities, Job and Family Services, Motor Vehicle and Gas Tax, Emergency 911, and Senior Center special revenue funds, and the Engineer Construction Federal and County Improvement capital projects funds. The General Fund's fund balance increased \$896,061 from the prior year. Much of this can be attributed to significantly fewer transfers to other funds in 2003. The increase in the fund balance for the Mental Retardation and Developmental Disabilities, Job and Family Services, and Motor Vehicle and Gas Tax special revenue funds are all somewhat significant. These departments were generally able to maintain expenditures within revenues received during the year, which included transfers from the General Fund in several instances. The Motor Vehicle and Gas Tax fund also realized some increases resulting from a two cent gas tax increase in July 2003.

BUSINESS-TYPE ACTIVITIES FINANCIAL ANALYSIS

The County's enterprise funds are the Landfill and Sewer funds. As demonstrated on the statement of activities, program revenues were sufficient to cover expenses for both funds. The County has historically collected charges adequate to cover operations for the landfill.

BUDGETARY HIGHLIGHTS

The County prepares an annual budget of revenues and expenditures/expenses for all funds of the County for use by County officials and department heads and such other budgetary documents as are required by State statute, including the annual appropriations resolution which is effective the first day of January. Original budget amounts for revenues are historically conservative which sometimes causes large changes in revenues from the original to final budget amounts. For 2003, this is demonstrated by the original budget estimates for property and sales taxes, and charges for services in the General Fund. For all funds, the change from original to final budget amounts for expenditures is not very significant. However, a review of the budgetary schedules reveals that actual expenditures were less than amounts budgeted for all funds, demonstrating that departments were conservative in their spending for 2003.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The County's investment in capital assets for governmental and business-type activities as of December 31, 2003, was \$40,020,541 and \$7,082,320, respectively (net of accumulated depreciation and related debt). This investment in capital assets includes land, buildings, roads and bridges, machinery and equipment, vehicles, and sewer lines. There was a significant increase in capital assets for governmental activities during the year resulting from road and bridge replacement/improvement and construction in progress (also related to bridge projects). The primary increases for the business-type activities were the acquisition of a tractor for the landfill as well as construction to expand the landfill. For further information regarding the County's capital assets, see Note 10 to the basic financial statements.

Defiance County, Ohio
Management's Discussion and Analysis
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Debt - At December 31, 2003, the County had a number of debt obligations outstanding. These obligations included \$2,140,129 in general obligation notes, \$2,325,000 in general obligation bonds, \$821,400 in special assessment bonds, \$1,682,288 in various types of loans, and \$5,399 in capital leases. Of this amount, \$596,674 will be repaid from business-type activities.

In addition to the debt outlined above, the County's long-term obligations also include compensated absences and closure and postclosure costs for the landfill. For further information regarding the County's debt, see Notes 17, 18, and 19 to the basic financial statements.

CURRENT ISSUES

In July 2004, the County issued bond anticipation notes, in the amount of \$1.7 million, to purchase and renovate the County's East Side Campus. In September 2004, the County issued general obligation bonds to retire notes previously issued to make improvements to the Platter Creek ditch.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the County's finances for all those interested in our County's financial well being. Questions concerning any of the information provided in this report or requests for additional information should be directed to Marlene J. Goodwin, Defiance County Auditor, 221 Clinton Street, Defiance, Ohio 43512.

Defiance County
Statement of Net Assets
December 31, 2003

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Equity in Pooled Cash and Cash Equivalents	\$23,949,553	\$8,148,876	\$32,098,429
Cash and Cash Equivalents in Segregated Accounts	85,837	0	85,837
Cash and Cash Equivalents with Fiscal Agent	2,161	0	2,161
Investments	0	3,823,992	3,823,992
Accounts Receivable	21,654	319,114	340,768
Sales Taxes Receivable	645,021	0	645,021
Accrued Interest Receivable	36,732	28,739	65,471
Due from Other Governments	3,413,605	0	3,413,605
Internal Balances	191,871	(191,871)	0
Prepaid Items	123,631	968	124,599
Materials and Supplies Inventory	326,496	26,651	353,147
Property Taxes Receivable	4,746,371	0	4,746,371
Loans Receivable	423,207	0	423,207
Special Assessments Receivable	1,347,644	0	1,347,644
Nondepreciable Capital Assets	1,639,047	2,739,182	4,378,229
Depreciable Capital Assets, Net	41,087,212	4,939,812	46,027,024
	<u>78,040,042</u>	<u>19,835,463</u>	<u>97,875,505</u>
Total Assets			
<u>Liabilities</u>			
Accrued Wages Payable	114,665	3,911	118,576
Accounts Payable	351,977	63,006	414,983
Contracts Payable	89,384	0	89,384
Due to Other Governments	211,862	28,663	240,525
Due to External Parties	11,727	0	11,727
Accrued Interest Payable	26,370	1,076	27,446
Notes Payable	2,140,129	0	2,140,129
Claims Payable	261,292	0	261,292
Deferred Revenue	4,648,349	0	4,648,349
Long-Term Liabilities			
Due Within One Year	643,268	245,265	888,533
Due in More Than One Year	4,563,325	2,638,443	7,201,768
	<u>13,062,348</u>	<u>2,980,364</u>	<u>16,042,712</u>
Total Liabilities			
<u>Net Assets</u>			
Invested in Capital Assets, Net of Related Debt	40,020,541	7,082,320	47,102,861
Restricted for:			
Debt Service	566,200	0	566,200
Capital Projects	6,566,620	0	6,566,620
Other Purposes	11,074,915	0	11,074,915
Closure and Postclosure	0	1,725,118	1,725,118
Unrestricted	6,749,418	8,047,661	14,797,079
	<u>\$64,977,694</u>	<u>\$16,855,099</u>	<u>\$81,832,793</u>
Total Net Assets			

See accompanying notes to the basic financial statements

Defiance County
Statement of Activities
For the Year Ended December 31, 2003

	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants and Contributions
<u>Governmental Activities</u>				
General Government				
Legislative and Executive	\$5,075,779	\$1,791,388	\$479	\$6,134
Judicial	1,536,525	516,107	343,418	0
Public Safety				
Regional Jail	1,645,036	392,840	0	0
Emergency 911	538,110	0	43,572	0
Other Public Safety	2,057,535	7,274	388,165	0
Public Works				
Engineer	3,809,448	516,966	3,439,541	3,509,590
Other Public Works	636,595	435,553	341,066	123,429
Health				
Mental Retardation and Developmental Disabilities	3,704,630	0	1,798,644	0
Other Health	126,058	89,632	4,208	0
Human Services				
Job and Family Services	2,985,273	48,100	2,673,319	0
Children Services	503,922	0	692,200	0
Child Support	788,370	154,396	648,635	0
Senior Center	1,175,902	7,736	488,179	0
Other Human Services	359,972	0	0	0
Conservation and Recreation	66,819	3,526	46,815	0
Economic Development	28,714	5,625	20,717	0
Intergovernmental	30,718	0	0	0
Internal Service Fund-External Portion	183,122	179,959	0	0
Interest and Fiscal Charges	222,100	0	0	0
Total Governmental Activities	25,474,628	4,149,102	10,928,958	3,639,153
<u>Business-Type Activities</u>				
Landfill	1,510,622	2,441,085	92,278	0
Sewer	351,633	471,627	0	1,172
Total Business-Type Activities	1,862,255	2,912,712	92,278	1,172
Total	\$27,336,883	\$7,061,814	\$11,021,236	\$3,640,325

General Revenues:
Property Taxes Levied for:
 General Operating
 Public Safety-Emergency 911
 Human Services-Mental Retardation and Developmental Disabilities
 Human Services-Senior Center
Payment in Lieu of Taxes
Sales Taxes
Grants and Entitlements not Restricted to Specific Programs
Interest
Other

Total General Revenues

Transfers

Change in Net Assets

Net Assets Beginning of Year - See Note 3

Net Assets End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Change in Net Assets		
Governmental Activities	Business-Type Activities	Total
(\$3,277,778)	\$0	(\$3,277,778)
(677,000)	0	(677,000)
(1,252,196)	0	(1,252,196)
(494,538)	0	(494,538)
(1,662,096)	0	(1,662,096)
3,656,649	0	3,656,649
263,453	0	263,453
(1,905,986)	0	(1,905,986)
(32,218)	0	(32,218)
(263,854)	0	(263,854)
188,278	0	188,278
14,661	0	14,661
(679,987)	0	(679,987)
(359,972)	0	(359,972)
(16,478)	0	(16,478)
(2,372)	0	(2,372)
(30,718)	0	(30,718)
(3,163)	0	(3,163)
(222,100)	0	(222,100)
(6,757,415)	0	(6,757,415)
0	1,022,741	1,022,741
0	121,166	121,166
0	1,143,907	1,143,907
(6,757,415)	1,143,907	(5,613,508)
1,665,452	0	1,665,452
300,050	0	300,050
1,991,467	0	1,991,467
699,217	0	699,217
80,000	0	80,000
4,254,885	0	4,254,885
1,054,052	0	1,054,052
786,024	0	786,024
1,477,565	0	1,477,565
12,308,712	0	12,308,712
(985,134)	985,134	0
4,566,163	2,129,041	6,695,204
60,411,531	14,726,058	75,137,589
<u>\$64,977,694</u>	<u>\$16,855,099</u>	<u>\$81,832,793</u>

Defiance County
Balance Sheet
Governmental Funds
December 31, 2003

	General	Mental Retardation and Developmental Disabilities	Job and Family Services	Motor Vehicle and Gas Tax
<u>Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$6,290,262	\$1,482,129	\$317,702	\$1,501,348
Cash and Cash Equivalents in Segregated Accounts	81,899	0	3,938	0
Cash and Cash Equivalents with Fiscal Agent	0	2,161	0	0
Accounts Receivable	2,557	348	2,497	207
Sales Taxes Receivable	645,021	0	0	0
Accrued Interest Receivable	35,115	0	0	0
Due from Other Governments	572,025	395,613	133,457	1,875,106
Interfund Receivable	1,731,749	0	500	0
Prepaid Items	83,978	8,062	323	3,078
Materials and Supplies Inventory	50,188	7,141	2,727	240,586
Property Taxes Receivable	1,679,414	2,009,049	0	0
Loans Receivable	0	0	0	0
Special Assessments Receivable	0	0	0	0
Restricted Assets				
Equity in Pooled Cash and Cash Equivalents	80,567	0	0	0
Total Assets	\$11,252,775	\$3,904,503	\$461,144	\$3,620,325
<u>Liabilities and Fund Balance</u>				
<u>Liabilities</u>				
Accrued Wages Payable	\$34,587	\$35,198	\$12,214	\$11,733
Accounts Payable	89,873	10,953	67,337	23,889
Contracts Payable	0	0	0	0
Due to Other Governments	94,386	33,490	22,513	22,527
Due to External Parties	0	0	11,727	0
Interfund Payable	0	0	0	157
Accrued Interest Payable	0	0	0	0
Notes Payable	0	0	0	0
Deferred Revenue	2,571,145	2,251,768	135,430	1,611,450
Total Liabilities	2,789,991	2,331,409	249,221	1,669,756
<u>Fund Balance</u>				
Reserved for Encumbrances	105,840	104,293	24,150	126,971
Reserved for Unclaimed Monies	80,567	0	0	0
Reserved for Interfund	1,657,450	0	0	0
Reserved for Loans Receivable	0	0	0	0
Designated for Retirement	0	0	0	0
Unreserved, Undesignated Reported in				
General Fund	6,618,927	0	0	0
Special Revenue Funds	0	1,468,801	187,773	1,823,598
Debt Service Funds	0	0	0	0
Capital Projects Funds (Deficit)	0	0	0	0
Total Fund Balance (Deficit)	8,462,784	1,573,094	211,923	1,950,569
Total Liabilities and Fund Balance	\$11,252,775	\$3,904,503	\$461,144	\$3,620,325

See accompanying notes to the basic financial statements

Emergency 911	Senior Center	Engineer Construction Federal	County Improvement	Other Governmental	Total Governmental Funds
\$207,616	\$573,100	\$0	\$6,253,865	\$6,629,770	\$23,255,792
0	0	0	0	0	85,837
0	0	0	0	0	2,161
0	0	0	0	16,045	21,654
0	0	0	0	0	645,021
0	0	0	0	1,617	36,732
14,474	47,261	39,768	0	335,901	3,413,605
0	0	0	24,000	353	1,756,602
18,856	1,384	0	0	7,950	123,631
1,144	10,894	0	0	13,816	326,496
353,286	704,622	0	0	0	4,746,371
0	0	0	0	423,207	423,207
0	0	0	0	1,347,644	1,347,644
0	0	0	0	0	80,567
<u>\$595,376</u>	<u>\$1,337,261</u>	<u>\$39,768</u>	<u>\$6,277,865</u>	<u>\$8,776,303</u>	<u>\$36,265,320</u>
\$4,076	\$5,522	\$0	\$0	\$11,335	\$114,665
1,888	87,105	0	40,610	30,322	351,977
0	0	39,768	0	49,616	89,384
6,835	9,437	0	0	22,674	211,862
0	0	0	0	0	11,727
0	0	0	0	1,551,289	1,551,446
0	0	0	0	1,352	1,352
0	0	0	0	545,000	545,000
367,760	741,208	23,403	0	1,570,252	9,272,416
<u>380,559</u>	<u>843,272</u>	<u>63,171</u>	<u>40,610</u>	<u>3,781,840</u>	<u>12,149,829</u>
476	3,981	0	64,785	706,892	1,137,388
0	0	0	0	0	80,567
0	0	0	24,000	146	1,681,596
0	0	0	0	336,466	336,466
0	0	0	0	59,685	59,685
0	0	0	0	0	6,618,927
214,341	490,008	0	0	4,191,003	8,375,524
0	0	0	0	487,264	487,264
0	0	(23,403)	6,148,470	(786,993)	5,338,074
<u>214,817</u>	<u>493,989</u>	<u>(23,403)</u>	<u>6,237,255</u>	<u>4,994,463</u>	<u>24,115,491</u>
<u>\$595,376</u>	<u>\$1,337,261</u>	<u>\$39,768</u>	<u>\$6,277,865</u>	<u>\$8,776,303</u>	<u>\$36,265,320</u>

