

Hocking County Financial Condition

Hocking County

Single Audit

January 1 , 2002 Through December 31, 2002

Fiscal Year Audited Under GAGAS: 2002

BALESTRA & COMPANY

(A division of Harr & Scherer CPAs, Inc.)

CERTIFIED PUBLIC ACCOUNTANTS

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Member American Institute of Certified Public Accountants
Ohio Society of Certified Public Accountants



**Auditor of State
Betty Montgomery**

Board of County Commissioners
Hocking County
Logan, Ohio

We have reviewed the Independent Auditor's Report of Hocking County, prepared by Balestra & Company, for the audit period January 1, 2002 through December 31, 2002. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. Hocking County is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

August 14, 2003

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HOCKING COUNTY
FINANCIAL CONDITION

TABLE OF CONTENTS

<u>TITLE:</u>	<u>PAGE:</u>
Independent Auditor's Report	1-2
General Purpose Financial Statements	
Combined Balance Sheet - All Fund Types, Account Groups, and Discretely Presented Component Units	3-6
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types	7-8
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual All Governmental Fund Types	9-14
Combined Statement of Revenues, Expenses and Changes in in Fund Equity/Fund Balances - Proprietary Fund Type and Discretely Presented Component Units	15
Statement of Revenues, Expenses and Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual - Proprietary Fund Type	16
Combined Statement of Cash Flows - Proprietary Fund Type and Discretely Presented Component Units	17-18
Notes to the General Purpose Financial Statements	20-53
Schedule of Federal Awards Expenditures	55
Notes to the Schedule of Federal Awards Expenditures	56
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	57-58
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	59-60
Schedule of Findings OMB Circular A-133 Section .505	61-62
Schedule of Prior Year Audit Findings	63

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Board of County Commissioners
Hocking County
1 East Main Street
Logan, Ohio 43138

Independent Auditor's Report

We have audited the accompanying general purpose financial statements of Hocking County (the County), as of and for the year ended December 31, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the County's discretely presented component units, Hocking Valley Industries, Inc. and the Hocking Valley Community Hospital. These financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion insofar as it relates to the amounts included for Hocking Valley Industries, Inc. and Hocking Valley Community Hospital, is based solely on the reports of the other auditors.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Hocking County, as of December 31, 2002, and the results of its operations and the cash flows of its proprietary fund type and discretely presented component units for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2003 on our consideration of the County's internal control over financial reporting and on 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.

Hocking County
Independent Auditor's Report

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

Balestra & Company
Balestra & Company

June 26, 2003

HOCKING COUNTY, OHIO
 COMBINED BALANCE SHEET - ALL FUND TYPES, ACCOUNT GROUPS, AND
 DISCRETELY PRESENTED COMPONENT UNITS
 DECEMBER 31, 2002

	Governmental Fund Types				Proprietary Fund Type
	General	Special Revenue	Debt Service	Capital Projects	Enterprise
Assets and Other Debits:					
Assets:					
Equity with County					
Treasurer (Notes 2, 5)	\$ 1,564,800	\$ 6,444,183	\$ 111,210	\$ 537,390	\$ 84,152
Cash and Cash Equivalents in					
Segregated Accounts (Notes 2, 5, 21)	-	-	-	-	-
Investments in Segregated Accounts (Note 21)	-	-	-	-	-
Receivables - (net, where applicable of allowances for uncollectibles):					
Taxes (Notes 6, 7)	1,964,698	2,778,665	-	-	-
Accounts	-	4,870	-	-	25,566
Accrued Interest	4,506	-	-	-	-
Special Assessments	-	-	84,190	-	-
Due from Other Funds (Note 16)	31,773	124,113	-	-	-
Interfund Receivable (Note 16)	22,755	-	-	-	-
Due from Other Governments (Note 9)	339,010	3,106,148	-	-	-
Materials and Supplies Inventory (Note 2)	-	222,897	-	-	-
Prepaid Items	-	-	-	-	-
Deferred Financing Costs (Net of Accumulated Amortization)	-	-	-	-	-
Other Assets	-	-	-	-	-
Assets Whose Use is Limited - Under Bond Indenture Agreement (Note 21)	-	-	-	-	-
Other Receivables (Note 21)	-	-	-	-	-
Fixed Assets (net, where applicable of accumulated depreciation) (Notes 2, 8)	-	-	-	-	1,932,715
Other Debits:					
Amount Available in Debt Service					
Fund For Retirement of General Obligation and Revenue Bonds	-	-	-	-	-
Amount to be Provided for					
Retirement of General Long-Term Obligations	-	-	-	-	-
Total Assets and Other Debits	\$ 3,927,542	\$ 12,680,876	\$ 195,400	\$ 537,390	\$ 2,042,433

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

Fiduciary Fund Type	Account Groups		Totals Primary Gov't (Memorandum Only) 2002	Component Units	Totals Reporting Entity (Memorandum Only) 2002
	General Fixed Assets	General Long-Term Obligations			
Agency					
\$ 1,683,682	\$ -	\$ -	\$ 10,425,417	\$ -	\$ 10,425,417
254,373	-	-	254,373	1,881,385	2,135,758
-	-	-	-	248,510	248,510
16,280,088	-	-	21,023,451	-	21,023,451
-	-	-	30,436	4,403,310	4,433,746
-	-	-	4,506	-	4,506
-	-	-	84,190	-	84,190
11,942	-	-	167,828	-	167,828
-	-	-	22,755	-	22,755
1,316,380	-	-	4,761,538	-	4,761,538
-	-	-	222,897	254,664	477,561
-	-	-	-	13,988	13,988
-	-	-	-	89,838	89,838
-	-	-	-	1,000	1,000
-	-	-	-	330,000	330,000
-	-	-	-	3,346	3,346
-	7,768,926	-	9,701,641	10,039,138	19,740,779
-	-	111,210	111,210	-	111,210
-	-	1,723,737	1,723,737	-	1,723,737
<u>\$ 19,546,465</u>	<u>\$ 7,768,926</u>	<u>\$ 1,834,947</u>	<u>\$ 48,533,979</u>	<u>\$ 17,265,179</u>	<u>\$ 65,799,158</u>

(Continued)

HOCKING COUNTY, OHIO
 COMBINED BALANCE SHEET-ALL FUND TYPES, ACCOUNT GROUPS, AND
 DISCRETELY PRESENTED COMPONENT UNITS
 DECEMBER 31, 2002

	Governmental Fund Types				Proprietary Fund Type
	General	Special Revenue	Debt Service	Capital Projects	Enterprise
Liabilities, Fund Equity and Other Credits:					
<u>Liabilities:</u>					
Accounts Payable	\$ 27,298	\$ 558,756	\$ -	\$ -	\$ 3,098
Contracts Payable	-	12,300	-	4,824	-
Accrued Wages and Benefits	160,517	353,267	-	-	1,208
Compensated Absences (Note 2)	-	-	-	-	562
Due to Other Funds (Note 16)	3,339	94,006	-	-	-
Interfund Payable (Note 16)	-	22,755	-	-	-
Due to Other Governments	5,197	66,801	-	-	3,357
Deferred Revenue	1,837,885	5,083,678	84,190	-	-
Undistributed Monies	-	-	-	-	-
Deposits Held and Due to Others	-	-	-	-	-
Notes Payable (Note 14)	277,692	-	-	-	-
Capital Leases Payable (Notes 15, 21)	-	-	-	-	-
Third-Party Settlements (Note 21)	-	-	-	-	-
County Hospital General Obligation Bonds (Note 21)	-	-	-	-	-
Special Assessment Bonds (Note 14)	-	-	-	-	-
Revenue Bonds (Note 14)	-	-	-	-	529,500
General Obligation Bonds (Note 14)	-	-	-	-	-
Total Liabilities	2,311,928	6,191,563	84,190	4,824	537,725
<u>Fund Equity and Other Credits</u>					
Investment in General Fixed Assets	-	-	-	-	-
Contributed Capital (Note 2)	-	-	-	-	2,209,413
Retained Earnings:					
Unreserved	-	-	-	-	(704,705)
Fund Balance:					
Reserved for Encumbrances	43,543	434,746	-	39,500	-
Reserved for Inventory	-	222,897	-	-	-
Reserved for Debt Service	-	-	111,210	-	-
Undesignated	1,572,071	5,831,670	-	493,066	-
Total Fund Equity and Other Credits	1,615,614	6,489,313	111,210	532,566	1,504,708
Total Liabilities, Fund Equity and Other Credits	\$ 3,927,542	\$ 12,680,876	\$ 195,400	\$ 537,390	\$ 2,042,433

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

Fiduciary Fund Type	Account Groups		Totals	Component Units	Totals
	General	General	Primary Gov't		Reporting
	Fixed	Long-Term	(Memorandum		Entity
Agency	Assets	Obligations	Only)	2002	(Memorandum
			2002		Only)
					2002
\$ 3,878	\$ -	\$ -	\$ 593,030	\$ 1,379,298	\$ 1,972,328
-	-	-	17,124	-	17,124
59,125	-	-	574,117	1,729,522	2,303,639
-	-	757,824	758,386	-	758,386
70,483	-	-	167,828	-	167,828
-	-	-	22,755	-	22,755
19,219,651	-	-	19,295,006	-	19,295,006
-	-	-	7,005,753	-	7,005,753
174,798	-	-	174,798	-	174,798
18,530	-	-	18,530	3,638	22,168
-	-	105,072	382,764	-	382,764
-	-	289,103	289,103	977,618	1,266,721
-	-	-	-	156,636	156,636
-	-	-	-	3,819,855	3,819,855
-	-	84,190	84,190	-	84,190
-	-	-	529,500	-	529,500
-	-	598,758	598,758	-	598,758
19,546,465	-	1,834,947	30,511,642	8,066,567	38,578,209
-	7,768,926	-	7,768,926	-	7,768,926
-	-	-	2,209,413	-	2,209,413
-	-	-	(704,705)	-	(704,705)
-	-	-	517,789	-	517,789
-	-	-	222,897	-	222,897
-	-	-	111,210	-	111,210
-	-	-	7,896,807	9,198,612	17,095,419
-	7,768,926	-	18,022,337	9,198,612	27,220,949
\$ 19,546,465	\$ 7,768,926	\$ 1,834,947	\$ 48,533,979	\$ 17,265,179	\$ 65,799,158

HOCKING COUNTY, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED DECEMBER 31, 2002