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Defiance County
 Reconciliation of Total Governmental Fund Balances
 to Net Assets of Governmental Activities
 December 31, 2003

Total Governmental Fund Balances \$24,115,491

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 42,726,259

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

Accounts Receivable	7,183	
Sales Taxes Receivable	391,971	
Accrued Interest Receivable	14,952	
Due from Other Governments	2,751,901	
Property Taxes Receivable	110,416	
Special Assessments Receivable	1,347,644	
		4,624,067

An interfund payable is recorded in governmental activities to reflect overpayments to the internal service fund by the business-type activities. (13,285)

Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:

Accrued Interest Payable	(25,018)	
Notes Payable	(1,595,129)	
General Obligation Bonds Payable	(2,260,000)	
Special Assessment Bonds Payable	(821,400)	
Loans Payable	(30,789)	
OPWC Loans Payable	(362,738)	
OWDA Loans Payable	(757,087)	
Capital Lease Payable	(5,399)	
Compensated Absences Payable	(969,180)	
		(6,826,740)

An internal service fund is used by management to charge the cost of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets. 351,902

Net Assets of Governmental Activities \$64,977,694

See accompanying notes to the basic financial statements

Defiance County
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended December 31, 2003

	General	Mental Retardation and Developmental Disabilities	Job and Family Services	Motor Vehicle and Gas Tax
Revenues				
Property Taxes	\$1,664,473	\$1,992,708	\$0	\$0
Payment in Lieu of Taxes	0	0	0	0
Sales Taxes	4,206,330	0	0	0
Special Assessments	0	0	0	0
Charges for Services	1,509,832	0	0	69,139
Licenses and Permits	4,926	0	0	0
Fines and Forfeitures	129,896	0	0	22,672
Intergovernmental	1,032,609	1,645,157	2,539,837	3,169,176
Interest	857,096	1,085	25	13,867
Other	394,660	399,044	414,772	9,322
Total Revenues	9,799,822	4,037,994	2,954,634	3,284,176
Expenditures				
Current				
General Government				
Legislative and Executive	3,195,517	0	0	0
Judicial	1,243,906	0	0	0
Public Safety				
Regional Jail	0	0	0	0
Emergency 911	0	0	0	0
Other Public Safety	1,750,377	0	0	0
Public Works				
Engineer	0	0	0	3,152,748
Other Public Works	0	0	0	0
Health				
Mental Retardation and Developmental				
Disabilities	0	3,658,769	0	0
Other Health	22,165	0	0	0
Human Services				
Job and Family Services	0	0	2,969,052	0
Children Services	0	0	0	0
Child Support	0	0	0	0
Senior Center	0	0	0	0
Other Human Services	346,835	0	0	0
Conservation and Recreation	0	0	0	0
Economic Development	0	0	0	0
Other	1,221,104	0	0	0
Capital Outlay	0	0	0	0
Debt Service				
Principal Retirement	0	0	0	0
Interest and Fiscal Charges	0	0	0	6,701
Total Expenditures	7,779,904	3,658,769	2,969,052	3,159,449
Excess of Revenues Over (Under) Expenditures	2,019,918	379,225	(14,418)	124,727
Other Financing Sources (Uses)				
Notes Issued	0	0	0	584,530
OWDA Loans Issued	0	0	0	0
Transfers In	0	0	93,858	9,999
Transfers Out	(1,123,857)	0	0	0
Total Other Financing Sources (Uses)	(1,123,857)	0	93,858	594,529
Change in Fund Balance	896,061	379,225	79,440	719,256
Fund Balance at Beginning of Year - Restated (Note 3)	7,566,723	1,193,869	132,483	1,231,313
Fund Balance (Deficit) at End of Year	\$8,462,784	\$1,573,094	\$211,923	\$1,950,569

See accompanying notes to the basic financial statements

Emergency 911	Senior Center	Engineer Construction Federal	County Improvement	Other Governmental	Total Governmental Funds
\$300,583	\$698,806	\$0	\$0	\$0	\$4,656,570
0	0	0	0	80,000	80,000
0	0	0	0	0	4,206,330
0	0	0	0	422,253	422,253
0	0	0	0	1,206,703	2,785,674
0	0	0	0	85,220	90,146
0	0	0	0	13,381	165,949
43,264	489,398	3,335,646	0	2,627,430	14,882,517
0	0	0	0	63,863	935,936
650	30,431	0	0	468,599	1,717,478
<u>344,497</u>	<u>1,218,635</u>	<u>3,335,646</u>	<u>0</u>	<u>4,967,449</u>	<u>29,942,853</u>
0	0	0	0	648,332	3,843,849
0	0	0	0	257,464	1,501,370
0	0	0	0	1,645,036	1,645,036
502,296	0	0	0	0	502,296
0	0	0	0	369,985	2,120,362
0	0	0	0	150,541	3,303,289
0	0	0	0	602,668	602,668
0	0	0	0	0	3,658,769
0	0	0	0	92,336	114,501
0	0	0	0	0	2,969,052
0	0	0	0	503,922	503,922
0	0	0	0	757,485	757,485
0	1,210,759	0	0	0	1,210,759
0	0	0	0	0	346,835
0	0	0	0	56,200	56,200
0	0	0	0	28,435	28,435
0	0	0	0	20,050	1,241,154
0	0	3,359,049	58,110	1,723,355	5,140,514
0	0	0	0	482,470	482,470
0	0	0	0	221,666	228,367
<u>502,296</u>	<u>1,210,759</u>	<u>3,359,049</u>	<u>58,110</u>	<u>7,559,945</u>	<u>30,257,333</u>
<u>(157,799)</u>	<u>7,876</u>	<u>(23,403)</u>	<u>(58,110)</u>	<u>(2,592,496)</u>	<u>(314,480)</u>
0	0	0	0	1,010,599	1,595,129
0	0	0	0	872,326	872,326
150,000	0	0	60,000	1,178,656	1,492,513
0	0	0	0	(500,005)	(1,623,862)
<u>150,000</u>	<u>0</u>	<u>0</u>	<u>60,000</u>	<u>2,561,576</u>	<u>2,336,106</u>
(7,799)	7,876	(23,403)	1,890	(30,920)	2,021,626
<u>222,616</u>	<u>486,113</u>	<u>0</u>	<u>6,235,365</u>	<u>5,025,383</u>	<u>22,093,865</u>
<u>\$214,817</u>	<u>\$493,989</u>	<u>(\$23,403)</u>	<u>\$6,237,255</u>	<u>\$4,994,463</u>	<u>\$24,115,491</u>

Defiance County

Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balance
of Governmental Funds to Statement of Activities
For the Year Ended December 31, 2003

Change in Fund Balance - Total Governmental Funds \$2,021,626

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

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

Capital Outlay - Nondepreciable Capital Assets	1,095,776	
Capital Outlay - Depreciable Capital Assets	3,774,294	
Depreciation	<u>(1,258,577)</u>	
		3,611,493

The cost of the capital assets is removed from the capital asset account on the statement of net assets resulting in a loss on disposal of capital assets on the statement of activities. (13,370)

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

Property Taxes	(384)	
Sales Taxes	48,555	
Special Assessments	(82,180)	
Charges for Services	9,323	
Fines and Forfeitures	961	
Intergovernmental	1,133,556	
Interest	(113,739)	
Other	<u>5,909</u>	
		1,002,001

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.

Notes Payable	81,905	
General Obligation Bonds Payable	90,000	
Special Assessment Bonds Payable	16,131	
Loans Payable	14,260	
OPWC Loans Payable	23,403	
OWDA Loans Payable	253,214	
Capital Lease Payable	<u>3,557</u>	
		482,470

Note and loan proceeds are other financing sources in the governmental funds, but the issuance increases long-term liabilities on the statement of net assets.

Notes Payable	(1,595,129)	
OWDA Loans Payable	<u>(872,326)</u>	
		(2,467,455)

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding obligations on the statement of net assets. 6,267

(continued)

Defiance County

Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balance
of Governmental Funds to Statement of Activities (continued)
For the Year Ended December 31, 2003

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

Compensated Absences Payable (\$151,629)

The internal service fund used by management to charge the cost of insurance to individual funds is not reported on the statement of activities. Governmental expenditures and related internal service fund revenues are eliminated. The change for governmental funds is reported for the year.

Transfers In	100,000	
Allocated to Activities	<u>(22,077)</u>	
		77,923

The internal service fund used by management to charge the cost of insurance to an external agency is reported on the statement of activities. The change for the external portion is reported for the year.

(3,163)

Change in Net Assets of Governmental Activities

\$4,566,163

See accompanying notes to the basic financial statements

Defiance County
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual
General Fund
For the Year Ended December 31, 2003

	<u>Budgeted Amounts</u>		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues</u>				
Property Taxes	\$1,461,500	\$1,652,119	\$1,652,119	\$0
Sales Taxes	3,150,000	4,267,831	4,267,831	0
Charges for Services	911,850	1,534,050	1,542,551	8,501
Licenses and Permits	3,000	4,901	4,926	25
Fines and Forfeitures	41,200	140,308	140,308	0
Intergovernmental	996,426	1,195,577	1,195,577	0
Interest	800,000	888,328	885,918	(2,410)
Other	60,300	219,719	219,719	0
Total Revenues	7,424,276	9,902,833	9,908,949	6,116
<u>Expenditures</u>				
Current				
General Government				
Legislative and Executive	3,855,371	3,811,139	3,304,719	506,420
Judicial	1,298,532	1,297,866	1,250,243	47,623
Public Safety	2,160,653	2,175,089	1,740,469	434,620
Public Works	9,999	0	0	0
Health	32,800	32,363	30,369	1,994
Human Services	477,502	409,849	359,013	50,836
Conservation and Recreation	13,000	0	0	0
Other	1,614,472	1,606,047	1,338,930	267,117
Total Expenditures	9,462,329	9,332,353	8,023,743	1,308,610
Excess of Revenues Over (Under) Expenditures	(2,038,053)	570,480	1,885,206	1,314,726
<u>Other Financing Sources (Uses)</u>				
Other Financing Sources	60,000	157,282	161,976	4,694
Other Financing Uses	(300,000)	(2,820,870)	0	2,820,870
Advances In	0	210,474	217,198	6,724
Advances Out	0	(310,249)	(310,249)	0
Transfers Out	(100,000)	(1,199,013)	(1,123,857)	75,156
Total Other Financing Sources (Uses)	(340,000)	(3,962,376)	(1,054,932)	2,907,444
Change in Fund Balance	(2,378,053)	(3,391,896)	830,274	4,222,170
Fund Balance at Beginning of Year	4,955,283	4,955,283	4,955,283	0
Prior Year Encumbrances Appropriated	267,300	267,300	267,300	0
Fund Balance at End of Year	\$2,844,530	\$1,830,687	\$6,052,857	\$4,222,170

See accompanying notes to the basic financial statements

Defiance County
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual
Mental Retardation and Developmental Disabilities Fund
For the Year Ended December 31, 2003

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Property Taxes	\$1,960,000	\$1,960,000	\$1,980,875	\$20,875
Charges for Services	4,000	4,000	0	(4,000)
Intergovernmental	1,635,500	1,656,165	1,517,504	(138,661)
Interest	0	0	1,085	1,085
Other	39,612	(5,890)	39,139	45,029
Total Revenues	3,639,112	3,614,275	3,538,603	(75,672)
<u>Expenditures</u>				
Current				
Health	5,127,683	5,069,738	3,869,955	1,199,783
Excess of Revenues Under Expenditures	(1,488,571)	(1,455,463)	(331,352)	1,124,111
<u>Other Financing Sources</u>				
Other Financing Sources	262,795	229,687	368,330	138,643
Change in Fund Balance	(1,225,776)	(1,225,776)	36,978	1,262,754
Fund Balance at Beginning of Year	1,106,948	1,106,948	1,106,948	0
Prior Year Encumbrances Appropriated	118,828	118,828	118,828	0
Fund Balance at End of Year	\$0	\$0	\$1,262,754	\$1,262,754

See accompanying notes to the basic financial statements

Defiance County
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual
Job and Family Services Fund
For the Year Ended December 31, 2003

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Intergovernmental	\$3,382,506	\$2,625,194	\$2,625,687	\$493
Other	210,645	276,902	363,314	86,412
Total Revenues	3,593,151	2,902,096	2,989,001	86,905
<u>Expenditures</u>				
Current				
Human Services	4,331,950	3,467,318	3,318,604	148,714
Excess of Revenues Under Expenditures	(738,799)	(565,222)	(329,603)	235,619
<u>Other Financing Sources</u>				
Other Financing Sources	220,000	50,493	50,528	35
Transfers In	97,928	93,858	93,858	0
Total Other Financing Sources	317,928	144,351	144,386	35
Change in Fund Balance	(420,871)	(420,871)	(185,217)	235,654
Fund Balance at Beginning of Year	103,527	103,527	103,527	0
Prior Year Encumbrances Appropriated	317,344	317,344	317,344	0
Fund Balance at End of Year	<u>\$0</u>	<u>\$0</u>	<u>\$235,654</u>	<u>\$235,654</u>