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Revenues:					
Taxes	\$ 3,371,702	\$ 3,277,758	\$ -	\$ -	\$ 6,649,460
Charges for Services	886,408	1,220,762	-	-	2,107,170
Licenses and Permits	2,394	80,872	-	-	83,266
Fines and Forfeitures	172,159	156,188	-	-	328,347
Intergovernmental	819,768	10,584,304	-	463,501	11,867,573
Special Assessments	-	-	11,283	-	11,283
Investment Earnings	207,531	6,904	-	-	214,435
All Other Revenues	75,731	708,507	-	-	784,238
Total Revenues	5,535,693	16,035,295	11,283	463,501	22,045,772
Expenditures:					
Current:					
General Government:					
Legislative and Executive	1,841,296	620,283	-	-	2,461,579
Judicial	1,094,209	259,221	-	-	1,353,430
Public Safety	1,385,127	959,417	-	-	2,344,544
Public Works	21,597	2,792,117	-	-	2,813,714
Health	43,456	2,774,952	-	-	2,818,408
Human Services	161,970	6,979,907	-	-	7,141,877
Economic Development and Assistance	66,989	624,568	-	-	691,557
Conservation and Recreation	213,179	-	-	-	213,179
Miscellaneous	464,880	-	-	-	464,880
Capital Outlay	81,396	149,600	-	1,006,950	1,237,946
Debt Service:					
Principal Retirement	43,927	117,009	70,728	-	231,664
Interest and Fiscal Charges	3,921	22,968	38,551	-	65,440
Total Expenditures	5,421,947	15,300,042	109,279	1,006,950	21,838,218
Excess of Revenues Over (Under) Expenditures	113,746	735,253	(97,996)	(543,449)	207,554

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

HOCKING COUNTY, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED DECEMBER 31, 2002

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Other Financing Sources (Uses):					
Proceeds from the Sale of Fixed Assets	-	2,595	-	-	2,595
Inception of Capital Lease	81,396	149,600	-	-	230,996
Operating Transfers - In	35,000	472,124	97,450	127,000	731,574
Operating Transfers - Out	(498,124)	(233,228)	-	-	(731,352)
Total Other Financing Sources (Uses)	(381,728)	391,091	97,450	127,000	233,813
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	(267,982)	1,126,344	(546)	(416,449)	441,367
Fund Balances at Beginning of Year	1,883,596	5,421,797	111,756	949,015	8,366,164
Increase (Decrease) in Fund Inventory	-	(58,828)	-	-	(58,828)
Fund Balances at End of Year	<u>\$ 1,615,614</u>	<u>\$ 6,489,313</u>	<u>\$ 111,210</u>	<u>\$ 532,566</u>	<u>\$ 8,748,703</u>

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

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

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Taxes	\$ 3,165,258	\$ 3,317,933	\$ 152,675	\$ 3,652,791	\$ 3,220,708	\$ (432,083)
Charges for Services	867,941	888,270	20,329	928,669	1,210,358	281,689
Licenses and Permits	2,285	2,394	109	81,373	79,348	(2,025)
Fines and Forfeitures	161,690	169,373	7,683	439,935	153,619	(286,316)
Intergovernmental	757,085	811,598	54,513	12,455,713	10,220,956	(2,234,757)
Special Assessments	-	-	-	-	-	-
Investment Income	200,976	210,525	9,549	1,208	7,556	6,348
All Other Revenues	273,467	100,223	(173,244)	811,433	794,421	(17,012)
Total Revenues	5,428,702	5,500,316	71,614	18,371,122	15,686,966	(2,684,156)
Expenditures:						
Current:						
General Government:						
Legislative and Executive	2,000,061	1,869,529	130,532	646,891	624,589	22,302
Judicial	1,109,640	1,097,310	12,330	416,092	266,369	149,723
Public Safety	1,449,808	1,441,023	8,785	1,342,431	1,138,532	203,899
Public Works	36,400	21,526	14,874	3,148,645	3,008,070	140,575
Health	49,915	44,868	5,047	3,050,335	2,805,355	244,980
Human Services	185,449	162,003	23,446	7,982,785	7,305,855	676,930
Economic Development and Assistance	72,629	69,029	3,600	781,875	636,980	144,895
Conservation and Recreation	214,390	213,179	1,211	-	-	-
Miscellaneous	466,636	464,880	1,756	-	-	-
Capital Outlay	-	-	-	-	-	-
Debt Service:						
Principal Retirement	-	-	-	38,729	38,728	1
Interest and Fiscal Charges	-	-	-	10,052	10,052	-
Total Expenditures	5,584,928	5,383,347	201,581	17,417,835	15,834,530	1,583,305
Excess of Revenues Over (Under) Expenditures	(156,226)	116,969	273,195	953,287	(147,564)	(1,100,851)

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

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

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Other Financing Sources (Uses):						
Proceeds from Sale of Fixed Assets	-	-	-	-	2,595	2,595
Proceeds from the Sale of General Obligation Notes	200,000	277,692	77,692	-	-	-
Advances - In	-	6,000	6,000	-	21,755	21,755
Advances - Out	-	(27,755)	(27,755)	-	-	-
Operating Transfers - In	41,480	35,000	(6,480)	532,231	472,124	(60,107)
Operating Transfer - Out	(522,639)	(498,124)	24,515	(236,346)	(233,228)	3,118
Total Other Financing Sources (Uses)	(281,159)	(207,187)	73,972	295,885	263,246	(32,639)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	(437,385)	(90,218)	347,167	1,249,172	115,682	(1,133,490)
Appropriated Prior Year Encumbrances	60,163	60,163	-	635,710	635,710	-
Fund Balances at Beginning of Year	1,533,220	1,533,220	-	4,332,868	4,332,868	-
Fund Balance at End of Year	<u>\$ 1,155,998</u>	<u>\$ 1,503,165</u>	<u>\$ 347,167</u>	<u>\$ 6,217,750</u>	<u>\$ 5,084,260</u>	<u>\$ (1,133,490)</u>

(Continued)

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

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

	Debt Service Funds			Capital Projects Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Charges for Services	-	-	-	-	-	-
Licenses and Permits	-	-	-	-	-	-
Fines and Forfeitures	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Special Assessments	28,806	11,283	(17,523)	-	-	-
Investment Income	-	-	-	-	-	-
All Other Revenues	690	-	(690)	-	-	-
Total Revenues	29,496	11,283	(18,213)	-	-	-
Expenditures:						
Current:						
General Government:						
Legislative and Executive	-	-	-	-	-	-
Judicial	-	-	-	-	-	-
Public Safety	-	-	-	-	-	-
Public Works	-	-	-	-	-	-
Health	-	-	-	-	-	-
Human Services	-	-	-	-	-	-
Economic Development and Assistance	-	-	-	-	-	-
Conservation and Recreation	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
Capital Outlay	-	-	-	900,102	582,949	317,153
Debt Service:						
Principal Retirement	70,822	70,728	94	-	-	-
Interest and Fiscal Charges	37,050	38,550	(1,500)	-	-	-
Total Expenditures	107,872	109,278	(1,406)	900,102	582,949	317,153
Excess of Revenues Over (Under) Expenditures	(78,376)	(97,995)	(19,619)	(900,102)	(582,949)	317,153

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

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

	Debt Service Funds			Capital Projects Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Other Financing Sources (Uses):						
Proceeds from Sale of Fixed Assets	-	-	-	-	-	-
Proceeds from the Sale of General Obligation Notes	-	-	-	-	-	-
Advances - In	-	-	-	-	-	-
Advances - Out	-	-	-	-	-	-
Operating Transfers - In	111,959	97,450	(14,509)	309,482	127,000	(182,482)
Operating Transfer - Out	(300)	-	300	-	-	-
Total Other Financing Sources (Uses)	111,659	97,450	(14,209)	309,482	127,000	(182,482)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	33,283	(545)	(33,828)	(590,620)	(455,949)	134,671
Appropriated Prior Year Encumbrances	-	-	-	-	-	-
Fund Balances at Beginning of Year	111,756	111,756	-	953,839	953,839	-
Fund Balance at End of Year	<u>\$ 145,039</u>	<u>\$ 111,211</u>	<u>\$ (33,828)</u>	<u>\$ 363,219</u>	<u>\$ 497,890</u>	<u>\$ 134,671</u>

(Continued)

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

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

	Totals-Memorandum Only		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Taxes	\$ 6,818,049	\$ 6,538,641	\$ (279,408)
Charges for Services	1,796,610	2,098,628	302,018
Licenses and Permits	83,658	81,742	(1,916)
Fines and Forfeitures	601,625	322,992	(278,633)
Intergovernmental	13,212,798	11,032,554	(2,180,244)
Special Assessments	28,806	11,283	(17,523)
Investment Income	202,184	218,081	15,897
All Other Revenues	1,085,590	894,644	(190,946)
	23,829,320	21,198,565	(2,630,755)
Expenditures:			
Current:			
General Government:			
Legislative and Executive	2,646,952	2,494,118	152,834
Judicial	1,525,732	1,363,679	162,053
Public Safety	2,792,239	2,579,555	212,684
Public Works	3,185,045	3,029,596	155,449
Health	3,100,250	2,850,223	250,027
Human Services	8,168,234	7,467,858	700,376
Economic Development and Assistance	854,504	706,009	148,495
Conservation and Recreation	214,390	213,179	1,211
Miscellaneous	466,636	464,880	1,756
Capital Outlay	900,102	582,949	317,153
Debt Service:			
Principal Retirement	109,551	109,456	95
Interest and Fiscal Charges	47,102	48,602	(1,500)
	24,010,737	21,910,104	2,100,633
Excess of Revenues Over (Under) Expenditures	(181,417)	(711,539)	(530,122)

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

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

	Totals-Memorandum Only		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Other Financing Sources (Uses):			
Proceeds from Sale of Fixed Assets	-	2,595	2,595
Proceeds from the Sale of			
General Obligation Notes	200,000	277,692	77,692
Advances - In	-	27,755	27,755
Advances - Out	-	(27,755)	(27,755)
Operating Transfers - In	995,152	731,574	(263,578)
Operating Transfer - Out	(759,285)	(731,352)	27,933
	435,867	280,509	(155,358)
Total Other Financing Sources (Uses)			
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	254,450	(431,030)	(685,480)
Appropriated Prior Year Encumbrances	695,873	695,873	-
Fund Balances at Beginning of Year	6,931,683	6,931,683	-
Fund Balance at End of Year	\$ 7,882,006	\$ 7,196,526	\$ (685,480)

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

HOCKING COUNTY, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENSES,
 AND CHANGES IN FUND EQUITY/FUND BALANCES
 PROPRIETARY FUND TYPE AND DISCRETELY PRESENTED COMPONENT UNITS
 FOR THE YEAR ENDED DECEMBER 31, 2002

	Primary Government	Component Units	Totals Reporting Entity (Memorandum Only)
	Enterprise		
Operating Revenues:			
Charges for Services	\$ 185,858	\$ 726,251	\$ 912,109
Patient Service Revenues	-	22,295,821	22,295,821
Contributed Services from County	-	277,608	277,608
Other Operating Revenues	4,315	118,842	123,157
Total Operating Revenues	190,173	23,418,522	23,608,695
Operating Expenses:			
Personal Services	25,626	11,525,692	11,551,318
Contractual Services	88,119	3,966,698	4,054,817
Materials and Supplies	5,668	4,770,981	4,776,649
Provision for Bad Debts	-	1,057,465	1,057,465
Donated Services	-	277,606	277,606
Other	7,831	4,693	12,524
Depreciation and Amortization	67,024	1,027,071	1,094,095
Total Operating Expenses	194,268	22,630,206	22,824,474
Operating Income (Loss)	(4,095)	788,316	784,221
Nonoperating Revenues (Expenses):			
Investment Income (Losses)	-	(17,057)	(17,057)
Interest and Fiscal Charges	(27,009)	(317,313)	(344,322)
Transfers to Affiliates	-	(313,001)	(313,001)
Other	6,000	693,654	699,654
Total Nonoperating Revenues (Expenses)	(21,009)	46,283	25,274
Net Income (Loss) before Operating Transfers	(25,104)	834,599	809,495
Operating Transfers Out	(222)	-	(222)
Net Income (Loss)	(25,326)	834,599	809,273
Retained Earnings/Fund Balances at Beginning of the Year	(679,379)	8,364,013	7,684,634
Retained Earnings/Fund Balances at End of Year	(704,705)	9,198,612	8,493,907
Contributed Capital at Beginning of Year	2,209,413	-	2,209,413
Contributed Capital at End of Year	2,209,413	-	2,209,413
Total Fund Equity/Fund Balances at End of Year	\$ 1,504,708	\$ 9,198,612	\$ 10,703,320

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

HOCKING COUNTY, OHIO
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND EQUITY - BUDGET (NON-GAAP BASIS) AND ACTUAL
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2002

	Enterprise Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Charges for Services	\$ 239,271	\$ 167,492	\$ (71,779)
Other Revenues	6,164	4,315	(1,849)
	245,435	171,807	(73,628)
Total Revenues			
Expenses:			
Personal Services	41,092	25,656	15,436
Contractual Services	125,010	88,329	36,681
Materials and Supplies	6,975	6,173	802
Capital Outlay	15,000	6,122	8,878
Other	-	-	-
Debt Service:			
Principal Retirement	6,500	6,500	-
Interest and Fiscal Charges	27,009	27,009	-
	221,586	159,789	61,797
Total Expenses			
Excess of Revenues Over (Under) Expenses Before Operating Transfers	23,849	12,018	(11,831)
Operating Transfers Out	(222)	(222)	-
Excess of Revenues Over (Under) Expenses	23,627	11,796	(11,831)
Appropriated Prior Year Encumbrances	1,183	1,183	-
Fund Equity at Beginning of Year	75,801	75,801	-
Fund Equity at End of Year	\$ 100,611	\$ 88,780	\$ (11,831)

The notes to the general purpose financial statements are an integral part of these statements.

HOCKING COUNTY, OHIO
 COMBINED STATEMENT OF CASH FLOWS
 PROPRIETARY FUND TYPE AND DISCRETELY PRESENTED COMPONENT UNITS
 FOR THE YEAR ENDED DECEMBER 31, 2002

	Primary Government	Component Units	Totals Reporting Entity (Memorandum Only)
	Enterprise		
Cash Flows from Operating Activities:			
Cash Received from Customers	\$ 167,492	\$ 22,894,924	\$ 23,062,416
Cash Received from Other Revenues	4,315	118,842	123,157
Cash Payments to Suppliers for			
Goods and Services	(92,421)	(8,393,975)	(8,486,396)
Cash Payments for Employee			
Services and Benefits	(25,656)	(11,324,509)	(11,350,165)
Cash Payments for Other Operating Expenses	(7,831)	(4,693)	(12,524)
Net Cash Provided by (Used for) Operating Activities	<u>45,899</u>	<u>3,290,589</u>	<u>3,336,488</u>
Cash Flows from Noncapital Financing Activities:			
Operating Transfers Out	(222)	-	(222)
Interest Payments	-	(397)	(397)
Transfers to Affiliates	-	(313,001)	(313,001)
Other Nonoperating Revenues	-	693,654	693,654
Net Cash Used for Noncapital Financing Activities	<u>(222)</u>	<u>380,256</u>	<u>380,034</u>
Cash Flows from Capital and Related Financing Activities:			
Bond and Note Principal Payments	(6,500)	(266,572)	(273,072)
Bond and Note Interest Payments	(27,009)	(316,916)	(343,925)
Capital Lease Payments	-	(359,914)	(359,914)
Capital Outlay	(5,000)	(2,224,476)	(2,229,476)
Net Cash Used for Capital and Related Financing Activities	<u>(38,509)</u>	<u>(3,167,878)</u>	<u>(3,206,387)</u>
Cash Flows from Investing Activities:			
Decrease in Investments, Net	-	172,204	172,204
Increase in Other Receivables	-	(12,353)	(12,353)
Interest Income (Loss) on Investments	-	(17,057)	(17,057)
Net Cash Used in Investing Activities	<u>-</u>	<u>142,794</u>	<u>142,794</u>
Net Increase (Decrease) in Cash and Cash Equivalents	7,168	645,761	652,929
Cash and Cash Equivalents at Beginning of Year	76,984	1,235,624	1,312,608
Cash and Cash Equivalents at End of Year	<u>\$84,152</u>	<u>\$1,881,385</u>	<u>\$1,965,537</u>

(Continued)

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

HOCKING COUNTY, OHIO
 COMBINED STATEMENT OF CASH FLOWS
 PROPRIETARY FUND TYPE AND DISCRETELY PRESENTED COMPONENT UNITS
 FOR THE YEAR ENDED DECEMBER 31, 2002

	Primary Government	Component Units	Totals Reporting Entity (Memorandum Only)
	Enterprise		
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:			
Operating Income (Loss)	\$ (4,095)	\$ 788,316	\$ 784,221
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:			
Depreciation and Amortization	67,024	1,027,071	1,094,095
Provision for Bad Debts	-	1,057,465	1,057,465
Changes in Assets and Liabilities:			
(Increase) in Accounts Receivable	(18,366)	(127,150)	(145,516)
(Increase) in Inventory	-	(51,573)	(51,573)
Decrease in Prepays	-	4,050	4,050
Decrease in Third Party Settlements	-	374,133	374,133
Increase in Accounts Payable/Contracts Payable	1,445	17,094	18,539
Increase in Deposits Held and Due to Others	-	5,246	5,246
Increase in Due to Other Governments	19	-	19
(Decrease) in Accrued Wages and Benefits	(30)	195,937	195,907
(Decrease) in Due to Other Funds	(98)	-	(98)
Total Adjustments	49,994	2,502,273	2,552,267
Net Cash Provided by (Used for) Operating Activities	\$ 45,899	\$ 3,290,589	\$ 3,336,488

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

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HOCKING COUNTY, OHIO
Notes to The General Purpose Financial Statements
For the year ended December 31, 2002

NOTE 1 - REPORTING ENTITY AND BASIS OF PRESENTATION

Hocking County, Ohio (The County), was organized on March 1, 1818. 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 County Auditor, County Treasurer, Recorder, Clerk of Courts, Coroner, Engineer, Prosecuting Attorney, Sheriff, Municipal Court Judge, a Probate/Juvenile Judge and a Common Pleas Court Judge. 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 the chief administrators of public services for the entire County.

Reporting Entity: The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the County are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the County. For Hocking County, this includes the Hocking County Board of Mental Retardation and Development Disabilities, Hocking County Children Services Board, Hocking County Child Support Enforcement Agency, and departments and activities that are directly operated 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 levying of taxes.

Discretely Presented Component Units: The component units' column in the general purpose financial statements identify the combined financial data of the County's component units, Hocking Valley Industries, Inc. and Hocking Valley Community Hospital. Note 20 provides condensed financial information by individual component unit. Notes 21 and 22 provide component unit disclosures for Hocking Valley Community Hospital and Hocking Valley Industries, Inc., respectively. They are reported separately from the primary government to emphasize that they are legally separate from the County.

Hocking Valley Industries, Inc. - Hocking Valley Industries, Inc. is a legally separate, not-for-profit corporation, served by a self-appointing board of trustees. Hocking Valley Industries, Inc., under contractual agreement with the Hocking County Board of Mental Retardation and Developmental Disabilities, provides habilitation services for the mentally and physically handicapped adults in Hocking County. Hocking Valley Industries, Inc. operates on a fiscal year ending December 31.

The Hocking County Board of Mental Retardation and Developmental Disabilities provides Hocking Valley Industries with staff salaries and other funds and support necessary for the operation of Hocking Valley Industries, Inc. Based on the significant services and resources provided by the County to Hocking Valley Industries, Inc. and the non-profit organization's sole purpose of providing assistance to the mentally and physically handicapped adults of Hocking County, Hocking Valley Industries, Inc. is presented as a component unit of Hocking County. Separately issued audited financial statements can be obtained from Hocking Valley Industries, Inc., 1369 East Front Street, Logan, Ohio 43138.

HOCKING COUNTY, OHIO

Notes to The General Purpose Financial Statements - Continued

NOTE 1 - REPORTING ENTITY AND BASIS OF PRESENTATION - Continued

Discretely Presented Component Units: - Continued

Hocking Valley Community Hospital - Hocking Valley Community Hospital is organized as a county hospital under provisions of the general statutes of the State of Ohio. The Board of Trustees are appointed by the county commissioners and the probate and common pleas court judges. The Hospital began operations in 1966 and has a 61-bed acute care unit and a 30-bed skilled nursing unit. Hocking Valley Community Hospital operates on a fiscal year ending December 31. The County has issued debt on behalf of the Hospital using the County's general taxing authority and the Hospital pays the debt service on this debt. Because the Hospital is a county hospital as defined under the Ohio Revised Code and the County does use their taxing authority to issue debt on behalf of the Hospital, the Hospital is presented as a component unit of Hocking County. Separately issued audited financial statements can be obtained from Hocking Valley Community Hospital, 601 State Route 664 North, Logan, Ohio 43138.

The County is associated with certain organizations, 3 of which are defined as Jointly Governed Organizations, and one joint venture. These organizations are presented in Note 17 and 18 to the General Purpose Financial Statements. These organizations are:

- Athens-Hocking-Vinton Alcohol, Drug Addiction and Mental Health District
- Athens-Hocking Joint Solid Waste Management District
- Buckeye Joint-County Self-Insurance Council
- Corrections Commission of Southeastern Ohio

As the custodian of public funds, the County Treasurer invests all public monies held on deposit in the County treasury. In the case of the districts listed below, the County serves as fiscal agent, but the districts are not fiscally dependent on the County. Accordingly, the activity of the following districts and agencies are presented as agency funds within the County's financial statements.

- Hocking County Soil and Water Conservation District
- Hocking County General Health District

Basis of Presentation - Fund Accounting: The County uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain County functions or activities.

A fund is defined as a fiscal and accounting entity with a self balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes herein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. For financial statement presentation purposes, the various funds of the County are grouped into the following generic fund types under the broad fund categories governmental, proprietary and fiduciary.

Governmental Fund Types: Governmental funds are those through which most governmental functions of the County are financed. The acquisition, use and balances of the County's expendable financial resources and the related current liabilities (except those accounted for in enterprise funds) are accounted for through governmental funds. The following are the County's governmental fund types:

HOCKING COUNTY, OHIO

Notes to The General Purpose Financial Statements - Continued

NOTE 1 - REPORTING ENTITY AND BASIS OF PRESENTATION - Continued

General Fund This fund is used to account for all financial resources of the County 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.

Special Revenue Funds These funds are used to account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditure for specified purposes.