See accompanying notes to the basic financial statements

Defiance County
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual
Motor Vehicle and Gas Tax Fund
For the Year Ended December 31, 2003

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues</u>				
Charges for Services	\$9,000	\$40,345	\$41,508	\$1,163
Fines and Forfeitures	10,000	23,347	23,347	0
Intergovernmental	3,335,000	3,297,635	3,368,730	71,095
Interest	20,000	13,867	13,867	0
Other	12,000	11,047	11,097	50
Total Revenues	3,386,000	3,386,241	3,458,549	72,308
<u>Expenditures</u>				
Current				
Public Works	5,170,058	4,512,069	3,244,996	1,267,073
Debt Service				
Principal Retirement	61,300	632,530	632,530	0
Interest and Fiscal Charges	0	14,529	14,529	0
Total Expenditures	5,231,358	5,159,128	3,892,055	1,267,073
Excess of Revenues Under Expenditures	(1,845,358)	(1,772,887)	(433,506)	1,339,381
<u>Other Financing Sources</u>				
Notes Issued	592,000	584,530	584,530	0
Transfers In	75,000	9,999	9,999	0
Total Other Financing Sources	667,000	594,529	594,529	0
Change in Fund Balance	(1,178,358)	(1,178,358)	161,023	1,339,381
Fund Balance at Beginning of Year	939,833	939,833	939,833	0
Prior Year Encumbrances Appropriated	238,525	238,525	238,525	0
Fund Balance at End of Year	\$0	\$0	\$1,339,381	\$1,339,381

See accompanying notes to the basic financial statements

Defiance County
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual
Emergency 911 Fund
For the Year Ended December 31, 2003

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues</u>				
Property Taxes	\$300,000	\$298,865	\$298,865	\$0
Intergovernmental	34,000	43,264	43,264	0
Other	0	814	814	0
Total Revenues	334,000	342,943	342,943	0
<u>Expenditures</u>				
Current				
Public Safety	555,712	714,655	528,593	186,062
Excess of Revenues Under Expenditures	(221,712)	(371,712)	(185,650)	186,062
<u>Other Financing Sources</u>				
Transfers In	0	150,000	150,000	0
Change in Fund Balance	(221,712)	(221,712)	(35,650)	186,062
Fund Balance at Beginning of Year	207,480	207,480	207,480	0
Prior Year Encumbrances Appropriated	14,232	14,232	14,232	0
Fund Balance at End of Year	<u>\$0</u>	<u>\$0</u>	<u>\$186,062</u>	<u>\$186,062</u>

See accompanying notes to the basic financial statements

Defiance County
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual
Senior Center Fund
For the Year Ended December 31, 2003

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues</u>				
Property Taxes	\$700,000	\$693,706	\$693,706	\$0
Intergovernmental	592,000	496,369	502,686	6,317
Other	12,600	30,429	30,499	70
Total Revenues	1,304,600	1,220,504	1,226,891	6,387
<u>Expenditures</u>				
Current				
Human Services	1,793,376	1,709,280	1,264,037	445,243
Change in Fund Balance	(488,776)	(488,776)	(37,146)	451,630
Fund Balance at Beginning of Year	415,608	415,608	415,608	0
Prior Year Encumbrances Appropriated	73,168	73,168	73,168	0
Fund Balance at End of Year	<u>\$0</u>	<u>\$0</u>	<u>\$451,630</u>	<u>\$451,630</u>

See accompanying notes to the basic financial statements

Defiance County
Statement of Fund Net Assets
Proprietary Funds
December 31, 2003

	Landfill	Sewer	Total Enterprise Funds	Governmental Activity - Internal Service Fund
<u>Assets</u>				
<u>Current Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$7,457,279	\$584,154	\$8,041,433	\$613,194
Accounts Receivable	212,727	106,387	319,114	0
Interfund Receivable	395	0	395	0
Prepaid Items	968	0	968	0
Materials and Supplies Inventory	25,022	1,629	26,651	0
Total Current Assets	7,696,391	692,170	8,388,561	613,194
<u>Noncurrent Assets</u>				
Restricted Assets				
Equity in Pooled Cash and Cash Equivalents	107,443	0	107,443	0
Investments	3,823,992	0	3,823,992	0
Accrued Interest Receivable	28,739	0	28,739	0
Nondepreciable Capital Assets	1,200,500	1,538,682	2,739,182	0
Depreciable Capital Assets, Net	1,784,605	3,155,207	4,939,812	0
Total Noncurrent Assets	6,945,279	4,693,889	11,639,168	0
Total Assets	14,641,670	5,386,059	20,027,729	613,194
<u>Liabilities</u>				
<u>Current Liabilities</u>				
Accrued Wages Payable	2,858	1,053	3,911	0
Accounts Payable	59,682	3,324	63,006	0
Due to Other Governments	26,854	1,809	28,663	0
Interfund Payable	0	205,551	205,551	0
Accrued Interest Payable	0	1,076	1,076	0
Claims Payable	0	0	0	261,292
General Obligation Bonds Payable	0	10,000	10,000	0
Loans Payable	220,029	0	220,029	0
GMAC Commercial Mortgage Payable	0	4,000	4,000	0
Compensated Absences Payable	8,896	2,340	11,236	0
Total Current Liabilities	318,319	229,153	547,472	261,292
<u>Long-Term Liabilities</u>				
Liabilities Payable From Restricted Assets				
Closure and Postclosure Payable	2,235,056	0	2,235,056	0
General Obligation Bonds Payable	0	55,000	55,000	0
Loans Payable	213,645	0	213,645	0
GMAC Commercial Mortgage Payable	0	94,000	94,000	0
Compensated Absences Payable	32,055	8,687	40,742	0
Total Long-Term Liabilities	2,480,756	157,687	2,638,443	0
Total Liabilities	2,799,075	386,840	3,185,915	261,292
<u>Net Assets</u>				
Invested in Capital Assets, Net of Related Debt	2,551,431	4,530,889	7,082,320	0
Restricted for Closure and Postclosure	1,725,118	0	1,725,118	0
Unrestricted	7,566,046	468,330	8,034,376	351,902
Total Net Assets	\$11,842,595	\$4,999,219	\$16,841,814	\$351,902

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

13,285

Net assets of business-type activities

\$16,855,099

See accompanying notes to the basic financial statements

Defiance County
Statement of Revenues, Expenses, and Change in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2003

	Landfill	Sewer	Total Enterprise Funds	Governmental Activity - Internal Service Fund
<u>Operating Revenues</u>				
Charges for Services	\$2,438,853	\$446,122	\$2,884,975	\$1,500,023
Other	2,232	382	2,614	15,933
Total Operating Revenues	<u>2,441,085</u>	<u>446,504</u>	<u>2,887,589</u>	<u>1,515,956</u>
<u>Operating Expenses</u>				
Personal Services	371,199	130,004	501,203	0
Contractual Services	743,143	80,848	823,991	0
Materials and Supplies	97,086	7,941	105,027	0
Other	66,610	21,512	88,122	0
Claims	0	0	0	1,542,600
Closure and Postclosure	22,587	0	22,587	0
Depreciation	209,071	100,223	309,294	0
Total Operating Expenses	<u>1,509,696</u>	<u>340,528</u>	<u>1,850,224</u>	<u>1,542,600</u>
Operating Income (Loss)	<u>931,389</u>	<u>105,976</u>	<u>1,037,365</u>	<u>(26,644)</u>
<u>Non-Operating Revenues (Expenses)</u>				
Payment in Lieu of Taxes	0	25,123	25,123	0
Interest Revenue	92,278	0	92,278	0
Interest Expense	0	(10,627)	(10,627)	0
Total Non-Operating Revenues (Expenses)	<u>92,278</u>	<u>14,496</u>	<u>106,774</u>	<u>0</u>
Income (Loss) Before Contributions and Transfers	1,023,667	120,472	1,144,139	(26,644)
Capital Contributions	0	954,957	954,957	0
Transfers In	0	31,349	31,349	100,000
Change in Net Assets	1,023,667	1,106,778	2,130,445	73,356
Net Assets at Beginning of Year - Restated (Note 3)	<u>10,818,928</u>	<u>3,892,441</u>		<u>278,546</u>
Net Assets at End of Year	<u>\$11,842,595</u>	<u>\$4,999,219</u>		<u>\$351,902</u>

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

(1,404)

Change in net assets of business-type activities

\$2,129,041

See accompanying notes to the basic financial statements

Defiance County
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2003

	Landfill	Sewer	Total Enterprise Funds	Governmental Activity - Internal Service Fund
<u>Increase (Decrease) in Cash and Cash Equivalents</u>				
<u>Cash Flows from Operating Activities</u>				
Cash Received from Customers	\$2,486,984	\$425,420	\$2,912,404	\$1,500,023
Cash Received from Other Revenues	2,268	382	2,650	15,933
Cash Payments for Personal Services	(382,069)	(130,228)	(512,297)	0
Cash Payments for Contractual Services	(1,102,743)	(84,093)	(1,186,836)	0
Cash Payments for Materials and Supplies	(129,967)	(7,607)	(137,574)	0
Cash Payments for Other Expenses	(65,155)	(20,538)	(85,693)	0
Cash Payments for Claims	0	0	0	(1,428,593)
Net Cash Provided by Operating Activities	<u>809,318</u>	<u>183,336</u>	<u>992,654</u>	<u>87,363</u>
<u>Cash Flows from Noncapital Financing Activities</u>				
Cash Received from Payment in Lieu of Taxes	0	25,123	25,123	0
Cash Received from Advances In	0	158,157	158,157	0
Cash Received from Transfers In	0	31,349	31,349	100,000
Net Cash Provided by Noncapital Financing Activities	<u>0</u>	<u>214,629</u>	<u>214,629</u>	<u>100,000</u>
<u>Cash Flows from Capital and Related Financing Activities</u>				
Cash Received from Capital Grants	0	1,172	1,172	0
Cash Payments for Acquisition of Capital Assets	(513,114)	0	(513,114)	0
Cash Payments for Principal on Notes	0	(44,975)	(44,975)	0
Cash Payments for Interest on Notes	0	(955)	(955)	0
Cash Payments for Principal on General Obligation Bonds	0	(10,000)	(10,000)	0
Cash Payments for Interest on General Obligation Bonds	0	(3,695)	(3,695)	0
Cash Payments for Principal on GMAC Commercial Mortgage	0	(4,000)	(4,000)	0
Cash Payments for Interest on GMAC Commercial Mortgage	0	(5,100)	(5,100)	0
Net Cash Used for Capital and Related Financing Activities	<u>(513,114)</u>	<u>(67,553)</u>	<u>(580,667)</u>	<u>0</u>
<u>Cash Flows from Investing Activities</u>				
Cash Received from Interest	152,909	0	152,909	0
Cash Received from Sale of Investments	1,786,657	0	1,786,657	0
Cash Payments for Purchase of Investments	(2,149,805)	0	(2,149,805)	0
Net Cash Flows Used for Investing Activities	<u>(210,239)</u>	<u>0</u>	<u>(210,239)</u>	<u>0</u>
Net Increase in Cash and Cash Equivalents	85,965	330,412	416,377	187,363
Cash and Cash Equivalents at Beginning of Year	<u>7,478,757</u>	<u>253,742</u>	<u>7,732,499</u>	<u>425,831</u>
Cash and Cash Equivalents at End of Year	<u><u>\$7,564,722</u></u>	<u><u>\$584,154</u></u>	<u><u>\$8,148,876</u></u>	<u><u>\$613,194</u></u>

(continued)

Defiance County
Statement of Cash Flows
Proprietary Funds (continued)
For the Year Ended December 31, 2003

	Landfill	Sewer	Total Enterprise Funds	Governmental Activity - Internal Service Fund
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities				
Operating Income (Loss)	\$931,389	\$105,976	\$1,037,365	(\$26,644)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities				
Depreciation	209,071	100,223	309,294	0
Changes in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	48,391	(21,287)	27,104	0
Decrease in Due from Other Governments	0	585	585	0
Increase in Interfund Receivable	(224)	0	(224)	0
Decrease in Prepaid Items	6,513	1,995	8,508	0
(Increase) Decrease in Materials and Supplies Inventory	(18,449)	94	(18,355)	0
Decrease in Accrued Wages Payable	(10,127)	(3,796)	(13,923)	0
Increase (Decrease) in Accounts Payable	45,135	(5,000)	40,135	0
Decrease in Contracts Payable	(336,641)	0	(336,641)	0
Decrease in Due to Other Governments	(91,094)	(815)	(91,909)	0
Increase in Interfund Payable	0	974	974	0
Increase in Claims Payable	0	0	0	114,007
Increase in Compensated Absences Payable	2,767	4,387	7,154	0
Increase in Closure and Postclosure Payable	22,587	0	22,587	0
Net Cash Provided by Operating Activities	<u>\$809,318</u>	<u>\$183,336</u>	<u>\$992,654</u>	<u>\$87,363</u>

Noncash Capital and Related Financing Activity:

In 2003, the County entered into a loan agreement to purchase a tractor to be paid from the Landfill enterprise fund, in the amount of \$433,674. The governmental funds contributed capital assets, in the amount of \$953,785, to the Sewer enterprise fund.

Noncash Investing Activity:

In 2003, there was a decrease in the fair value of investments in the Landfill enterprise fund, in the amount of \$49,362.