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

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

Proprietary Fund Type: The proprietary funds are used to account for the County's ongoing activities, which are similar to those, found in the private sector. The following is the proprietary fund type utilized by the County:

Enterprise Funds These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Fiduciary Fund Type: Fiduciary funds are used to account for assets held by the County in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. The following is the County's fiduciary fund type:

Agency Funds These funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

Account Groups: To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group The General Fixed Assets Account Group is used to account for all fixed assets of the County, other than those fixed assets accounted for in the enterprise funds.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to accounting principles generally accepted in the U.S.A. for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board and other recognized authoritative sources. Condensed financial information on the County's discretely presented component units can be found in Note 20 to the general purpose financial statements. Notes 21 and 22 provide component unit disclosures for Hocking Valley Community Hospital and Hocking Valley Industries, Inc., respectively.

HOCKING COUNTY, OHIO

Notes to The General Purpose Financial Statements - Continued

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental and agency funds. 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 a modified accrual basis, revenues are recognized in the fiscal year in which the resources are measurable and become available. Measurable means the amount of the transaction can be determined. Available means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current year. The available period for the County is sixty days after year-end.

Non-exchange transactions, in which the County receives value without directly giving equal value in return, include property taxes, permissive sales taxes, local government, local government revenue assistance, homestead/rollback, gasoline tax, motor vehicle license tax, undivided library, and federal and state grants. On the modified accrual basis of accounting the property taxes are recognized as receivables in the year in which the tax was levied. The permissive sales taxes, various State of Ohio non-reimbursable grants, local government, local government revenue assistance, gasoline tax, motor vehicle license tax, and undivided library taxes are recognized as receivables in accordance with the fiscal year of the State of Ohio that ends June 30, 2003. Therefore six months of receivables have been recorded for these revenue types. Revenues from grants and entitlements are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements included timing requirements, which specify the year when the resources are required to be used or the fiscal 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.

The County reports deferred revenue on its combined balance sheet. Deferred revenue arises when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Property taxes measurable as of December 31, 2002, and delinquent property taxes, whose availability is indeterminable and which are intended to finance 2003 operations, have been recorded as deferred revenue. In addition permissive sales taxes, various State of Ohio non-reimbursable grants, local government, local government revenue assistance, gasoline tax, motor vehicle license tax, and undivided library taxes received after the sixty day availability period have been recorded as deferred revenue.

HOCKING COUNTY, OHIO

Notes to The General Purpose Financial Statements - Continued

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Most expenditures are measurable and are recorded when the related fund liability is incurred. Principal and interest on general and special assessment long-term debt are recorded as fund liabilities when due, and costs of accumulated unpaid vacation and sick leave are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by employees. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

The enterprise funds are reported using the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable, and expenses are recognized at the time they are incurred, if measurable. Under the guidelines of GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities that use Proprietary Fund Accounting*, the County has elected not to apply Financial Accounting Standards Boards Statements and Interpretations issued after November 30, 1989, to its proprietary activities.

Budgetary Process: The budgetary process is prescribed by provisions of the Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, 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 and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, legally are required to be budgeted and appropriated. The legal level of budgetary control is at the object level within each department. Budgetary modifications may only be made by resolution of the County Commissioners.

Tax Budget: A budget of estimated revenues and expenditures is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 15 of each year, for the period January 1 to December 31 of the following year.

Estimated Resources: The County Budget Commission reviews estimated revenues and determines if the budget substantiates a need to levy all or part of previously authorized taxes. The Commission certifies its actions to the County by September 1. As part of this certification, the County receives the official certificate of estimated resources, which states the estimated beginning of year fund balance and projected revenue of each fund. Prior to December 31, the County must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. On or about January 1, the certificate of estimated resources is amended to include actual unencumbered balances from the preceding year. The certificate may be amended further during the year if the County Auditor determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statements reflect the amounts in the final amended official certificate of estimated resources issued during 2002.

Appropriations: A temporary appropriation resolution to control expenditures may be passed on or around January 1 of each year for the period January 1 to March 31. An annual appropriation resolution must be passed by April 1 of each year for the period January 1 to December 31. The appropriation resolution may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year only by a resolution of the Commissioners. The County Commissioners legally enacted several supplemental appropriation resolutions during the year. The budget figures that appear in the statements of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

HOCKING COUNTY, OHIO

Notes to The General Purpose Financial Statements - Continued

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Budgeted Level of Expenditures: Administrative control is maintained through the establishment of detailed line-item budgets. Appropriated funds may not be expended for purposes other than those designated in the appropriation resolution without authority from the Commissioners. Expenditures plus encumbrances may not legally exceed appropriations at the level of appropriation. Commissioners' appropriations are made to fund, department and object level (i.e., General Fund - Commissioners - personal services, fringe benefits, supplies and materials, contractual services and other expenditures).

Encumbrances: As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are encumbered and recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year end are reported as reservations of fund balances for subsequent-year expenditures for governmental funds and reported in the notes to the financial statements for enterprise funds.

Lapsing of Appropriations: At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and is not reappropriated.

Cash and Cash Equivalents: The County has adopted GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*; however, the County did not have any investments during 2002, so there was no impact on the financial statements. Cash balances of the County's funds, except cash held by a trustee or fiscal agent and in segregated accounts, are pooled and invested in interest bearing accounts and short-term certificates of deposit in order to provide improved cash management. Each fund type's share of the pool is presented on the balance sheet in the account "Equity with County Treasurer." For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, funds included within the Treasurer's cash management pool and investments with original maturities of three months or less are considered to be cash and cash equivalents. Cash and cash equivalents that are held separately within departments of the County and not held with the County Treasurer are recorded on the balance sheet as "Cash and Cash Equivalents in Segregated Accounts." Interest is distributed to the General Fund, the Motor Vehicle Gas Tax Fund, and the Sheriff LEBG Fund. Interest earned during 2002 amounted to \$214,435.

Nonparticipating investment contracts such as certificates of deposit are reported at cost.

Inventory of Supplies: Inventories of governmental funds are stated at cost while inventories of enterprise funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental fund types when purchased. Reported supplies inventory is equally offset by a fund balance reserve in the governmental funds that indicates that it does not constitute available expendable resources even though it is a component of net current assets.

Prepaid Items: Payments made to vendors for services that will benefit periods beyond December 31, 2002, are recorded as prepaid items by using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and expenditure is reported in the year in which services are consumed. As of December 31, 2002, the County did not have any significant prepaid items.

HOCKING COUNTY, OHIO

Notes to The General Purpose Financial Statements - Continued

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Interfund Assets and Liabilities: Receivables and payables resulting from transactions between funds for services provided or goods received are classified as "Due from Other Funds" or "Due to Other Funds" on the balance sheet.

Fixed Assets and Depreciation: In the case of land, buildings, and certain Enterprise Fund assets, the fixed asset values initially were determined at December 31, 1995, assigning original acquisition costs when such information was available. In cases where information supporting original costs was not available, estimated historical costs were developed. Donated fixed assets are capitalized at estimated fair value on the date donated. For all other assets, fixed assets were recorded at original cost. The County has implemented a comprehensive inventory management system over the past several years to monitor and track fixed assets and related depreciation. The County has established a capitalization policy of \$1,000 as the threshold for which fixed assets are to be reported. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements that extend the useful life or increase the capacity or operating efficiency of the asset are capitalized at cost.

General Fixed Assets: General fixed assets (fixed assets used in governmental fund type operations) are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group at historical cost or estimated historical cost. Assets in the general fixed assets account group are not depreciated.

Public domain (infrastructure) general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems are not capitalized or reported, as these assets are immovable and of value only to the County. The County does not include the assets related to Hocking Valley Community Hospital nor the Hocking Valley Industries, Inc. in the General Fixed Assets Account Group. Such assets are reported as part of the component unit.

Enterprise Fund Fixed Assets: Fixed assets reflected in the enterprise funds are stated at historical cost (or estimated historical cost) and are updated for the cost of additions and retirements during the year. Depreciation has been provided on a straight-line basis over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Vehicles	5
Sewer treatment plants	25
Sewer lines and related assets	40-50

Compensated Absences: The County uses the provisions of GASB Statement No. 16, *Accounting for 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 that the employer will compensate the employees for the benefits through paid time off or some other means. 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 by those employees for whom it is probable will become eligible to receive payment in the future. The amount is based on accumulated sick leave and employees' wage rates at year-end.

HOCKING COUNTY, OHIO

Notes to The General Purpose Financial Statements - Continued

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

County employees earn vacation and sick leave at varying rates depending on length of service and departmental policy. All accumulated, unused vacation time is paid upon separation if the employee has at least one year of service. Accumulated, unused sick leave is paid up to a maximum of 240 hours depending on the length of service.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. The entire amount of compensated absences is reported as a fund liability for the enterprise funds.

Intergovernmental Revenues: For governmental funds, intergovernmental revenues, such as grants awarded on a non-reimbursement basis, shared revenues, and entitlements are recorded as receivables and revenues when measurable and available. Reimbursement-type grants are recorded as receivables and revenues when the related expenditures are incurred. Grants, entitlements or shared revenues received for enterprise fund operating purposes are recognized as non-operating revenues in the accounting period in which they are earned and become measurable.

Contributed Capital: Contributed capital represents resources from other funds, other governments, private sources, and tap-in fees, to the extent they exceed the cost of physical connection to the system, which have been provided to the enterprise funds and are not subject to repayment. Contributed capital was recorded by the County for receipts of capital grants or contributions prior to the implementation of GASB Statements No. 33 and 36 in 2001.

Reserves of Fund Equity: The County records reservations for those portions of fund balance, which are legally segregated for specific future use or which do not represent available, spendable resources and, therefore, are not available for expenditure. Undesignated fund balance indicates that portion of fund equity that is available for appropriation in future periods. Fund balance reserves have been established for encumbrances, debt service, and inventory of supplies.

Long-Term Debt: Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term obligations account group.

HOCKING COUNTY, OHIO

Notes to The General Purpose Financial Statements - Continued

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Interfund Transactions: During the course of normal operations, the County has numerous transactions between funds, most of which are in the form of transfers of resources to provide services, construct assets and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Operating subsidies are also recorded as operating transfers. Nonrecurring and non-routine transfers of equity between funds and the transfer of residual balances of discontinued funds or projects to the general fund or capital projects funds are classified as residual equity transfers.

Transactions that constitute reimbursements for expenditures or expenses initially made from a fund that are properly allocable to another fund are recorded as expenditures or expenses in the reimbursing fund and as reductions of the expenditures and expenses in the fund that is reimbursed.

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

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Legal Compliance: The following funds had expenditures plus encumbrances in excess of appropriations at December 31, 2002:

<i>Special Revenue Funds</i>	
Marriage License	
Health	\$11,169
Lodging Tax	
General Government- Legislative & Executive	30,226
<i>Debt Service Fund</i>	
Human Services Building Bond Retirement	
Debt Service - Interest	1,500

HOCKING COUNTY, OHIO

Notes to The General Purpose Financial Statements – Continued

NOTE 4 - CONVERSION OF OPERATIONS FROM BUDGET BASIS TO GAAP BASIS

While reporting financial position, results of operations, and changes in fund balance on the basis of accounting principles generally accepted in the United States of America (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 Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual - All Governmental Fund Types and the Combined Statement of Revenues, Expenses, and Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual - Proprietary Fund Type 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/expenses 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/expenses (budget basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis). Material encumbrances are disclosed in the notes for the enterprise funds (GAAP basis).
4. Proceeds from and principal payments on short-term note obligations are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).
5. For proprietary funds, the acquisition and construction of capital assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).

Adjustments necessary to convert the results of operations at the end of the year on the Budget basis to the GAAP basis are as follows:

Excess of Revenues and Other Financing Sources				
Over (Under) Expenditures and Other Financing Uses				
All Governmental Fund Types				
	<u>General</u>	<u>Special</u>	<u>Debt</u>	<u>Capital</u>
	<u> </u>	<u>Revenue</u>	<u>Service</u>	<u>Projects</u>
GAAP Basis	\$ (267,982)	\$ 1,126,344	\$ (546)	\$ (416,449)
 Increases (Decreases) Due To:				
Revenue Accruals	(35,378)	(348,329)	18,465	-
Expenditure Accruals	98,103	524,501	(18,464)	-
Advances In	6,000	21,755	-	-
Advances Out	(27,755)	-	-	-
Inception of Capital Lease	(81,396)	(149,600)	-	-
Proceeds from Short Term Note	277,692	-	-	-
Encumbrances	<u>(59,502)</u>	<u>(1,058,989)</u>	<u>-</u>	<u>(39,500)</u>
 Budget Basis	 <u>(90,218)</u>	 <u>115,682</u>	 <u>(545)</u>	 <u>(455,949)</u>

HOCKING COUNTY, OHIO

Notes to The General Purpose Financial Statements – Continued

NOTE 4 - CONVERSION OF OPERATIONS FROM BUDGET BASIS TO GAAP BASIS - Continued

Net Loss/Excess of Revenues Over (Under) Expenses Proprietary Fund Type	
	Enterprise
GAAP Basis	\$ (25,326)
Increases (Decreases) Due To:	
Revenue Accruals	(9,323)
Expense Accruals	(5,876)
Capital Outlay	(5,000)
Depreciation	67,024
Note Principal Payment	(6,500)
Encumbrances	(3,203)
Budget Basis	\$ 11,796

NOTE 5 - DEPOSITS AND INVESTMENTS

Policies and Procedures: The County has adopted GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. However, at December 31, 2002, the County did not hold any investments. State Statute classifies moneys held by the County into two categories. Active moneys means an amount of public moneys determined to be necessary to meet current demand upon the County treasury. Active moneys must be maintained either as cash in the County treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

1. Bonds, notes, or other obligations of, or guaranteed by, the United States, or those for which the faith of the United States is pledged for the payment of principal and interest;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality;
3. Written repurchase and reverse repurchase agreements in the securities listed above;
4. Bond and other obligations of the State of Ohio, its political subdivision, or other units or agencies of this State or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;

HOCKING COUNTY, OHIO

Notes to The General Purpose Financial Statements – Continued

NOTE 5 - DEPOSITS AND INVESTMENTS – Continued

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

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

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.

Deposits. At year-end, the carrying amount of the County's deposits was \$10,679,790. The County had \$197,696 of cash on hand at year-end and the bank balance was \$10,936,431. Of the bank balance, \$477,587 was covered by federal depository insurance. The remaining amounts were considered uninsured and uncollateralized. Although all Ohio statutory requirements for the collateralization of deposits had been followed, non-compliance with federal requirements could potentially prevent the County from exercising a successful claim as a secured creditor against the FDIC and render them a general creditor for the uncollateralized amount.

Investments. Statutory provisions require that the County Treasurer hold all securities acquired by the County or deposit them with a qualified trustee pursuant to Section 135.18, Revised Code.

GASB Statement No. 3 *Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements* requires that local governments disclose the carrying amounts and fair value of investments classified by risk. Category 1 includes investments that are insured or registered for which the County holds the securities. Category 2 includes uninsured and unregistered investments for which the securities are held in the counter party'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 counter party or by its trust department but not in the County's name. The County held no investments as of December 31, 2002.

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. Because there are no differences between investments per GASB Statement No. 9 and GASB Statement No. 3, no reconciliation is necessary.

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the County. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be reappraised every six years. The last reappraisal was completed in 1998. Real property taxes are payable annually or semiannually. The first payment is due February 14, with the remainder payable by July 18.

HOCKING COUNTY, OHIO

Notes to The General Purpose Financial Statements – Continued

NOTE 6 - PROPERTY TAXES – Continued

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are due October 17. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by October 17.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property currently is assessed at 88 percent of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Treasurer collects property tax on behalf of all taxing districts within the County. The County Auditor periodically remits to itself its share of the taxes collected. The County records receipt of these taxes in various funds.

Accrued property taxes receivables represent delinquent taxes outstanding and real, tangible personal, and public utility taxes that were measurable and unpaid as of December 31, 2002. Although total property tax collections for the next fiscal 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 2002 operations. The receivable is therefore offset by a credit to deferred revenue.

The full tax rate for all County operations for the year ended December 31, 2002, was \$11.20 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2002 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Estate	
Residential/Agricultural	\$ 295,962,870
Commercial/Industrial	38,821,030
Public Utilities	105,050
Minerals	1,103,410
Tangible Personal Property	
General	32,338,848
Public Utility	<u>46,730,650</u>
Total Property Taxes	<u>\$ 415,061,858</u>

HOCKING COUNTY, OHIO

Notes to The General Purpose Financial Statements – Continued

NOTE 7 - PERMISSIVE SALES TAX

In prior years, the County Commissioners, by resolution, imposed a one percent tax on certain retail sales, made in the County. Vendor collections of the tax are paid to the State Treasurer by the twenty-third day of the month following collection. The State Tax Commissioner certifies to the State Auditor the amount of the tax to be returned to the County. The Tax Commissioner's certification must be made within forty-five days after the end of each month. The State Auditor then has five days in which to draw the warrant payable to the County. Proceeds of the tax are credited entirely to the general fund. Amounts that have been collected by the State and are to be received within the available period are accrued as revenue. Sales and use tax revenue for 2002 amounted to \$2,015,510.

In 1998, a 911 Sales Tax in the amount of one quarter of one percent on certain retail sales made in the County was imposed. The proceeds from this tax are credited to the Hocking County 911 Fund and are used for 911 purposes. Amounts that have been collected by the State and are to be received within the available period are accrued as revenue. The 911 sales and use tax revenue for 2002 amounted to \$535,596.

NOTE 8 - FIXED ASSETS

A summary of the enterprise funds' fixed assets at December 31, 2002, are as follows:

	Enterprise
Land	\$ 39,401
Sewer Plants and Buildings	305,301
Vehicle	11,000
Sewer Lines and Related Assets	2,479,028
Total Fund Fixed Assets	2,834,730
Less: Accumulated Depreciation	(902,015)
Total Fund Fixed Assets (net of accumulated depreciation)	\$ 1,932,715

A summary of the changes in general fixed assets during 2002 is as follows:

Asset Category	Year Ended 12/31/2001	Additions	Disposals	Year Ended 12/31/2002
Land & Land Improvements	\$ 360,591	\$ -	\$ -	\$ 360,591
Buildings	1,271,449	40,032	-	1,311,481
Machinery & Equipment	2,546,584	168,186	92,624	2,622,146
Vehicles	2,931,239	202,287	56,288	3,077,238
Construction In Progress	-	397,470	-	397,470
Totals	\$ 7,109,863	\$ 807,975	\$ 148,912	\$ 7,768,926

HOCKING COUNTY, OHIO

Notes to The General Purpose Financial Statements – Continued

NOTE 9 - INTERGOVERNMENTAL RECEIVABLES (DUE FROM OTHER GOVERNMENTS)

A summary of the principal items of intergovernmental receivables is as follows:

Fund / Type	Amount
<i>General Fund</i>	
Grants	\$ 15,409
Local Government & Local Government Revenue Assistance	236,700
Homestead Rollback	84,500
Jail Confinement	2,401
<i>Total General Fund</i>	339,010
 <i>Special Revenue Funds</i>	
License, Gasoline, and Permissive Taxes	1,260,601
Grants and Entitlements	1,715,944
Homestead Rollback	123,450
Other	6,153
<i>Total Special Revenue Funds</i>	3,106,148
 <i>Agency Funds</i>	
License, Gasoline, and Permissive Taxes	400,900
Undivided Library Tax	450,450
Local Government & Local Government Revenue Assistance	465,030
<i>Total Agency Funds</i>	1,316,380
 Total All Funds	 \$ 4,761,538

NOTE 10 - RISK MANAGEMENT

The Buckeye Joint-County Self Insurance Council is jointly governed organization that serves Athens, Hocking, Jackson, Lawrence, Meigs, Monroe, Morgan, Noble, Perry, Pike, Vinton and Washington counties, and was formed as an Ohio non-profit corporation for the purpose of establishing an insurance pool to obtain general liability, law enforcement, professional and fleet insurance. Member counties provide operating resources to the corporation based on actuarially determined rates.

The degree of control exercised by any participating government is limited to its representation on the Board. The Governing Board is composed of at least one County Commissioner from each of the participating counties. The Governing Board annually elects officers that include a President, Vice President, Second Vice-President and two Governing Board members. The Governing Board must approve the expenditures and investments of funds by the officer unless the Governing Board has set specific limits.

HOCKING COUNTY, OHIO

Notes to The General Purpose Financial Statements – Continued

NOTE 10 - RISK MANAGEMENT –Continued

In the event of losses, the member will pay the first \$250 to \$1,000 of any valid claim depending on the type of loss. The next payment, with a maximum pay ranging from \$100,000 to \$ 1,000,000 per occurrence, will come from the self-insurance pool based on the member's percentage of contribution. If the aggregate claims paid by the pool exceed the available resources, the pool may require the members to make additional supplementary payments. Hocking County does not have any ongoing financial interest or responsibility.

The agreement between the County and the Council indicates that a voluntary withdrawal or termination by the county shall constitute a forfeiture of any pro-rata share of the council reserve fund.

In the event of the termination of the Council, current members shall be paid in an amount they have contributed to the Council as of the last month of the Council's existence. Current calculation of this potential residual interest is, therefore, not possible. During 2002, Hocking County paid \$72,620 to the Council for insurance coverage. This jointly governed organization is a cost-sharing pool.

The County pays the State Bureau of Worker's Compensation System a premium based on a rate per \$100 salary. This rate is calculated based upon accident history and administrative costs. The County pays all elected officials' bonds by statute.

NOTE 11- DEFINED BENEFIT RETIREMENT PLAN

Public Employees Retirement System: All Hocking County full-time employees, other than certified teachers with the Board of Mental Retardation and Developmental Disabilities (MR/DD), participate in the Public Employees Retirement System of Ohio (the "System"), a cost-sharing multiple-employer public employee retirement system created by the State of Ohio. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. The Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The 2002 employer contribution rate was 13.55% of covered payroll for employees other than law enforcement. The law enforcement employer rate was 16.70% of covered payroll. The employee contribution rates are 8.5% for employees other than law enforcement. In January 2001, House Bill 416 divided the PERS law enforcement program into two separate divisions with separate employee contribution rates and benefits. The law enforcement classification consisted of sheriffs, deputy sheriffs, and township police with an employee contribution rate of 10.1%. All other members of the PERS law enforcement program were placed in a newly named public safety division and continued to contribute at 9%. Hocking County's contributions to PERS for the years ended December 31, 2002, 2001, and 2000 were \$1,967,645, \$1,638,347, and \$1,371,083, respectively; 95.5% has been contributed for 2002 and 100% for years 2001 and 2000. Of the 2002 amount, \$87,927 was unpaid at December 31, 2002 and is recorded as a liability within the respective funds.