See accompanying notes to the basic financial statements

Defiance County
Statement of Assets and Liabilities
Agency Funds
December 31, 2003

<u>Assets</u>	
Equity in Pooled Cash and Cash Equivalents	\$6,762,661
Cash and Cash Equivalents in Segregated Accounts	323,241
Due from Other Governments	2,006,963
Due from External Parties	11,727
Property Taxes Receivable	24,979,050
Special Assessments Receivable	<u>485,163</u>
 Total Assets	 <u><u>\$34,568,805</u></u>
 <u>Liabilities</u>	
Due to Other Governments	\$29,172,760
Undistributed Assets	<u>5,396,045</u>
 Total Liabilities	 <u><u>\$34,568,805</u></u>

See accompanying notes to the basic financial statements

Defiance County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 1 - DESCRIPTION OF DEFIANCE COUNTY AND THE REPORTING ENTITY

A. The County

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

B. Reporting Entity

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

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

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

The County participates in eight jointly governed organizations, the Northwest Ohio Juvenile Detention, Training, and Rehabilitation Center; Four County Board of Alcohol, Drug Addiction, and Mental Health Services; Corrections Commission of Northwest Ohio; Four County Solid Waste District; Multi-Area Narcotics Task Force; Quadco Rehabilitation Center; Maumee Valley Planning Organization; and the Community Improvement Corporation of Defiance County (See Note 22).

The County participates in two insurance pools, the County Commissioners Association Service Corporation and the Northern Buckeye Education Council Employee Insurance Benefits Program (See Note 23).

The County is associated with one related organization, the Defiance County Regional Airport Authority (See Note 24).

Defiance County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

Government-Wide Financial Statements

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

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

Defiance County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Fund Financial Statements

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

B. Fund Accounting

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

Governmental Funds

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

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

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

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

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

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

Defiance County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

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

Engineer Construction Federal Fund - This fund accounts for federal funds paid to vendors on behalf of Defiance County.

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

The other governmental funds of the County account for grants and other resources whose use is restricted for a particular purpose.

Proprietary Funds

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

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

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

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

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

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the County under a trust agreement for individuals, private organizations, or other governments and are not available to support the County's own programs. The County did not have any trust funds in 2003. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The County's agency funds account for assets held by the County for political subdivisions in which the County acts as fiscal agent and for taxes, state-levied shared revenues, and fines and forfeitures collected and distributed to other political subdivisions.

Defiance County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

C. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

Like the government-wide financial statements, the proprietary funds are accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of fund net assets. The statement of revenues, expenses, and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows reflects how the County finances and meets the cash flow needs of its proprietary activities.

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions

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

Defiance County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

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

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

Deferred Revenues

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

Property taxes for which there was an enforceable legal claim at December 31, 2003, but were levied to finance 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements were met have also been recorded as deferred revenue.

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

Expenses/Expenditures

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

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

E. Budgetary Process

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

Defiance County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

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

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

F. Cash and Investments

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

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

During 2003, the County invested in nonnegotiable certificates of deposit, repurchase agreements, federal agency securities, U. S. Treasury notes, and STAR Ohio. Investments are reported at fair value, except for nonnegotiable certificates of deposit and repurchase agreements which are reported at cost. Fair value is based on quoted market prices. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2003.

Interest earnings are allocated to County funds according to State statutes, grant requirements, or debt related restrictions. Interest revenue credited to the General Fund during 2003 was \$857,096, which includes \$718,655 assigned from other County funds.

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2003, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

Defiance County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

H. Inventory

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

I. Loans Receivable

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

J. Restricted Assets

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

K. Capital Assets

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

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

Defiance County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

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

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Buildings	50-150 years	50 years
Roads and Bridges	15-100 years	N/A
Machinery and Equipment	5-20 years	5-20 years
Vehicles	8-15 years	8-15 years
Sewer Lines	N/A	50 years

L. Interfund Receivables/Payables

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

M. Compensated Absences

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

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

N. Accrued Liabilities and Long-Term Obligations

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

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

O. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation adopted or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes primarily include activities of the Engineer, Mental Retardation and Developmental Disabilities, Sheriff, Job and Family Services, Children Services, and the Courts. The County's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

P. Fund Balance Reserves and Designations

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

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

Q. Operating Revenues and Expenses

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

R. Capital Contributions

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

Defiance County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

S. Interfund Transactions

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

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

T. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence.

U. Estimates

The preparation of the 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.

NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLES, CORRECTION OF AN ERROR, AND RESTATEMENT OF FUND EQUITY

A. Changes in Accounting Principles

For 2003, the County has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments"; GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus"; GASB Statement No. 38, "Certain Financial Statement Note Disclosures"; GASB Statement No. 41, "Budgetary Comparison Schedules - Perspective Differences"; and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements".

GASB Statement No. 34 creates new basic financial statements for reporting on the County's financial activities. The financial statements include government-wide financial statements prepared on the accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Defiance County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

The government-wide financial statements split the County's programs between governmental activities and business-type activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at December 31, 2002, caused by the elimination of the internal service fund and the conversion to the full accrual basis of accounting. Except for the restatement explained below, the beginning net asset amount for the business-type activities equals fund equity of the enterprise funds from the prior fiscal year.

GASB Statement No. 37 makes certain clarifications regarding escheat property and modifies several provisions of GASB Statement No. 34, including Management's Discussion and Analysis. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization, or program structure that the County uses for its legally adopted budget when significant budgetary perspective differences result in the County not being able to present budgetary comparisons for the General Fund and each major special revenue fund. The implementation of this statement did not have any effect on the County's financial statements for the year ended December 31, 2003.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

For 2003, the County has increased the threshold amount for capitalizing assets. The threshold amount was increased from \$500 to \$5,000. Governmental nondepreciable capital assets decreased by \$393,846 from \$937,117 to \$543,271. Governmental depreciable capital assets decreased by \$2,830,013 from \$18,586,108 to \$16,149,941.

In 2003, the County determined that the Mental Retardation and Development Disabilities fund should be reported as a special revenue fund of the County rather than a discretely presented component unit as was presented at December 31, 2002.

B. Correction of an Error

Prior to 2003, various errors were noted in the recording of receivables and payables. In addition, the Sewer enterprise fund had not recorded construction in progress or sewer lines as part of the County's capital assets. The effect of these changes had no material effect on operating results as previously reported for the year ended December 31, 2002.

Defiance County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

C. Restatement of Fund Equity

The restatement due to the implementation of the above statements and interpretation had the following effect on fund balance of the major and nonmajor funds of the County as they were previously reported. The transition from governmental fund balance to net assets of governmental activities is also presented.

	General	Mental Retardation and Developmental Disabilities	Job and Family Services	Motor Vehicle and Gas Tax	Emergency 911
Fund Balance December 31, 2002	\$7,828,837	\$0	\$108,651	\$1,221,535	\$213,377
GASB Statement No. 34 Adjustment:					
Change in Fund Structure	23,968	1,193,869	4,362	0	0
GASB Interpretation No. 6 Adjustment:					
Compensated Absences Payable	21,833	0	10,460	9,778	1,587
Correction of Error	(307,915)	0	9,010	0	7,652
Adjusted Fund Balance	<u>\$7,566,723</u>	<u>\$1,193,869</u>	<u>\$132,483</u>	<u>\$1,231,313</u>	<u>\$222,616</u>

	Senior Center	County Improvement	Other Governmental	Total Governmental Activities
Fund Balance December 31, 2002	\$470,289	\$6,211,365	\$5,000,556	\$21,054,610
GASB Statement No. 34 Adjustment:				
Change in Fund Structure	0	24,000	(25,432)	1,220,767
GASB Interpretation No. 6 Adjustment:				
Compensated Absences Payable	2,423	0	8,619	54,700
Correction of Error	13,401	0	41,640	(236,212)
Adjusted Fund Balance	<u>\$486,113</u>	<u>\$6,235,365</u>	<u>\$5,025,383</u>	22,093,865

GASB Statement No. 34 Adjustments:	
Sales Taxes Receivable	343,416
Accrued Interest Receivable	128,691
Due from Other Governments	1,609,335
Property Taxes Receivable	110,800
Special Assessments Receivable	1,429,824
Capital Assets	39,128,136
Accrued Interest Payable	(31,285)
Notes Payable	(81,905)
General Obligation Bonds Payable	(2,350,000)

continued

Defiance County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

	Senior Center	County Improvement	Other Governmental	Total Governmental Activities
Special Assessment Bonds Payable				(\$837,531)
Loans Payable				(45,049)
OPWC Loans Payable				(386,141)
OWDA Loans Payable				(137,975)
Capital Lease Payable				(8,956)
Compensated Absences Payable				(817,551)
Internal Service Fund - Internal Balance				(14,689)
Internal Service Fund - Governmental Portion				245,480
Internal Service Fund - External Portion				33,066
Governmental Activities Net Assets at December 31, 2002				<u>\$60,411,531</u>

The restatement of the business-type activities:

	Landfill	Sewer	Total Business- Type Activities
Fund Equity December 31, 2002	\$10,822,678	\$445,192	\$11,267,870
GASB Statement No. 34 Adjustment:			
Fund Structure	0	(27,188)	(27,188)
Change in Threshold:			
Nondepreciable Capital Assets	237,050	(7,185)	229,865
Depreciable Capital Assets	(362,602)	(118,701)	(481,303)
Accumulated Depreciation	121,802	142,952	264,754
Correction of Receivables/Payables	0	(12,353)	(12,353)
Correction of Capital Assets			
Nondepreciable Capital Assets	0	579,529	579,529
Depreciable Capital Assets	0	3,886,971	3,886,971
Accumulated Depreciation	0	(996,776)	(996,776)
Adjusted Net Assets	<u>\$10,818,928</u>	<u>\$3,892,441</u>	14,711,369
Internal Service Fund			14,689
Adjusted Net Assets December 31, 2002			<u>\$14,726,058</u>

Defiance County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At December 31, 2003, the Economic Development special revenue fund and the Engineer Construction Federal capital projects fund had deficit fund balances, in the amount of \$435 and \$23,403, respectively, resulting from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

At December 31, 2003, the COPS special revenue fund; and the Auglaize Sewer, Airport Capital, DMP Sewer, Green Acres/Indian Bridge, Express Sewer, and Doty Run capital projects funds had deficit fund balances, in the amount of \$680, \$3,870, \$287,588, \$14,739, \$29,746, \$248,219, and \$47,355, respectively, due to reporting notes payable and advances from other funds as fund liabilities. The deficits will be alleviated when sufficient revenues are received to retire the notes and repay the advances.

B. Compliance

The following accounts had expenditures plus encumbrances in excess of appropriations for the fiscal year ended December 31, 2003.

Fund Type/Fund/Function/Object	Appropriations	Expenditures Plus Encumbrances	Excess
General Fund			
General Government - Legislative and Executive			
Settlement Deductions	\$0	\$41,099	\$41,099
Other Financing Uses	161,828	172,353	10,525

Contrary to Ohio law, General fund appropriations recorded in the following accounts exceeded those approved in the appropriations resolution for the fiscal year ended December 31, 2003

	Approved Appropriations	Recorded Appropriations	Difference
General Fund:			
Other Financing Uses	\$ 2,820,870	\$ 3,954,727	\$ (1,133,857)
Transfers - Out	1,199,013	1,895,843	(696,830)

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Outstanding year end encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

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

Change in Fund Balance

	General	Mental Retardation and Developmental Disabilities	Job and Family Services
GAAP Basis	\$896,061	\$379,225	\$79,440
<u>Increase (Decrease) Due To</u>			
Revenue Accruals:			
Accrued 2002, Received in Cash 2003	670,278	34,659	85,952
Accrued 2003, Not Yet Received in Cash	(365,398)	(153,242)	(1,024)
Expenditure Accruals:			
Accrued 2002, Paid in Cash 2003	(397,915)	(161,859)	(404,958)
Accrued 2003, Not Yet Paid in Cash	218,846	79,641	113,791
Cash Adjustments:			
Unrecorded Activity 2002	123,814	79,960	0
Unrecorded Activity 2003	(140,861)	(92,438)	0
Prepaid Items	58,002	(2,856)	13,578
Materials and Supplies Inventory	3,817	825	9,628
Nonbudgeted Activity	33,792	0	424
Advances In	217,198	0	0
Advances Out	(310,249)	0	0

Defiance County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Encumbrances Outstanding at Year End (Budget Basis)	(177,111)	(126,937)	(82,048)
Budget Basis	<u>\$830,274</u>	<u>\$36,978</u>	<u>(\$185,217)</u>
	Motor Vehicle and Gas Tax	Emergency 911	Senior Center
GAAP Basis	\$719,256	(\$7,799)	\$7,876
<u>Increase (Decrease) Due To</u>			
Revenue Accruals:			
Accrued 2002, Received in Cash 2003	438,273	164	24,031
Accrued 2003, Not Yet Received in Cash	(263,863)	0	(10,675)
Expenditure Accruals:			
Accrued 2002, Paid in Cash 2003	(117,472)	(31,527)	(67,712)
Accrued 2003, Not Yet Paid in Cash	58,306	12,799	102,064
Cash Adjustments:			
Unrecorded Activity 2002	0	14,088	28,045
Unrecorded Activity 2003	(37)	(15,806)	(33,145)
Prepaid Items	29,895	(1,870)	6,418
Materials and Supplies Inventory	91,125	49	(5,723)
Notes Paid	(632,530)	0	0
Encumbrances Outstanding at Year End (Budget Basis)	(161,930)	(5,748)	(88,325)
Budget Basis	<u>\$161,023</u>	<u>(\$35,650)</u>	<u>(\$37,146)</u>

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

Defiance County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, or its political subdivisions, provided that such political subdivisions are located wholly or partly within the County;
5. Time certificates of deposit, or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAROhio);
8. Securities lending agreements in which the County lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed 10 percent of the County's total average portfolio; and
10. Bankers acceptances for a period not to exceed one hundred eighty days and in an amount not to exceed 10 percent of the County's total average portfolio.