Effective July 1, 1991, all employees not otherwise covered by the Public Employees Retirement System have an option to choose social security or the Public Employees Retirement System/State Teachers Retirement System. As of December 31, 2002, none of the elected officials had elected social security.

HOCKING COUNTY, OHIO

Notes to The General Purpose Financial Statements - Continued

NOTE 12 - POSTEMPLOYMENT BENEFITS

Public Employees Retirement System: The Public Employees Retirement System of Ohio (the "System") provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post Employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the System is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The employer rate for employees other than law enforcement personnel was 13.55% of covered payroll; 5.0% was the portion that was used to fund health care for 2002. The law enforcement employer rate was 16.70% and 5.0% was used to fund health care for the year. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS.

The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2001. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2001 was 8.00%. An annual increase of 4.00% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range from 0.50% to 6.30%. Health care costs were assumed to increase 4.00% annually.

OPEBs are advance-funded on an actuarially determined basis. The number of active contributing participants was 402,041. The County contributions actually made to fund postemployment benefits during fiscal year 2002 were \$429,034. \$11.6 billion represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 2001 (the most recent data available). The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$16.4 billion and \$4.8 billion, respectively.

In December 2002, the Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of Health Care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan. The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

NOTE 13 - OTHER EMPLOYEE BENEFITS

Deferred Compensation Plans: The County offers the Ohio Public Employees Deferred Compensation Plan and the County Commissioners Association of Ohio Deferred Compensation Plan to its employees and elected officials. The plans were established in accordance with Internal Revenue Code 457, as well as ORC Sections 145.73 and 145.74. Participation in either plan is on a voluntary payroll deduction basis. These plans permit the deferral of compensation until future years. The deferred compensation is not available to employees until termination, retirement, death, or for an unforeseeable emergency. Both plans have implemented GASB Statement No. 32 in prior years. In accordance with the pronouncement, all assets and income of the plan are held in trust for the exclusive benefit of the participants and their beneficiaries.

HOCKING COUNTY, OHIO

Notes to The General Purpose Financial Statements - Continued

NOTE 14 - LONG-TERM DEBT

The County's long-term obligations at year-end consisted of the following:

<u>Types/Issues</u>	<u>Outstanding 12/31/01</u>	<u>Increases</u>	<u>Decreases</u>	<u>Outstanding 12/31/02</u>
<u>General Long-Term Obligations</u>				
General Obligation Bonds:				
1998 - 3.8 - 5.35%				
Consolidated County Building Bonds	\$ 620,000	\$ -	\$ 40,000	\$ 580,000
1995 - 8.5%				
County Annex Bonds	<u>41,986</u>	<u>-</u>	<u>23,228</u>	<u>18,758</u>
Total General Obligation Bonds	661,986	-	63,228	598,758
<u>Long-Term Notes</u>				
2000 - 6.85%				
Road Equipment Series Notes	25,000	-	25,000	-
2001 - 7.0%				
Land Mortgage Note	<u>118,800</u>	<u>-</u>	<u>13,728</u>	<u>105,072</u>
Total Long-Term Notes	143,800	-	38,728	105,072
<u>Special Assessment Bonds:</u>				
1996 - 5.5%				
Rockbridge Sewer Special Assessment Bonds	46,200	-	2,000	44,200
1991 - 5.875%				
Haydenville FmHA Special Assessment Bonds	33,200	-	2,500	30,700
1985 - 5.0%				
West Logan Water FmHA Special Assessment Bonds	<u>12,290</u>	<u>-</u>	<u>3,000</u>	<u>9,290</u>
Total Special Assessment Bonds	91,690	-	7,500	84,190
Obligations Under Capital Leases	180,315	230,996	122,208	289,103
Compensated Absence	<u>727,180</u>	<u>30,644</u>	<u>-</u>	<u>757,824</u>
Total General Long-Term Obligations	<u>\$ 1,804,971</u>	<u>\$ 261,640</u>	<u>\$ 231,664</u>	<u>\$ 1,834,947</u>
<u>Enterprise Fund</u>				
1996 - 4.5%				
Rockbridge Sanitary Sewer Revenue Bonds	325,900	-	3,800	322,100
1991 - 5.875%				
Haydenville Sewer FmHA Revenue Bonds	<u>210,100</u>	<u>-</u>	<u>2,700</u>	<u>207,400</u>
Total Enterprise Fund	<u>\$ 536,000</u>	<u>\$ -</u>	<u>\$ 6,500</u>	<u>\$ 529,500</u>

The General Obligation Bonds will be paid from the Debt Service Funds. The Land Mortgage Notes will be paid from the Auto Gas Fund (a Special Revenue Fund). The Special Assessment Bonds will be paid through special assessments levied on the benefiting property owners. In the event that a property owner would fail to pay the assessment, the County would make payment. Operating revenues generated from sewer fees will pay the Enterprise Fund Bonds. The compensated absences liability will be paid from the fund from which the employees are paid. Additions and deletions of accrued vacation and sick leave are shown net since it is impractical for the County to determine these amounts separately.

HOCKING COUNTY, OHIO

Notes to The General Purpose Financial Statements - Continued

NOTE 14 - LONG-TERM DEBT - Continued

The capital lease obligations will be repaid from the General Fund and the Motor Vehicle License Tax Fund as described in Note 15. As more fully described in Note 21, Hocking Valley Community Hospital is responsible for the debt service on the 1993 Hospital Refunding and Improvement Bonds and the 1997 County Hospital Improvement Bond Anticipation Note. The County is not reporting this debt as part of the County's Primary Government. The Hospital is responsible for paying off this debt; therefore, the debt is being reported within the Hocking Valley Community Hospital, a discretely presented component unit of the County. In the event that the Hospital would fail to pay the debt, the County would be responsible for making payment.

The following is a summary of the County's future principal and interest requirements for long-term debt obligations, including \$799,314 of interest:

	Consolidated Services Building Bonds	County Annex Bonds	Special Assessment Bonds	Sanitary Sewer Revenue Bonds	Total
2003	\$ 74,426	\$ 19,429	\$ 12,257	\$ 33,479	\$ 139,591
2004	72,358	-	11,945	33,533	117,836
2005	70,242	-	11,816	33,567	115,625
2006	73,082	-	8,592	33,481	115,155
2007	70,632	-	8,696	33,479	112,807
2008-2012	269,654	-	38,421	167,569	475,644
2013-2017	140,947	-	20,611	167,510	329,068
2018-2022	26,338	-	-	167,584	193,922
2023-2027	-	-	-	167,408	167,408
2028-2032	-	-	-	152,453	152,453
2033-2037	-	-	-	92,253	92,253
Totals	<u>\$ 797,679</u>	<u>\$ 19,429</u>	<u>\$ 112,338</u>	<u>\$ 1,082,316</u>	<u>\$ 2,011,762</u>

The Land Mortgage Notes (including interest of \$27,190) are payable as follows:

	<u>2001 Notes</u>
2003	\$ 22,044
2004	22,044
2005	22,044
2006	22,044
2007	22,044
2008	<u>22,042</u>
Totals	<u>\$ 132,262</u>

HOCKING COUNTY, OHIO

Notes to The General Purpose Financial Statements - Continued

NOTE 15 - CAPITAL LEASE OBLIGATIONS

The County entered into several agreements to lease an excavator and various vehicles during fiscal year 2002. The terms of the agreements provide options to purchase the equipment at the end of the leases. The leases meet the criteria of capital leases as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases," which defines a capital lease generally as one that transfers benefits and risks of ownership to the lessee. The excavator was for the Motor Vehicle License & Gas Fund and the vehicles were for the General Fund. The County has capital leases for which they are making principal and interest payments from previous years. For these leases and the new leases, principal and interest payments made during fiscal year 2002 were \$122,208 and \$23,486, respectively. For the leased assets acquired above, general fixed assets acquired by leases have been capitalized in the general fixed assets account group in an amount equal to the present value of the future minimum lease payments at the time of acquisition. A corresponding liability was recorded in the general long term obligations account group. The County's future minimum lease payments under capital lease obligations as of December 31, 2002 are as follows:

Fiscal Year	Capital Leases
2003	\$ 108,996
2004	86,858
2005	79,657
2006	25,915
2007	25,915
Total minimum lease payments	\$ 327,341
Less: amount representing interest	38,238
Present value of minimum lease payments	\$ 289,103

NOTE 16 - INTERFUND TRANSACTIONS

Interfund balances at December 31, 2002, consist of the following individual fund receivables and payables:

Fund Type/Fund	Due From Other Funds	Due To Other Funds
<i>General Fund</i>		
County Fund	\$ 31,773	\$ 3,339
<i>Total General Funds</i>	31,773	3,339
<i>Special Revenue Funds</i>		
Auto Gas Fund	5,374	-
Hocking County DHS/CSEA Fund	4,524	553
Marriage License - Special Fund	964	-
Drug Law Enforcement	95	-
Indigent Guardianship	410	-
Drug Law Enforcement - Sheriff	142	-
Human Services Fund	-	63,275
<i>Subtotal Special Revenue Funds</i>	11,509	63,828

HOCKING COUNTY, OHIO

Notes to The General Purpose Financial Statements - Continued

NOTE 16 - INTERFUND TRANSACTIONS - Continued

Fund Type/Fund	Due From Other Funds	Due To Other Funds
M entalRetardation Fund	-	789
Em ergency M edicalServices Fund	16,054	-
SeniorC itizens Fund	950	264
IndigentD rivers A lcoholT reatm ent Fund	242	-
Enforcem ent & Education Fund	85	-
Com puterized LegalResearch Fund	1,400	-
M unicipalCourt LegalResearch Fund	1,099	-
M unicipalC lerk's Com puter Fund	4,002	-
Children's Services Fund	52,683	-
Certificate of Title Adm inistrative	6,698	-
Juvenile Court Com puter Fund	433	-
Probate Court Com puter Fund	330	-
Com m on Pleas C lerk Com puter	925	-
Lodging Tax Fund	-	4,870
Early Start Fund	-	325
Fam ily & Children First Fund	27,703	23,930
<i>TotalSpecialRevenue Funds</i>	124,113	94,006
<i>Agency Funds</i>		
Soil & W aterConservation	-	69
Board of Health Fund	6,511	-
Juvenile Court	1,600	2,034
Hum an Services	-	4,524
Sheriff's O ffice	-	2,524
Probate Court Fund	-	3,798
Law Library	3,831	-
Em ergency M edicalServices Fund	-	16,054
C lerk of Courts Fund	-	16,317
M unicipalCourt Fund	-	25,163
<i>TotalAgency Funds</i>	11,942	70,483
TotalAllFunds	\$ 167,828	\$ 167,828
Fund Type/Fund	Interfund Receivable	Interfund Payable
<i>GeneralFund</i>	\$ 22,755	\$ -
<i>SpecialRevenue Funds</i>		
Hocking County Integrated Intervention/CCA	-	1,491
State Planning Grant	-	21,264
<i>TotalSpecialRevenue Funds</i>	-	22,755
TotalAllFunds	\$ 22,755	\$ 22,755

HOCKING COUNTY, OHIO

Notes to The General Purpose Financial Statements - Continued

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS

Athens-Hocking-Vinton Alcohol, Drug Addiction and Mental Health District

The County is a member of the Athens-Hocking-Vinton Alcohol, Drug Addiction and Mental Health District, which is a jointly governed organization of these three counties. The purpose of the District is to provide alcohol, drug addiction and mental health services to residents of each of these three counties. Each participating county has agreed to levy a tax within their county to assist in the operation of the District, whose passage requires a majority in the total three county district.