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

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the County, and must be purchased with the expectation that it will be held to maturity.

Defiance County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

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

At year end, the County had \$118,042 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents".

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

At year end, the carrying amount of the County's deposits was \$32,415,539 and the bank balance was \$38,012,546. Of the bank balance \$1,204,264 was covered by federal depository insurance. The remaining amounts were uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the County to a successful claim by the FDIC.

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

	Category 3	Carrying and Fair Value
Federal Farm Credit Bank Notes	\$1,998,205	\$1,998,205
Federal Home Loan Bank Notes	242,510	242,510
Federal Home Loan Mortgage Corporation Notes	854,029	854,029
Federal National Mortgage Association Notes	5,231,362	5,231,362
U. S. Treasury Notes	127,453	127,453
	\$8,453,559	8,452,559
STAR Ohio		2,109,181
Total Investments		\$10,562,740

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

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$39,272,329	\$3,823,992
Cash on Hand	(118,042)	0
Investments:		
Federal Farm Credit Bank Notes	(1,998,205)	1,998,205
Federal National Mortgage Association Notes	(4,981,362)	4,981,362
STAR Ohio	(2,109,181)	2,109,181
Certificates of Deposit	2,350,000	(2,350,000)
GASB Statement No. 3	\$32,415,539	\$10,562,740

NOTE 7 - RECEIVABLES

Receivables at December 31, 2003, consisted of accounts (billings for user charged services); sales taxes; accrued interest; intergovernmental receivables arising from grants, entitlements, and shared revenues; interfund; property taxes; loans; and special assessments. All receivables are considered collectible in full and within one year, except for loans and special assessments. Special assessments, in the amount of \$1,009,298, will not be received within one year. Delinquent special assessments were \$37,579.

Loans receivable represent low interest loans for housing and development projects granted to eligible County property owners and businesses under the Federal Community Block Grant program. The loans have an annual interest rate of 0 to 8.5 percent and are to be repaid over periods ranging from five to ten years. During 2003, new loans, in the amount of \$75,350, were issued and principal, in the amount of \$78,605, was repaid. Loans outstanding at December 31, 2003, were \$423,207. Loans receivable, in the amount of \$336,466, will not be received within one year.

Defiance County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Major Funds	
General Fund	
Fines and Forfeitures	\$13,967
Local Government	443,786
Homestead and Rollback	87,911
Indigent Defense	18,857
Charges for Services	7,504
Total General Fund	572,025
Mental Retardation and Developmental Disabilities	
Homestead and Rollback	293,554
Grants	101,414
Reimbursements	645
Total Mental Retardation and Developmental Disabilities	395,613
Job and Family Services	
Grants	133,457
Motor Vehicle and Gas Tax	
Charges for Services	27,631
Fines and Forfeitures	1,296
State of Ohio	1,695
Excess International Registration Plan	62,730
Permissive Motor Vehicle License	212,578
Motor Vehicle License Tax	633,151
Gasoline Tax	936,025
Total Motor Vehicle and Gas Tax	1,875,106
Emergency 911	
Homestead and Rollback	14,474
Senior Center	
Homestead and Rollback	36,586
Grants	10,675
Total Senior Center	47,261
Engineer Construction Federal	
Grants	39,768
Total Major Funds	3,077,704
	(continued)

Defiance County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

	Amount
Nonmajor Funds	
Regional Jail	\$90,269
Litter	6,645
Children Services	121,177
Community Development Block Grant	36,661
Terrorism Planning	4,907
Sarah's House	34,404
Felony Delinquent Care and Custody	38,886
General Obligation Bond Retirement	2,952
Total Nonmajor Funds	335,901
Total Governmental Activities	\$3,413,605
Agency Funds	
Law Library	\$3,871
Library Local Government	736,056
Local Government	428,838
Park Board	6,495
Board of Health	30,459
Local Governmental Revenue Assistance	166,415
Permissive Motor Vehicle License	110,236
Excess International Registration Plan	8,420
Motor Vehicle License Tax	184,672
Gasoline Tax	331,501
Total Agency Funds	\$2,006,963

NOTE 8 - PERMISSIVE SALES AND USE TAX

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

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

Defiance County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 9 - PROPERTY TAXES

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the County. Real property tax revenues received in 2003 represent the collection of 2002 taxes. Real property taxes received in 2003 were levied after October 1, 2002, on the assessed values as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in 2003 represent the collection of 2002 taxes. Public utility real and tangible personal property taxes received in 2003 became a lien on December 31, 2001, were levied after October 1, 2002, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in 2003 (other than public utility property) represent the collection of 2003 taxes. Tangible personal property taxes received in 2003 were levied after October 1, 2002, on the true value as of December 31, 2002. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

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

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of December 31, 2003, and for which there was an enforceable legal claim. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31 and are not intended to finance 2003 operations.

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

Defiance County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

The full tax rate for all County operations for the year ended December 31, 2003, was \$8.31 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2003 property tax receipts were based are as follows:

Category	Amount
Real Property	\$ 520,757,310
Public Utility Property	57,226,640
Tangible Personal Property	99,233,520
Total Assessed Value	<u>\$ 677,217,470</u>

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2003, was as follows:

	Balance January 1, 2003	Additions	Reductions	Balance December 31, 2003
Governmental Activities:				
Nondepreciable Capital Assets				
Land	\$543,271	\$0	\$0	\$543,271
Construction in Progress	0	1,095,776	0	1,095,776
Total Nondepreciable Capital Assets	<u>543,271</u>	<u>1,095,776</u>	<u>0</u>	<u>1,639,047</u>
Depreciable Capital Assets				
Buildings	9,196,451	7,939	0	9,204,390
Roads and Bridges	42,622,011	3,287,397	0	45,909,408
Machinery and Equipment	4,307,950	133,936	(7,338)	4,434,548
Vehicles	2,658,343	345,022	(118,685)	2,884,680
Total Depreciable Capital Assets	<u>58,784,755</u>	<u>3,774,294</u>	<u>(126,023)</u>	<u>62,433,026</u>
Less Accumulated Depreciation for				
Buildings	(3,015,201)	(183,534)	0	(3,198,735)
Roads and Bridges	(12,521,161)	(634,933)	0	(13,156,094)
Machinery and Equipment	(3,253,583)	(227,244)	4,648	(3,476,179)
Vehicles	(1,409,945)	(212,866)	108,005	(1,514,806)
Total Accumulated Depreciation	<u>(20,199,890)</u>	<u>(1,258,577)</u>	<u>112,653</u>	<u>(21,345,814)</u>
Total Depreciable Capital Assets, Net	<u>38,584,865</u>	<u>2,515,717</u>	<u>(13,370)</u>	<u>41,087,212</u>
Governmental Activities Capital Assets, Net	<u>\$39,128,136</u>	<u>\$3,611,493</u>	<u>(\$13,370)</u>	<u>\$42,726,259</u>

Defiance County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

	Balance January 1, 2003	Additions	Reductions	Balance December 31, 2003
Business-Type Activities:				
Nondepreciable Capital Assets				
Land	\$622,284	\$99,200	\$0	\$721,484
Construction in Progress	816,579	1,201,119	0	2,017,698
Total Nondepreciable Capital Assets	<u>1,438,863</u>	<u>1,300,319</u>	<u>0</u>	<u>2,739,182</u>
Depreciable Capital Assets				
Buildings	859,488	0	0	859,488
Sewer Lines	3,886,971	0	0	3,886,971
Machinery and Equipment	2,238,679	600,254	(5,800)	2,833,133
Vehicles	143,482	0	0	143,482
Total Depreciable Capital Assets	<u>7,128,620</u>	<u>600,254</u>	<u>(5,800)</u>	<u>7,723,074</u>
Less Accumulated Depreciation for				
Buildings	(578,053)	(11,662)	0	(589,715)
Sewer Lines	(995,775)	(77,739)	0	(1,073,514)
Machinery and Equipment	(839,001)	(211,576)	5,800	(1,044,777)
Vehicles	(66,939)	(8,317)	0	(75,256)
Total Accumulated Depreciation	<u>(2,479,768)</u>	<u>(309,294)</u>	<u>5,800</u>	<u>(2,783,262)</u>
Total Depreciable Capital Assets, Net	<u>4,648,852</u>	<u>290,960</u>	<u>0</u>	<u>4,939,812</u>
Business-Type Activities Capital Assets, Net	<u>\$6,087,715</u>	<u>\$1,591,279</u>	<u>\$0</u>	<u>\$7,678,994</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
General Government	
Legislative and Executive	\$88,992
Judicial	7,257
Public Safety	
Emergency 911	36,674
Other Public Safety	111,780
Public Works	
Engineer	770,443
Other Public Works	33,177
Health	
Mental Retardation and Developmental Disabilities	62,006
Other Health	6,000
Human Services	
Job and Family Services	44,398
Children Services	9,487
Senior Center	44,415
Other Human Services	2,263

(continued)

Defiance County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Conservation and Recreation	\$10,559
Economic Development	408
Intergovernmental	30,718
Total Depreciation Expense - Governmental Activities	\$1,258,577

NOTE 11 - INTERFUND RECEIVABLES/PAYABLES

At December 31, 2003, the General Fund had an interfund receivable, in the amount of \$1,731,749, to provide cash flow resources until the receipt of grant monies and for services provided by the General Fund to the Motor Vehicle and Gas Tax special revenue fund, other governmental funds, and the Sewer enterprise fund, in the amount of \$157, \$1,526,041, and \$205,551, respectively.

The Job and Family Services special revenue fund had an interfund receivable, in the amount of \$500, for services provided to other governmental funds.

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

Other governmental funds had an interfund receivable, in the amount of \$353, to provide cash flow resources until the receipt of special assessments in other governmental funds.

The Landfill enterprise fund had an interfund receivable, in the amount of \$395, for services provided to other governmental funds.

Interfund receivables, in the amount of \$1,681,596, will not be received within one year.

NOTE 12 - RISK MANAGEMENT

A. General Liability

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

Property	\$34,397,394
Boiler and Machinery	10,000,000
General Liability	1,000,000
Commercial Crime	1,000,000
Excess Liability	7,000,000
Automobile Liability	1,000,000
Law Enforcement Liability	1,000,000

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

Defiance County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

B. Health Benefits

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

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

Claims payable is based on the requirements of Governmental Accounting Standards Board Statement No. 30 "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported if information prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount can be reasonably estimated. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Claims payable at December 31, 2003, is estimated by a third party administrator at \$261,292. The changes in the claims liability for 2002 and 2003 were:

	Balance at Beginning of Year	Current Year Claims and Changes in Estimates	Claims Payments	Balance at End of Year
2002	\$0	\$1,351,583	\$1,204,298	\$147,285
2003	147,285	1,542,600	1,428,593	261,292

C. Workers' Compensation

For 2003, the County participated in the County Commissioners Association Service Corporation (Plan), a workers' compensation insurance purchasing pool. The Plan is intended to achieve lower workers' compensation rates while establishing safer working conditions and environments for the participants. The workers' compensation experience of the participating counties is calculated as one experience and a common premium rate is applied to all participants in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. In order to allocate the savings derived by formation of the Plan, and to maximize the number of participants in the Plan, annually the Plan's executive committee calculates the total savings which accrued to the Plan through its formation. This savings is then compared to the overall savings percentage of the Plan. The Plan's executive committee then collects rate contributions from or pays rate equalization rebates to the various participants.

Defiance County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

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

NOTE 13 - SIGNIFICANT CONTRACTUAL COMMITMENTS

The County has outstanding contracts for professional services and construction. The following amounts remain on these contracts as of December 31, 2003:

Vendor	Contract Amount	Amount Paid as of 12/31/03	Outstanding Balance
Mannik and Smith Group, Inc.	\$278,446	\$25,862	\$252,584
Mack Industries	143,620	69,932	73,688
Anderzack-Pitzen Construction	819,257	719,006	100,251
Poggemeyer Design Group	200,000	91,439	108,561
Rosengarten Construction, Inc.	351,701	65,808	285,893

NOTE 14 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Defiance County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

For the year ended December 31, 2003, members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salary to fund pension obligations. Members participating in the traditional plan, who were in law enforcement, contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The County's contribution rate for pension benefits for 2003 was 8.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the County's pension contributions were 11.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The County's required contribution for pension obligations to the traditional and combined plans for the years ended December 31, 2003, 2002, and 2001 were \$875,637, \$923,143, and \$975,638, respectively; 91 percent has been contributed for 2003 and 100 percent has been contributed for 2002 and 2001. The unpaid contribution for 2003, in the amount of \$80,513, is recorded as a liability. Contributions to the member-directed plan for 2003 were \$14,577 made by the County and \$9,145 made by plan members.

B. State Teachers Retirement System

Certified teachers, employed by the school for Mental Retardation and Developmental Disabilities, participate in the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

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

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

Defiance County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

For the year ended December 31, 2003, plan members were required to contribute 9.3 percent of their annual covered salary and the County was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The County's required contribution for pension obligations for the DBP for the years ended December 31, 2003, 2002, and 2001 was \$99,279, \$77,187, and \$83,295, respectively; 96 percent has been contributed for fiscal year 2003 and 100 percent has been contributed for fiscal years 2002 and 2001. There were no contributions for the DCP and CP for the fiscal year ended June 30, 2003.

NOTE 15 - POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by OPERS is considered an Other Postemployment Benefit (OPB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers". A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2003 employer contribution rate was 13.55 percent of covered payroll (16.7 percent for law enforcement and public safety); 5.00 percent was the portion used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2002, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees), and an additional increase in total payroll of between .5 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4 percent annually.

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

The number of active contributing participants in the traditional and combined plans was 364,881. Actual employer contributions for 2003 which were used to fund postemployment benefits was \$504,411. The actual contribution and the actuarial required contribution amounts are the same. OPERS's net assets available for the payment of benefits at December 31, 2002 (the latest information available), was \$10 billion. The actuarial accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

Defiance County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

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

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

B. State Teachers Retirement System

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the County, this amount was \$7,637.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$2.8 billion at June 30, 2003 (the latest information available). For the fiscal year ended June 30, 2003, net health care costs paid by STRS were \$352,301,000, and STRS had 108,294 eligible benefit recipients.

NOTE 16 - OTHER BENEFITS

A. Compensated Absences

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

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

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

Defiance County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

B. Health Care Benefits

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

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

NOTE 17 - NOTES PAYABLE

The County's notes activity for the year ended December 31, 2003, was as follows:

	Interest Rate	Balance January 1, 2003	Additions	Reductions	Balance December 31, 2003
<u>Governmental Activities</u>					
Long-Term Notes					
Various Purpose General Obligation Notes, Series 2003	3.00 - 3.35%	\$54,455	\$37,775	\$54,455	\$37,775
Various Purpose General Obligation Notes, Series 2003A	1.30	880,680	807,354	880,680	807,354
Platter Creek Ditch Improvement	1.25	0	750,000	0	750,000
Various Purpose General Obligation Notes, Series 2002	2.90	27,450	0	27,450	0
Total Long-Term Notes		962,585	1,595,129	962,585	1,595,129
Short-Term Notes					
Various Purpose General Obligation Notes, Series 2002A	2.97	2,575	0	2,575	0
Doty Run Ditch Improvement	1.50	0	365,000	0	365,000
Airport Improvement	2.14	200,000	180,000	200,000	180,000
Total Short-Term Notes		202,575	545,000	202,575	545,000
Total Governmental Activities		\$1,165,160	\$2,140,129	\$1,165,160	\$2,140,129
<u>Business-Type Activities</u>					
Various Purpose General Obligation Notes, Series 2002A	2.13%	\$44,975	\$0	\$44,975	\$0

All of the various purpose notes, Platter Creek and Doty Run notes were issued for ditch improvements. The Series 2003A notes also included sewer and bridge improvements. The Airport Improvement notes were issued for various improvements at the airport.

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

As of December 31, 2003, the County had unexpended note proceeds related to the Doty Run Ditch Improvement notes, in the amount of \$161,802.

Defiance County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 18 - CAPITALIZED LEASES - LESSEE DISCLOSURE

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

Assets acquired by lease have been capitalized, in the amount of \$12,802, which equals the present value of the future minimum lease payments at the time of acquisition. The equipment has a carrying value of \$7,255. Principal payments in 2003 were \$3,557. The lease will be paid in full in 2004 with principal, in the amount of \$5,399, and interest, in the amount of \$3.

NOTE 19 - LONG-TERM OBLIGATIONS

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

	<u>Original Issue Date</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>
General Obligation Bonds			
Various Purpose Improvement	1999	3.9 - 5.6%	\$2,675,000
Special Assessment Bonds			
Brunersburg Sewer	2002	4.75	837,531
Loans Payable			
Caterpillar Tractor	2001	5.50	78,528
Caterpillar Tractor	2003	3.75	433,674
OPWC Loans			
Evansport Water	1999	0.0	468,050
OWDA Loans			
Auglaize Sewer	1998	3.2 - 3.76	560,445
Express Sewer	2002	1.5	706,910
GMAC Commercial Mortgage			
Sewer	1980	5.0	146,300

Defiance County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

The County's long-term obligations activity for the year ended December 31, 2003, was as follows:

	Balance January 1, 2003	Additions	Reductions	Balance December 31, 2003	Due Within One Year
<u>Governmental Activities</u>					
General Obligation Bonds					
Various Purpose Improvement	\$2,350,000	\$0	\$90,000	\$2,260,000	\$95,000
Special Assessment Bonds					
Brunersburg Sewer	837,531	0	16,131	821,400	28,200
Other Long-Term Obligations					
Loans Payable	45,049	0	14,260	30,789	15,045
OPWC Loans Payable	386,141	0	23,403	362,738	23,402
OWDA Loans Payable	137,975	872,326	253,214	757,087	168,058
Capital Lease Payable	8,956	0	3,557	5,399	5,399
Compensated Absences Payable	817,551	178,994	27,365	969,180	308,164
Total Governmental Activities	<u>\$4,583,203</u>	<u>\$1,051,320</u>	<u>\$427,930</u>	<u>\$5,206,593</u>	<u>\$643,268</u>
<u>Business-Type Activities</u>					
General Obligation Bonds					
Various Purpose Improvement	\$75,000	\$0	\$10,000	\$65,000	\$10,000
Loans Payable	0	433,674	0	433,674	220,029
GMAC Commercial Mortgage Payable	102,000	0	4,000	98,000	4,000
Compensated Absences Payable	44,824	7,154	0	51,978	11,236
Closure and Postclosure Payable	2,212,469	22,587	0	2,235,056	0
Total Business-Type Activities	<u>\$2,434,293</u>	<u>\$463,415</u>	<u>\$14,000</u>	<u>\$2,883,708</u>	<u>\$245,265</u>

General Obligation Bonds

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

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

Defiance County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

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

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

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

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

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

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

Defiance County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Special Assessment Bonds

The special assessment bonds are backed by the full faith and credit of the County. In the event that an assessed property owner fails to make payments or insufficient amounts are assessed to fund the debt, the County will be required to pay the related debt. Special assessment bonds are paid from the General Obligation Bond Retirement debt service fund.

Loans Payable

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

OPWC Loans Payable

In 1999, the County obtained an Ohio Public Works Commission interest free loan, in the amount of \$468,050, for the construction of the Evansport Water system. The loan will be repaid from the General Obligation Bond Retirement debt service fund.

OWDA Loans Payable

The County has authorized Ohio Water Development Authority loans, in the amount of \$2,153,578, for the construction of wastewater facilities. The County has drawn down \$1,267,355 as of December 31, 2003, of which \$757,087 is still outstanding. The remaining available balance to be drawn down, in the amount of \$886,223, is still authorized but not issued. The loans will be repaid from the General Obligation Bond Retirement debt service fund.

GMAC Commercial Mortgage Payable

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

Compensated Absences Payable

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

Defiance County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

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

The effect of the debt limitations described above is an overall debt margin of \$10,303,923 at December 31, 2003.

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

Year	Governmental Activities			
	General Obligation Bonds		Special Assessments Bonds	
	Principal	Interest	Principal	Interest
2004	\$95,000	122,745	\$28,200	\$38,792
2005	95,000	118,423	29,700	37,329
2006	110,000	114,005	31,000	35,904
2007	110,000	108,780	32,500	34,413
2008	120,000	102,070	34,000	32,943
2009-2013	455,000	429,330	198,000	138,044
2014-2018	520,000	302,120	252,300	85,412
2019-2023	615,000	144,760	215,700	20,991
2024	140,000	7,840	0	0
	\$2,260,000	\$1,450,073	\$821,400	\$423,828

Year	Governmental Activities				
	Loans		OPWC Loans	OWDA Loans	
	Principal	Interest	Principal	Principal	Interest
2004	\$15,045	\$1,653	\$23,402	\$94,215	\$2,267
2005	15,744	953	23,403	0	0
2006	0	0	23,402	0	0
2007	0	0	23,403	0	0
2008	0	0	23,402	0	0
2009-2013	0	0	117,013	0	0
2014-2018	0	0	117,012	0	0
2019-2023	0	0	11,701	0	0
	\$30,789	\$2,606	\$362,738	\$94,215	\$2,267

Defiance County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Amortization schedules for \$662,872 of the Ohio Water Development Authority loans payable is not available due to the project not being finalized; however, the County has made semi-annual payments on these loans and an estimate was determined on the amount the County will pay within one year on these loans.

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

Year	Business-Type Activities					
	General Obligation Bonds		Loans		GMAC Commercial Mortgage	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$10,000	\$3,250	\$220,029	\$1,626	\$4,000	\$4,900
2005	10,000	2,795	213,645	8,012	4,000	4,700
2006	10,000	2,300	0	0	4,000	4,500
2007	10,000	1,855	0	0	4,000	4,300
2008	10,000	1,245	0	0	5,000	4,100
2009-2013	15,000	750	0	0	27,000	16,700
2014-2018	0	0	0	0	34,000	9,350
2019-2023	0	0	0	0	16,000	1,200
	<u>\$65,000</u>	<u>\$12,195</u>	<u>\$433,674</u>	<u>\$9,638</u>	<u>\$98,000</u>	<u>\$49,750</u>

Conduit Debt

In 2001, the County issued \$2,325,000 in Adjustable Rate Demand Economic Development Revenue Refunding Bonds. The proceeds were used for the refunding of economic development revenue bonds issued in 1982 to acquire and construct a supermarket. The County is not obligated in any way to pay the debt charges on the bonds from any of its funds, and therefore, the debt has been excluded entirely from the County's debt presentation. As of December 31, 2003, \$2,325,000 of these bonds was outstanding.

In 2002, the County entered into a lease-purchase agreement, in the amount of \$2,000,000, for the purchase of a CT scanner, MR system, and related medical equipment. The County is not obligated in any way to pay the debt charges on the lease-purchase agreement from any of its funds, and therefore, the debt has been excluded entirely from the County's debt presentation. As of December 31, 2003, \$1,438,041 of this debt was outstanding.

NOTE 20 - CLOSURE AND POSTCLOSURE CARE COSTS

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

Defiance County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

The \$2,235,056 reported as landfill closure and postclosure costs payable at December 31, 2003, represents the cumulative amount reported to date based on the use of 73.1 percent of the estimated capacity of the landfill. The County will recognize the remaining estimated costs of closure and postclosure care of \$821,829 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2003. For financial assurance purposes, Ohio EPA requires closure and postclosure costs to be reported based on the worst case scenario of when closure will occur. For 2003, these costs total \$3,056,885. The County expects to close the landfill in 2008. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The County is required by state and federal laws and regulations to either make annual contributions to an EPA controlled trust fund or demonstrate financial assurance through the "Local Government Financial Test". For 2003, the County met the Local Government Financial Test requirements.

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

NOTE 21 - INTERFUND TRANSFERS

During 2003, the General Fund made transfers to the Job and Family Services, Motor Vehicle and Gas Tax, and Emergency 911 special revenue funds, the County Improvement capital projects fund, other governmental funds, and the Health Insurance internal service fund, in the amount of \$93,858, \$9,999, \$150,000, \$60,000, \$710,000, and \$100,000, respectively, to subsidize various programs in those funds. Nonmajor governmental funds made transfers to other governmental funds and the Sewer enterprise fund, in the amount of \$468,656 and \$31,349, respectively, to distribute monies to other funds.

NOTE 22 - JOINTLY GOVERNED ORGANIZATIONS

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

The Northwest Ohio Juvenile Detention, Training, and Rehabilitation Center (Center) is a jointly governed organization among Defiance, Fulton, Henry, and Williams Counties. The Center's board of trustees consists of thirteen members; three from each County and one at-large member. The board of trustees exercises total control over the operation of the Center including budgeting, contracting, and designating management. The County has no ongoing financial interest or responsibility for the Center. In 2003, Defiance County contributed \$273,270 for the Center's operations which represents 15.7 percent of total contributions. Information can be obtained from Nancy J. Yackee, Fulton County Auditor, 152 South Fulton Avenue, Suite 165, Wauseon, Ohio 43567.

Defiance County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

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

The Four County Board of Alcohol, Drug Addiction, and Mental Health Services (ADAMHS) is a jointly governed organization among Defiance, Fulton, Henry, and Williams Counties to provide alcohol, drug addition, and mental health services to individuals in the four counties. The governing board of ADAMHS consists of eighteen members; four members appointed by the Ohio Director of Alcohol and Drug Addition Services, four members appointed by the Ohio Director of Mental Health Services, Defiance and Fulton County Commissioners appointing three members each, and Henry and Williams County Commissioners appointing two members each. The governing board exercises total control over the operation of the ADAMHS including budgeting, contracting, and designating management. The County has no ongoing financial interest or responsibility for the ADAMHS. In 2003, Defiance County contributed \$703,704 in property taxes for the ADAMHS's operations which represents 8 percent of total contributions. Information can be obtained from Marlene J. Goodwin, Defiance County Auditor, 221 Clinton Street, Defiance, Ohio 43512.

C. Corrections Commission of Northwest Ohio

The Corrections Commission of Northwest Ohio (CCNO) is a jointly governed organization among Defiance, Fulton, Henry, Lucas, and Williams Counties and the City of Toledo. The CCNO was established to provide jail space for convicted criminals in the five counties and the City of Toledo and to provide a correctional center for the inmates. The CCNO was created in 1986 and occupancy started in 1991. The commission team consists of eighteen members; one judge, one chief law enforcement officer, and one county commissioner or administrative official from each entity. The commission team exercises total control over the operation of the CCNO including budgeting, contracting, and designating management. The County has no ongoing financial interest or responsibility for the CCNO. In 2003, Defiance County contributed \$1,281,880 for the CCNO's operations which represents 9.7 percent of total contributions. Information can be obtained from William Ott, Fiscal Manager, Corrections Commission of Northwest Ohio, 03151 County Road 2425, Stryker, Ohio 43557.