This entity is governed by an eighteen member board that is responsible for its own financial matters and operates autonomously from Hocking County. The Athens County Auditor serves as fiscal agent for the activities of the Board. Nine of the board members are appointed by the Ohio Department of Alcohol and Drug Addiction Service and the other four members are appointed by the Ohio Department of Mental Health. The District derives its revenue from local property taxes, intergovernmental grants and reimbursements, and other miscellaneous revenue. Hocking County has no ongoing financial interest or responsibility in this District.

Athens/Hocking Joint Solid Waste Management District

The County is a member of the Athens/Hocking Joint Solid Waste Management District, which is a jointly governed organization of these two counties. The purpose of the District is to make disposal of waste in the two-county area more comprehensive in terms of recycling, incinerating, and land filling. The District's sole revenue source is derived from a waste disposal fee for in-district and out-of-district waste. Although the counties contributed amounts to the District at the time of its creation, all contributions have since been returned to the respective counties and no future contributions by the counties are anticipated. Continued existence of the District is not dependent on the County's continued participation, no equity interest exists, and no debt is outstanding.

Buckeye Joint-County Self Insurance Council

The Buckeye Joint-County Self Insurance Council is a jointly governed organization that serves Athens, Hocking, Jackson, Meigs, Monroe, Morgans, Noble, Perry, Pike, Vinton, and Washington Counties and was formed as an insurance pool for the purpose of providing general liability, law enforcement, professional and fleet insurance. Member counties provide operating resources to the organization base on actuarially determined rates. The degree of control exercised by any participating government is limited to its representation on the Board. Hocking County does not have any ongoing interest or responsibility in the organization.

HOCKING COUNTY, OHIO

Notes to The General Purpose Financial Statements - Continued

NOTE 18 – JOINT VENTURE

Corrections Commission of Southeastern Ohio

The County is a participant with Athens, Morgan and Perry counties in the Corrections Commission of Southeastern Ohio (the Commission) which is a joint venture of the participating counties. The purpose of the Commission is to augment the county jail programs and facilities. The operation of the Commission allows for the humane and constitutional detention of persons who cannot be released to less restrictive alternatives. The participating Boards of County Commissioners established the Commission. The Commission is directed by the Sheriff of each participating county, the presiding Judge of the Court of Common Pleas of each participating county, and the current president of each participating Board of County Commissioners. Each county is obligated to provide financial support to this entity through per diem charges and assessments that are based on the number of beds contractually assigned to each county in proportion to the total number of beds of all participating counties. The County has an ongoing financial responsibility for this entity and, during 2002, contributed \$470,493 toward the operating and capital costs of this facility. However the County has no explicit equity interest in the Commission. Complete financial statements of the joint venture can be obtained from the Corrections Commission of Southeastern Ohio, 16678 Wolfe Bennett Road, Nelsonville, Ohio 45764.

NOTE 19 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The County maintains one enterprise fund for reporting purposes. This fund is intended to be self-supporting through user fees charged for services provided to consumers for sewage services. The component units, Hocking Valley Community Hospital and Hocking Valley Industries, Inc. were excluded because detailed financial information on these component units is presented in Note 20. Financial segment information as of and for the year ended December 31, 2002, is as follows:

	Hocking County Sewer Fund
Operating Revenues	\$ 190,173
Operating Expenses Before Depreciation	127,244
Depreciation Expense	67,024
Operating Loss	(4,095)
Nonoperating Revenues (Expenses):	
Interest and Fiscal Charges	(27,009)
Other	6,000
Operating Transfers Out	(222)
Net Loss	(25,326)
Net Working Capital	94,693
Total Assets	2,042,433
Revenue Bonds Payable	529,500
Total Fund Equity	1,504,708
Encumbrances Outstanding at December 31, 2002	3,203

HOCKING COUNTY, OHIO

Notes to The General Purpose Financial Statements - Continued

NOTE 20 - CONDENSED FINANCIAL INFORMATION FOR DISCRETELY PRESENTED COMPONENT UNITS

Balance Sheet	Hocking Valley Community Hospital	Hocking Valley Industries, Inc.	Total
Assets			
Cash and Cash Equivalents in			
Segregated Accounts	\$ 1,750,829	\$ 130,556	\$ 1,881,385
Investments in Segregated Accounts	248,510	-	248,510
Accounts Receivable	4,403,310	-	4,403,310
Materials and Supplies Inventory	242,376	12,288	254,664
Prepaid Items	13,988	-	13,988
Deferred Financing Costs	89,838	-	89,838
Other Assets	-	1,000	1,000
Third Party Settlements	-	-	-
Assets Whose Use is Limited - Under			
Bond Indenture Agreement	330,000	-	330,000
Other Receivables	3,346	-	3,346
Fixed Assets (Net of Accumulated Depreciation)	9,979,108	60,030	10,039,138
Total Assets	\$ 17,061,305	\$ 203,874	\$ 17,265,179
Liabilities and Fund Balances:			
Liabilities:			
Accounts Payable	\$ 1,379,298	\$ -	\$ 1,379,298
Accrued Wages and Benefits	1,729,522	-	1,729,522
Deposits Held and Due to Others	-	3,638	3,638
Capital Leases Payable	977,618	-	977,618
Third-Party Settlements	156,636	-	156,636
County Hospital Bonds &			
Long Term Notes	3,819,855	-	3,819,855
Total Liabilities	8,062,929	3,638	8,066,567
Fund Balances - Undesignated	8,998,376	200,236	9,198,612
Total Liabilities and Fund Balances	\$ 17,061,305	\$ 203,874	\$ 17,265,179

HOCKING COUNTY, OHIO

Notes to The General Purpose Financial Statements - Continued

NOTE 20 - CONDENSED FINANCIAL INFORMATION FOR DISCRETELY PRESENTED COMPONENT UNITS – Continued

Statement of Revenues, Expenses and Changes in Fund Balances

	Hocking Valley Community Hospital	Hocking Valley Industries, Inc.	Total
Operating Revenues:			
Charges for Services	\$ -	\$ 726,251	\$ 726,251
Patient Service Revenues	22,295,821	-	22,295,821
Other Operating Revenues	117,366	1,476	118,842
Contributed Services from County	-	277,608	277,608
Total Operating Revenues	22,413,187	1,005,335	23,418,522
Operating Expenses:			
Personal Services	10,912,104	613,588	11,525,692
Donated Services	-	277,606	277,606
Contractual Services	3,920,897	45,801	3,966,698
Materials and Supplies	4,706,343	64,638	4,770,981
Provision for Bad Debts	1,057,465	-	1,057,465
Other	-	4,693	4,693
Depreciation and Amortization	998,956	28,115	1,027,071
Total Operating Expenses	21,595,765	1,034,441	22,630,206
Operating Income (Loss)	817,422	(29,106)	788,316
Nonoperating Revenues (Expenses):			
Investment Income (Loss)	(18,971)	1,914	(17,057)
Interest and Fiscal Charges	(316,916)	(397)	(317,313)
Transfers to Affiliates	(313,001)	-	(313,001)
Other	693,654	-	693,654
Total Nonoperating Revenues (Expenses)	44,766	1,517	46,283
Excess of Revenues Over (Under) Expenses	862,188	(27,589)	834,599
Fund Balance at 1/1/02	8,136,188	227,825	8,364,013
Fund Balance at 12/31/02	\$ 8,998,376	\$ 200,236	\$ 9,198,612

HOCKING COUNTY, OHIO

Notes to The General Purpose Financial Statements - Continued

NOTE 21 - COMPONENT UNIT DISCLOSURES - HOCKING VALLEY COMMUNITY HOSPITAL

As indicated in Note 1 to the General Purpose Financial Statements, the following disclosures are made on behalf of Hocking Valley Community Hospital:

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - Hocking Valley Community Hospital (the Hospital), located in Hocking County, Logan, Ohio, is organized as a county hospital under provisions of the general statutes of the State of Ohio requiring no specific articles of incorporation. The organization is exempt from Federal income taxes. The Board of Trustees, appointed by the county commissioners and the probate and common pleas court judges, is charged with the management and operation of the Hospital, its finances and staff. The Hospital, which began operations in 1966, has a 61-bed acute care unit, a 30-bed skilled nursing unit and a 10 bed psychiatric unit. The Hospital is considered a component unit of Hocking County, Ohio and is included as a component unit in the general-purpose financial statements of Hocking County.

Basis of Presentation - The financial statements have been presented in conformity with accounting principles generally accepted in the United States of America as recommended in the Audit Guide (Health Care Organizations) published by the American Institute of Certified Public Accountants. The significant accounting policies conform to Accounting Principles Generally Accepted in the United States (GAAP) for governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. The Hospital also applies the Financial Accounting Standards Board Statements and Interpretations issued prior to November 30, 1989 to the extent that they do not contradict or conflict with GASB pronouncements.

Use of Estimates - The preparation of financial statements in conformity with accounting principles general accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Proprietary Fund Accounting - The Hospital utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis.

Charity Care - The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Attached to the grants are certain restrictions requiring the Hospital to provide an annual amount of uncompensated care to indigent patients. The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies, and equivalent service statistics. The amount of charity care not recorded as revenue was approximately \$504,809 and in 2002.

Net Patient Service Revenue and Patient Accounts Receivable - Normal billing rates for patient services less contractual adjustments are included in patient service revenue. Patient accounts receivable is adjusted for contractual allowances which are reported on the basis of preliminary estimates of the amounts to be received from third party payors. Final adjustments are recorded in the period such amounts are finally determined. In 2002, approximately 43% of the Hospital's total patient revenue was derived from Medicare payments while 18% was derived from Medicaid. The remaining revenue was derived primarily from commercial insurance payments and individual self-payments.

Investments - The Hospital's policy is to invest available funds in obligations of the U.S. Government, certificates of deposit, mutual funds and money market funds. Marketable equity securities owned by the Hospital were received through donations. The portfolio is carried at fair value.

Assets Whose Use is Limited - Assets whose use is limited consist of certificates of deposit restricted by the Trustee for maintenance of a minimum operating reserve in connection with the Hospital's Refunding and Improvement Bonds. The certificates are carried at fair value which approximates cost.

HOCKING COUNTY, OHIO

Notes to The General Purpose Financial Statements - Continued

NOTE 21 - COMPONENT UNIT DISCLOSURES - HOCKING VALLEY COMMUNITY HOSPITAL - Continued

Inventory - Inventories are stated at the lower of cost (first-in, first-out) or market.