D. Four County Solid Waste District

The Four County Solid Waste District (District) is a jointly governed organization among Defiance, Fulton, Paulding, and Williams Counties to make disposal of waste in the four-county area more comprehensive in terms of recycling, incinerating, and landfilling. The District was created in 1989. The board of directors consists of twelve members; the three commissioners from each county. The board of directors exercises total control over the operation of the District including budgeting, contracting, and designating management. The County has no ongoing financial interest or responsibility for the District. In 2003, Defiance County contributed \$65,565 for the District's operations which represents 20 percent of total contributions. Information can be obtained from Robin S. Rosswurm, Williams County Auditor, One Courthouse Square, Bryan, Ohio 43506.

Defiance County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

E. Multi-Area Narcotics Task Force

The Multi-Area Narcotics Task Force (Task Force) is a jointly governed organization among Defiance, Paulding, and Putnam Counties and the Cities of Defiance and Bryan. The Task Force is jointly controlled by the chief law enforcement officer of each respective entity. The main source of revenue for the Task Force is from federal grants and local matching funds from the entities. The Task Force exercises total control over the operation of the Task Force including budgeting, contracting, and designating management. The County has no ongoing financial interest or responsibility for the Task Force. In 2003, Defiance County did not contribute any funds for the Task Force's operations. Information can be obtained from the Defiance County Sheriff's office, 113 Beide Street, Defiance, Ohio 43512.

F. Quadco Rehabilitation Center

The Quadco Rehabilitation Center (Quadco) is a jointly governed organization among Defiance, Fulton, Henry, and Williams Counties. Quadco Rehabilitation Center is a nonprofit corporation which provides services and facilities for training physically and mentally disabled persons. Quadco is responsible for contracting with various agencies to obtain funding to operate the organization. Quadco is governed by an eight-member board composed of two appointees made by each of the four County Boards of Mental Retardation and Developmental Disabilities (County Boards of MRDD). This board, in conjunction with the County Boards of MRDD, assesses the needs of adult mentally challenged and developmentally disabled residents of each County and sets priorities based on available funds. The County provides resources to the Board based on units of service provided to the County. Quadco exercises total control over the operation of Quadco including budgeting, contracting, and designating management. The County has no ongoing financial interest or responsibility for Quadco. In 2003, Defiance County contributed \$789,943 for Quadco's operations which represents 14.5 percent of total contributions. Information can be obtained from Terry Fruth, CFO, Quadco Rehabilitation Center, 427 North Defiance Street, Stryker, Ohio 43557.

G. Maumee Valley Planning Organization

The Maumee Valley Planning Organization (MVPO) is a jointly governed organization among Defiance, Fulton, Henry, Paulding, and Williams Counties. The MVPO is an organization established to improve the social and economic conditions of the region through development and conservation. The MVPO is governed by a fifteen member executive council composed of the three county commissioners, the mayor of the largest municipality, three mayors selected by the committee of mayors that represent the incorporated cities and villages, the township trustee association president, the regional planning commission chairman, and two members at large to represent business, industry, labor, agricultural, low income, minority groups, education, and consumer protection activities. The County provides resources to the executive council based on a membership fee and services provided to the County. The MVPO exercises total control over the operation of MVPO including budgeting, contracting, and designating management. The County has no ongoing financial interest or responsibility for the MVPO. In 2003, Defiance County contributed \$82,785 for the MVPO's operations which represents 10.8 percent of total contributions. Information can be obtained from Nancy J. Yackee, Fulton County Auditor, 152 South Fulton Avenue, Suite 165, Wauseon, Ohio 43567.

Defiance County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

H. Community Improvement Corporation of Defiance County

The Community Improvement Corporation of Defiance County (CIC) is a jointly governed organization among Defiance County, the City of Defiance, and the respective villages and townships of Defiance County. The purpose of the CIC is to promote and encourage the establishment and growth of industrial, commercial, distribution, and research facilities within member subdivisions. The CIC is governed by a board of trustees consisting of fifteen self-appointed members. Not less than two-fifths of the members are to be composed of elected officials. Five of these trustees include: a member of the Board of County Commissioners of Defiance County, the Auditor of Defiance County, the Mayor or his/her designated elected official of the City of Defiance, the Mayor or his/her designated elected official of the Village of Hicksville, and the President of the Defiance County Trustees. The remaining members represent private residents of Defiance County or employees of Defiance County businesses or firms. The County provides resources to the board of trustees based on a membership fee. The CIC exercises total control over the operation of CIC including budgeting, contracting, and designating management. The County has no ongoing financial interest or responsibility for the CIC. In 2003, Defiance County contributed \$35,000 for the CIC's operations which represents 25.2 percent of total contributions. Information can be obtained from the Jerry Hayes, Executive Director, 197-2B-1 Island Park Avenue, Defiance, Ohio 43512.

NOTE 23 - INSURANCE POOLS

A. County Commissioners Association Service Corporation

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

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

B. Northern Buckeye Education Council Employee Insurance Benefits Program

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

Defiance County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 24 - RELATED ORGANIZATION

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

Although the County has no obligation to provide financial resources to the airport, the County Commissioners have in prior years allocated certain funds to the Airport Authority. In 2003, the County contributed \$25,200 to the Airport Authority.

NOTE 25 - CONTINGENT LIABILITIES

A. Litigation

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

B. Federal and State Grants

For the period January 1, 2003, to December 31, 2003, the County received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the County believes such disallowances, if any, would be immaterial.

NOTE 26 - SUBSEQUENT EVENTS

On March 24, 2004, the County retired notes, in the amount of \$37,775, which were issued to make improvements to ditches. The notes had an interest rate of 3 percent.

On April 29, 2004, the County issued bond anticipation notes, in the amount of \$750,000, to retire notes previously issued to make improvements to the Platter Creek ditch. The notes have an interest rate of 1.25 percent and mature on September 1, 2004.

On July 30, 2004, the County issued bond anticipation notes, in the amount of \$2,424,440, to retire notes, in the amount of \$807,354, that were previously issued to make improvements to ditches, bridges, and roads and new notes, in the amount of \$1,700,000, for the acquisition of a building. The notes have an interest rate of 2.17 percent and mature on July 29, 2005.

Defiance County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

On September 1, 2004, the County retired notes previously, in the amount of \$750,000, issued to make improvements to ditches. The notes had an interest rate of 1.25 percent.

On September 1, 2004, the County issued general obligation bonds, in the amount of \$425,000, to retire notes previously issued to make improvements to the Platter Creek ditch. The bonds were issued for eleven years with interest rates from 2.25 to 5 percent.

Defiance County
Schedule of Federal Awards Expenditures
For the Year Ended December 31, 2003

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Education:</i>			
National School Lunch Program	065946-03-PU-02	10.555	\$7,860
Total U.S. Department of Agriculture			<u>7,860</u>
U.S. DEPARTMENT OF EDUCATION			
<i>Passed Through Ohio Department of Education:</i>			
Special Education Cluster:			
Special Education - Grants to States (Title VI - B)	065946-6B-8F-04	84.027	8,627
Special Education - Preschool Grant (Title I)	065946-PG-51-02P	84.173	3,818
Total Special Education Cluster			<u>12,445</u>
Total U.S. Department of Education			<u>12,445</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
<i>Passed Through Ohio Department of Emergency/ Management Disaster Assistance:</i>			
State Domestic Preparedness Equipment Support Program		97.004	289,376
State and Local All Hazards Emergency Operations Planning		97.051	37,119
Total U.S. Department of Homeland Security			<u>326,495</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<i>Passed Through Area Office of Aging:</i>			
Aging Cluster:			
Special Programs for the Aging - Title III Part B - Grants for Supportive Services and Senior Centers		93.044	31,265
Special Programs for the Aging - Title III Part C - Nutrition Services		93.045	241,645
Total Aging Cluster			<u>272,910</u>
Special Programs for the Aging - Title III Part D - Sixty Plus Program		93.043	8,780
Special Programs for the Aging - Title III Part E - Rural Care Giver's		93.052	54,166
Special Programs for the Aging - A12 - Alzheimer	2002	93.051	21,991
	2003		12,566
Total Special Programs for the Aging - A12 - Alzheimer			<u>34,557</u>
Total Area Office of Aging			<u>370,413</u>
<i>Passed Through Ohio Department of Health:</i>			
Social Services Block Grant (Title XX)		93.667	40,188
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>			
Medical Assistance Program (Medicaid: Title XIX)		93.778	250,941

(Continued)

Defiance County
Schedule of Federal Awards Expenditures
For the Year Ended December 31, 2003
(Continued)

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
<i>Passed Through Ohio Job and Family Services:</i>			
ESSA Family Preservation	20-6035-03	93.645	1,760
Grants to States for Access and Visitation Programs	G-03-09-0247 G-04-09-0792	93.675	34,517 8,249
Total Grants to States for Access and Visitation Programs			<u>42,766</u>
Basic Child Abuse and Neglect		93.669	2,000
Total U.S. Department of Health and Human Services			<u>708,068</u>
U.S. DEPARTMENT OF LABOR			
<i>Passed Through Ohio Job and Family Services:</i>			
Workforce Investment Act Cluster:			
Workforce Investment Act - Adult		17.258	39,292
Workforce Investment Act - Adult Administration		17.258	1,131
Workforce Investment Act - Adult Total			<u>40,423</u>
Workforce Investment Act - Youth		17.259	135,097
Workforce Investment Act - Youth Administration		17.259	3,888
Workforce Investment Act - Youth Total			<u>138,985</u>
Workforce Investment Act - Dislocated Worker		17.260	52,025
Workforce Investment Act - Dislocated Worker Administration		17.260	1,498
Workforce Investment Act - Dislocated Worker Total			<u>53,523</u>
Workforce Investment Act - Rapid Response - FY'02		17.260	178,858
Workforce Investment Act - Rapid Response - FY'03		17.260	5,147
Workforce Investment Act - Rapid Response Total			<u>184,005</u>
Total			<u>416,936</u>
<i>Passed Through Williams County:</i>			
Employment and Training Administration, Department of Labor			
Workforce Investment Act - Adult		17.258	9,602
Workforce Investment Act - Youth		17.259	10,484
Workforce Investment Act - Dislocated Worker		17.260	7,094
			<u>27,180</u>
<i>Passed Through Paulding County:</i>			
Employment and Training Administration, Department of Labor			
Workforce Investment Act - Adult		17.258	5,619
Workforce Investment Act - Youth		17.259	6,329
Workforce Investment Act - Dislocated Worker		17.260	2,624
			<u>14,572</u>
Total U.S. Department of Labor			<u>458,688</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Home Investment Partnerships Program (CHIP)	B-C-00-019-2	14.239	121,846

(Continued)

Defiance County
Schedule of Federal Awards Expenditures
For the Year Ended December 31, 2003
(Continued)

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
<i>Passed Through Ohio Department of Development:</i>			
Community Development Block Grant (Formula Grant)	B-F-02-019-1	14.228	87,972
	B-F-01-019-1	14.228	29,684
Total Community Development Block Grant (Formula Grant)			<u>117,656</u>
Community Development Block Grant (Emergency Shelter)	B-L-02-019-1	14.228	60,500
Community Development Block Grant (Emergency Shelter)	B-L-03-019-1	14.228	22,480
Community Development Block Grant (Microenterprise)	B-M-00-019-1	14.228	14,800
Community Development Block Grant (CHIP)	B-C-02-019-1	14.228	43,341
Total Community Development Block Grant			<u>258,777</u>
Total U.S. Department of Housing and Urban Development			<u>380,623</u>
U.S. DEPARTMENT OF TRANSPORTATION			
<i>Passed Through Ohio Engineer's Association:</i>			
Highway Planning and Construction	03N050	20.205	59,040
Highway Planning and Construction	02N154	20.205	866,772
Highway Planning and Construction	02N151	20.205	183,379
Highway Planning and Construction	02N153	20.205	73,173
Highway Planning and Construction	02N152	20.205	170,120
Highway Planning and Construction	03N021	20.205	1,079,688
Highway Planning and Construction	03N049	20.205	970,875
Total U.S. Department of Transportation			<u>3,403,047</u>
U.S. DEPARTMENT OF JUSTICE			
<i>Passed Through Office of Criminal Justice Services:</i>			
Bryne Memorial Drug Control and Systems (Improvement Grant)	02-DG-A01-7014	16.579	186,787
Bryne Memorial Drug Control and Systems (Improvement Grant)	02-DG-A01-7014A	16.579	18,547
Bryne Memorial Grant - Rape Crisis Advocate	02-DG-D02-7004	16.579	13,060
Total Bryne Memorial Grant			<u>218,394</u>
Victims of Crimes Act Grant	02-VAG-ENE-061	16.575	42,927
	03-VAG-ENE-061	16.575	30,398
Total Victims of Crimes Act Grant			<u>73,325</u>
Total U.S. Department of Justice			<u>291,719</u>
Total			<u>\$5,588,945</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE.

Defiance County
Notes to the Schedule of Federal Financial Assistance
Fiscal Year Ended December 31, 2003

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 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, 2003, 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.

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.

NOTE E - U.S. DEPARTMENT OF HOMELAND SECURITY FEDERAL AWARDS

The Federal Homeland Security Act of 2002 established the Department of Homeland Security (the Department) to consolidate functions of the other Federal agencies related to homeland security.

Effective January 24, 2003, the Department began to administer certain Federal awards Defiance County (the County) previously received from other Federal agencies. The accompanying Federal Awards Expenditure Schedule reports all such 2003 award amounts under the Department's Catalog of Federal Domestic Assistance (CFDA) numbers. The purposes and compliance requirement of these programs has not changed. A comparison of the former Federal agencies and CFDA numbers the County reported in its 2002 Federal Award Expenditure Schedule compared with the Department's CFDA numbers reported in the 2003 Schedule follows:

Previous Federal Agency	CFDA Number Used for 2002	Homeland Security CFDA Number Used for 2003
Department of Justice	16.007	97.004



**Auditor of State
Betty Montgomery**

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

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

To the Board of Commissioners:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Defiance County (the County) as of and for the year ended December 31, 2003, which collectively comprise the County's basic financial statements and have issued our report thereon dated September 27, 2004, in which we noted the County adopted Governmental Accounting Standard Board Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, modified the capitalization threshold for its capital assets and reclassified its presentation of the Mental Retardation and Developmental Disabilities fund. 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 tested its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could directly and materially affect 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 an instance of noncompliance that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings and questioned costs as item 2003 - 001. We also noted certain immaterial instances of noncompliance that we have reported to the County's management in a separate letter dated September 27, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting to determine our auditing procedures 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 the County's management in a separate letter dated September 27, 2004.

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

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

Betty Montgomery
Auditor of State

September 27, 2004



**Auditor of State
Betty Montgomery**

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

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

To the Board of Commissioners:

Compliance

We have audited the compliance of Defiance County (the County) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2003. 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.

In our opinion, the County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2003. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with *OMB Circular A-133* and which are described in the accompanying schedule of findings and questioned costs as items 2003-002 through 2003-006. We also noted certain instances of noncompliance that do not require inclusion in this report that we have reported to management of the County in a separate letter dated September 27, 2004.

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

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 2003-004 through 2003-006.

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, we believe none of the reportable conditions described above is a material weakness. However, we noted other matters involving the internal control over federal compliance that do not require inclusion in this report that we have reported to the management of the County in a separate letter dated September 27, 2004

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



Betty Montgomery
Auditor of State

September 27, 2004

Defiance County
Schedule of Findings and Questioned Costs
OMB Circular A -133 § .505
December 31, 2003

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	<p>Medical Assistance Program (Medicaid: Title XIX) CFDA #93.778</p> <p><u>Aging Cluster:</u> Special Programs for the Aging – Title III Part B – Grants for Supportive Services and Senior Center CFDA #93.044</p> <p>Special Programs for the Aging – Title III Part C – Nutrition Services CFDA #93.045</p> <p>Special Programs for the Aging – Title III Part E – Rural Care Giver's CFDA #93.052</p> <p>Highway Planning and Construction CFDA #20.205</p>
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2003-001

Ohio Revised Code § 5705.40 provides that appropriation measures may be amended or supplemented as long as the entity complies with the same provisions of the law as are used in making the original appropriation. The original appropriation adopted by the Budget Commission established the “legal level of control” at the major account level within a division and fund. Fund level changes made to the original appropriation totals during 2003 were recorded in the County Auditor’s records. These changes were not approved by the Board of Commissioners:

Fund	Approved Appropriations	Posted Appropriations	Difference
General Fund			
Other Financing Uses	\$ 2,820,870	\$ 3,954,727	\$ (1,133,857)
Transfers Out	1,199,013	1,895,843	(696,830)

This could result in changes to appropriations which are not consistent with the Board of Commissioner’s intentions. Any changes made to appropriations at the legal level of control should be approved by the Board of Commissioners in the same manner as the original appropriation measurer.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

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

Finding Number	2003-002
CFDA Number and Title	93.045 - Aging Cluster
Federal Agency	U.S. Department of Health and Human Services

QUESTIONED COSTS \$18,984

The Area Office on Aging of Northwestern Ohio, Inc. (AOA) contracted with the Defiance County Senior Center (the Senior Center) to provide congregate meals to eligible Participants residing in Defiance County in 2003. The 2003 Nutrition Services Contract indicated that a \$3 reimbursement per unit rate would be made by the AOA for each qualified meal served by the Senior Center to an eligible participant.

During review of the Title III C program we noted that:

- The 2003 Nutrition Services Contract had no provision authorizing reimbursement for breakfast and snacks.
- The 2003 Senior Center budget submitted to AOA never budgeted food costs for morning meals.
- 2003 menus submitted to AOA by the Senior Center for certification only included noon-time meals.
- The 2002 grant proposal (which covers a three year period) submitted by the Senior Center to AOA did not mention breakfast meals.

During 2003, the Senior Center presented claims for 2,733 breakfasts served at its Defiance location and 3,495 snacks served at its Hicksville location. These claims were included as a qualified meal on the Senior Center's monthly request for reimbursement report sent to the AOA, although the claims were never disclosed as breakfasts or snacks. The Senior Center was reimbursed at a rate of \$3 for each breakfast and snack served during 2003.

Therefore, in accordance with OMB Circular A-133, Subpart A, Section .105, we are questioning, as a violation of the contract agreement, all reimbursements paid in 2003 to the Senior Center by the AOA for breakfasts and snacks which amount to \$18,684.

In addition, a test of 7,556 meals claimed for reimbursement indicated 100 meals (1.32%) of the sample tested were not substantiated by meal counts reports. For the items tested, the AOA over reimbursed the Senior Center \$300. Based on our sample results, we project it is possible that the Senior Center was over-reimbursed by the AOA \$3,291 for meals that were not documented as being served in meal count reports.

The combination of over-reimbursements for breakfasts/snacks and over-reimbursements for unsubstantiated claims for meals results in total questioned costs of \$18,984.

Filing claims for meals which do not qualify for reimbursement could result in a reduction or loss of future funding to this program. If the Senior Center wishes to be reimbursed for the breakfast and snacks served to their eligible participant, we recommend that language authorizing such reimbursement be included in its Nutrition Contract with the AOA.

Also, daily meal count records should be reviewed and approved at the end of the day.

Special Programs for the Aging – Title III Part E – Rural Care Grant – Activities Allowed or Unallowed – Allowable Cost/Cost Principles

Finding Number	2003-003
CFDA Number and Title	93.052 - National Family Caregiver Support – National Innovation Programs
Federal Agency	U.S. Department of Health and Human Services

QUESTIONED COSTS \$22,503

As indicated in the "Official Notification of Grant/Contract Award" for the Title III Part E National Family Caregiver Support Funds between the AOA and the Senior Center, the AOA reimbursed the Senior Center the following amounts in 2003.

Description	Contracted Units 2003	Unit Rate 2003	Total Funds per Service
Transportation	150	\$125.00	\$ 18,750
Home Repair	10	290.00	2,900
Supportive Services	386	66.09	<u>25,511</u>
Total			<u><u>\$ 47,161</u></u>

The Conditions to Contract Awards for contract year 2003 for the Title III Part E National Family Caregiver Support Funds provides the Senior Center shall ensure that the rates charged in this contract are not more than the usual and customary fees charged to non – agency clients for the same service.

The Senior Center was unable to provide any criteria that substantiated the basis or validity of any of these unit rates. This resulted in claims for reimbursements such as the following:

- A claim for reimbursement of 13 transportation trips at \$125 each made by a caregiver from Hicksville, Ohio to Auburn, Indiana. The actual mileage reimbursement invoice for each trip submitted by the caregiver was for \$13.
- A \$290 claim for reimbursement for nails and screws to reattach a mailbox for a caregiver.
- Claims for reimbursement for 14 massage treatments at \$66 each. The actual cost of a massage treatment per the therapist session was \$35.

In addition, the Senior Center was unable to provide any documentation to indicate to whom (or what) nine of the ten units of Home Repair service were provided for which the Senior Center was reimbursed in 2003.

The 2003 Senior Center Title III Part E disbursement ledger supports allowable transportation expenditures of \$4,582 and allowable supportive service expenditures of \$20,076 resulting in total substantiated disbursements of \$24,658. There was no evidence of any Home Repair expenditures being made according to the disbursement ledger.

OMB Circular A-133, Subpart A, Section .105, indicates that a questioned cost means a cost that is questioned by the auditor because, among other things, the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances. Because there is no reasonable basis for the unit reimbursement rates for any of the authorized Title III Part E activities, nor is there is any documentation to support nine of the ten Home Repair Units submitted for reimbursement, we are questioning all Title III E reimbursements in excess of allowable Title III Part E expenditures made in 2003. This results in a total questioned cost of \$22,503 (\$47,161 - \$24,658)

We recommend the Senior Center develop dollar unit rates that reasonable and customary for the local area based on the type of service provided. In addition, there should be documentation to support how these unit rates were arrived at as well as any principals used in developing them, such as the number of estimated miles to be driven for each unit of transportation reimbursement request. It would be beneficial for the Senior Center to maintain separate expenditure records that indicated Title III E expenditures by line item. This would be of assistance in developing unit rate charges in the future. Furthermore, we recommend the AOA obtain this documentation and evaluate its validity before making future reimbursements to the Senior Center.

Special Programs for the Aging – Title III Part B – Grants for Supportive Services and Senior Centers – Reporting

Finding Number	2003-004
CFDA Number and Title	93.045 - Aging Cluster
Federal Agency	U.S. Department of Health and Human Services

NONCOMPLIANCE/ REPORTABLE CONDITION

The “Official Notification of Grant/Contract Award 2003” attached to the “Conditions to Contract Awards for contract year 2003” of the Title III Part B Grants for Supportive Services for Senior Centers between the AOA and the Senior Center provides that the Senior Center will receive \$6.41 for each socialization unit up to a maximum of 1,196 units and \$20.00 for each Mass Outreach unit up to a maximum of 58 units.

The “2001 All Funds Instruction Booklet” defines a Socialization Unit as one scheduled activity. It also provides that the Senior Center should have at a minimum a sign up sheet listing the date, name, and description of the activity, and the signatures of the clients participating in each socialization activity unit reported.

It also defines Mass Outreach as “Outreach to groups to encourage the use of existing services”. This could include newsletters, speaking engagements, and documented public service announcements. It also provides that newspaper articles should not be included as an Outreach unit.

A test of reimbursements made by AOA in February, April, June, and August 2003 noted the following:

- 1) The Senior Center did not have sign up sheets for 253 of the 586 socialization activity units. The Senior Center was reimbursed \$1,622 for these activities.
- 2) Four of the 31 Outreach units tested, for which the Senior Center received \$80, were for newspaper articles and were not eligible to be included as an Outreach Unit.

For the items tested, the AOA over reimbursed the Senior Center \$1,702. Based on our sample results, we project it is possible that the Senior Center was over-reimbursed by the AOA \$3,460 for activities undocumented and ineligible under the Title III B program.

We recommend the Senior Center maintain a client activity sign up sheet for each scheduled socialization activity it submits for reimbursement by Title III Part B funds with the AOA, and to request reimbursement of Mass Outreach units for only activities listed in the 2001 All Funds Instruction Booklet.

Special Programs for the Aging – Title III Part E – Rural Care Grant – Activities Allowed Or Unallowed – Eligibility

Finding Number	2003-005
CFDA Number and Title	93.052 - National Family Caregiver Support – National Innovation Programs
Federal Agency	U.S. Department of Health and Human Services

NONCOMPLIANCE/REPORTABLE CONDITION

The “Conditions to Contract Awards for contract year 2003” of the Title III Part E National Family Caregiver Support Program for Senior Centers between the Senior Center and the AOA states the program participants must be at least 60 years of age. This contract also provides that when determining participants’ eligibility, that preference shall be given to older individuals with the greatest economic or social needs with particular attention to low income minority individuals.

The Defiance County Senior Services 2001 Proposal for Caregiver’s Grant for Rural Communities (applicable to the 2003 grant year) provides that a preliminary screening will be conducted on both the caregiver and care recipient before receiving services from Defiance County Senior Services.

A test of participants in the Title III Part E program noted the following:

- Ten percent did not have the participants age recorded.
- Eighty five percent of the participants were deemed eligible for the program without documentation noting that the individual had the greatest economic or social needs or qualified as a low income minority individual.
- Thirty percent of the caregivers, and fifty five percent of the care recipients did not have a prescreening interview on file.

This could result in Title III part E funds being disbursed for the benefit of ineligible participants and jeopardize future finding of the program.

We recommend the Senior Center conduct a prescreening interview on all applicants in the National Family Care Giver Program. The prescreening interview form should include the care giver's and care recipient's age, and any other information that would assist the Senior Center in giving preference to older individuals with the greatest economic or social needs and allowing particular attention to low income minority individuals.

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

Finding Number	2003-006
CFDA Number and Title	93.045 – Aging Cluster
Federal Agency	U.S. Department of Health and Human Services

REPORTABLE CONDITION

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

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

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

This may have contributed to the Senior Center purchasing items such as candy, cheesecake, shrimp, breakfast items, soda pop, snack & party trays, cameras, personal toiletries and hygiene products. These expenditures were documented as being allocable to the Title III C program. However, none of these expenditures were listed as part of the daily menus certified to AOA for congregate or home delivered meals.

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

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

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

Defiance County
 Schedule of Prior Audit Findings
 December 31, 2003

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2002 – 001	Ohio Revised Code § 5705.42 grant funds received were not recorded on the County's financial records	Yes	
2002 -002	Ohio Rev. Code § 5705.41(B) appropriations were not recorded by the County for certain grant expenditures.	Yes	



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

FINANCIAL CONDITION

DEFIANCE COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED

OCTOBER 14, 2004