Property, Plant and Equipment - Property, plant and equipment are reported on the basis of cost, except for donated items that are recorded at fair value at the date of the donation. Expenditures which materially increase values, change capacities, or extend useful lives are capitalized. Depreciation is computed using the straight-line method over the expected useful lives of depreciable assets. Equipment under capital leases is amortized using the straight-line method over the lesser of the lease term or the estimated useful life of the equipment.

Deferred Financing Costs - Deferred financing costs consist primarily of underwriter fees and other costs related to the issuance of the bonds and are being amortized over the life of the bonds based on the straight-line method. Accumulated amortization as of December 31, 2002 was \$24,674.

Cash and Cash Equivalents - The Hospital considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Risk Management - The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance is purchased for claims arising from such matters. Settled claims have not exceeded this coverage.

NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payment to the Hospital at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's billings at established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with major third-party payors follows:

- Inpatient acute care services rendered to Medicare and Medicaid program beneficiaries are paid at prospectively determined rates-per-discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors; and
- Certain other costs applicable to the Medicare and Medicaid programs are paid under a cost reimbursement methodology. As a result, final payment for these services will be determined after submission the Hospital's cost reports and audits by the third-party payors.

Effective August 1, 2000, Medicare initiated the Outpatient Prospective Payment System, whereby most outpatient services will be paid on a prospective basis. There are certain provisions that allow for transitional payments through 2004 if payment under the prospective method falls below what would have been paid on the cost method. Differences between the total program billed charges and the interim payments are reflected as deductions from revenues.

Gross patient service revenue and the allowances to reconcile to net patient service revenue for the year ended December 31, 2002 is as follows:

	<u>2002</u>
Gross patient service revenues	\$36,202,330
Less third-party allowances	<u>13,906,509</u>
Net patient service revenue	<u><u>\$22,295,821</u></u>

HOCKING COUNTY, OHIO

Notes to The General Purpose Financial Statements - Continued

NOTE 21 - COMPONENT UNIT DISCLOSURES - HOCKING VALLEY COMMUNITY HOSPITAL - Continued

DEPOSITS AND INVESTMENTS

The classification of cash and cash equivalents, assets whose use is limited and investments in the financial statements differs from criteria set forth in GASB Statement No. 3 *Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements*. A reconciliation between the general fund classifications of cash and cash equivalents, assets whose use is limited and investments in the financial statements and the classifications of deposits and investments per GASB Statement No. 3 is as follows:

	December 31, 2002		
	Cash and Cash Equivalents	Assets W hose Use is Lim ited	Investm ents
	Financial statement s	\$1,750,829	\$330,000
Government securities	-	-	(42,248)
M utual funds and equities	-	-	(51,226)
StarO hb	(97,956)	-	-
M erill Lynch cash m anagem ent account	(134,729)	-	-
Advest m oney m arket account	(293,551)	-	-
Cash on hand	(750)	-	-
	<u>\$1,223,843</u>	<u>\$330,000</u>	<u>\$155,036</u>
GASB Statement No. 3 deposits	<u>\$1,223,843</u>	<u>\$330,000</u>	<u>\$155,036</u>

Deposits - At December 31, 2002, the carrying amount of the Hospital's bank deposits for all funds is \$1,750,829 as compared to a bank balance of \$1,890,547. The difference in carrying amounts and bank balances are caused by outstanding checks and deposits in-transit. Of the bank balances, at December 31, 2002 \$110,000 is covered by Federal insurance programs and \$1,780,547, is collateralized with securities held by the financial institution or by its trust department or agent but not in the Hospital's name.

Investments - The Hospital's investments for GASB Statement 3 purposes are categorized below to give an indication of the level of risk assumed by the entity. Risk Category 1 includes those investments that meet any one of the following criteria: a) Insured; b) Registered; or c) Held by the Hospital or its agent in the Hospital's name.

Risk categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the Hospital's name. Category 3 includes investments held by a) the counterparty, or b) the counterparty's trust department (or agent), but not in the Hospital's name.

	December 31, 2002			Carrying Am ount
	1	Category 2	3	
Government securities	\$ -	\$ -	\$ 42,248	\$ 42,248
Certificates of deposit	-	485,036	-	485,036
M utual funds and equities	-	-	51,226	51,226
Total	<u>\$ -</u>	<u>\$ 485,036</u>	<u>\$ 93,474</u>	<u>\$ 578,510</u>

HOCKING COUNTY, OHIO

Notes to The General Purpose Financial Statements - Continued

NOTE 21 - COMPONENT UNIT DISCLOSURES - HOCKING VALLEY COMMUNITY HOSPITAL - Continued

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	2002
Land in p rove m e n t s	\$ 263,008
B u i l d i n g s a n d i n p rove m e n t s	11,664,647
E q u i p m e n t	7,850,736
E q u i p m e n t u n d e r c a p i t a l l e a s e o b l i g a t i o n s	2,422,841
T o t a l	22,201,232
Less accum u l a t e d d e p r e c i a t i o n	12,222,124
Property, p l a n t a n d e q u i p m e n t, n e t	\$ 9,979,108

MEDICARE AND MEDICAID THIRD-PARTY SETTLEMENTS

Reimbursement for Medicare and Medicaid patients is subject to audit and final settlements by the respective intermediaries. Final settlements have been reached with Medicare through 1999 and with Medicaid through 1997. The amounts reported in the financial statements represent the estimated settlements outstanding at December 31, 2002, which Hospital management believes will approximate final settlements after audit by the respective agencies.

LONG-TERM DEBT AND LEASES

Long-term debt consists of the following:

	December 31, 2002
County Hospital Refunding and Improvement Bonds, dated July 15, 1993:	
Serial bonds, rates ranging from 3.95% to 4.8%, principal each December 1 through 2003, ranging from \$150,000 to \$185,000, with interest due each June 1 and December 1.	\$ 185,000
Term bonds, 5.35%, due December 1, 2008, mandatory annual redemption beginning December 1, 2004, in installments ranging from \$195,000 to \$235,000, plus interest.	1,075,000
Term bonds, 5.45%, due December 1, 2013, mandatory annual redemption beginning December 1, 2009, in installments ranging from \$50,000 to \$65,000, plus interest.	290,000

HOCKING COUNTY, OHIO

Notes to The General Purpose Financial Statements - Continued

NOTE 21 - COMPONENT UNIT DISCLOSURES - HOCKING VALLEY COMMUNITY HOSPITAL - Continued

LONG-TERM DEBT AND LEASES – CONTINUED

County Hospital Improvement Bonds, dated March 3, 1999:	
Serial bonds, rates ranging from 3.3% to 4.65%, principal due each December 1 through 2013, ranging from \$90,000 to \$145,000, with interest due each June 1 and December 1.	1,310,000
Term bonds, 4.75%, due December 1, 2019, mandatory annual redemption beginning December 1, 2014 in installments ranging from \$150,000 to \$185,000, plus interest.	1,025,000
Less - bond discount	65,145
Total	3,819,855
Less current portion	280,000
Long-term debt, excluding current portion	\$ 3,539,855

In 1993, the Hospital received \$3,300,000 in proceeds from the issuance of Hocking County Hospital Refunding and Improvement Bonds (Refunding and Improvement Bonds), which was used to repay \$2,040,000 Hocking County Hospital Refunding Bonds (Refunding Bonds) before their scheduled maturity, repay a capital lease and construct certain Hospital improvements. The Hospital has agreed with the Hocking County Commissioners, as Trustee for the Refunding and Improvement Bonds, to maintain a minimum operating reserve of \$330,000.

The Hospital leases equipment under capital lease agreements, which generally require the Hospital to pay insurance and maintenance costs. These capital leases are due in monthly installments including interest at rates ranging from approximately 6.3% to 12.2%. They expire at various dates through March 2006 and are collateralized by the equipment leased.

	<u>December 31, 2002</u>
Cost of equipment under capital lease	\$ 2,422,841
Accumulated depreciation	1,356,581
Net carrying amount	\$ 1,066,260

HOCKING COUNTY, OHIO

Notes to The General Purpose Financial Statements - Continued

NOTE 21 - COMPONENT UNIT DISCLOSURES - HOCKING VALLEY COMMUNITY HOSPITAL – Continued

LONG-TERM DEBT AND LEASES – CONTINUED

Minimum payments on these obligations to maturity as of December 31, 2002 follows:

	Debt	Capital Leases	Total
Year:			
2003	\$ 280,000	\$ 447,122	\$ 727,122
2004	100,000	407,169	507,169
2005	105,000	221,691	326,691
2006	110,000	39,026	149,026
2007	115,000	-	115,000
Thereafter	3,175,000	-	3,175,000
Subtotal	3,885,000	1,115,008	5,000,008
Less interest	-	137,390	137,390
Less bond discount	65,145	-	65,145
Total	3,819,855	977,618	4,797,473
Less current portion	280,000	366,265	646,265
Long-term portion	\$ 3,539,855	\$ 611,353	\$ 4,151,208

PENSION PLAN

Plan Description - All Hospital employees are required to participate in the Public Employees Retirement System of Ohio (PERS), a cost sharing multiple-employer public employee retirement system. PERS provides retirement and disability benefits, annual cost-of-living adjustments, healthcare benefits and death benefits to plan members and beneficiaries. PERS issues a publicly available comprehensive annual financial report, which includes financial statements and required supplementary information for PERS. That report may be obtained by writing to Public Employees Retirement System of Ohio, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or (800) 222-PERS (7377).

Funding Policy - The required, actuarially-determined contribution rates for the Hospital and employee are 13.55% and 8.5%, respectively. The Hospital's contributions, representing 100% of employer contributions, for the last three years are as follows:

Year	Contribution
2002	\$1,106,423
2001	1,043,601
2000	781,737

PERS also provides post-retirement healthcare coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Healthcare coverage for disability recipients and primary survivor recipients is available. The healthcare coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB). A portion of each employer's contribution to PERS is set aside for the funding of post-retirement healthcare. The Ohio Revised Code provides statutory authority for employer contributions. The portion of the 2002 employer contribution rates of 13.55% used to fund healthcare was 5.0%. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement healthcare through their contributions to PERS.

HOCKING COUNTY, OHIO

Notes to The General Purpose Financial Statements - Continued

NOTE 21 - COMPONENT UNIT DISCLOSURES - HOCKING VALLEY COMMUNITY HOSPITAL - Continued

OPEB are financed through employer contributions and investment earnings thereon. The contributions allocated to retiree healthcare, along with investment income on allocated assets and periodic adjustments in healthcare provisions are expected to be sufficient to sustain the program indefinitely. The number of benefit recipients eligible for OPEB at December 31, 2002, was 402,041.

PROFESSIONAL LIABILITY INSURANCE

The Hospital has professional liability insurance with a commercial carrier. Coverage is \$1,000,000 per occurrence and \$3,000,000 in the aggregate. In addition, the Hospital has umbrella coverage of \$1,000,000 per occurrence and \$1,000,000 in the aggregate. The policy also requires that certain members of the medical staff carry professional liability coverage of no less than \$1,000,000 per occurrence and \$1,000,000 in the aggregate. The Hospital's coverage is on a claims made basis.

DEFERRED COMPENSATION

Employees of the Hospital may elect to participate in the Ohio Public Employees Deferred Compensation Program (Program), a deferred compensation plan under Internal Revenue Code Section 457. Under the Program, employees may elect to defer a portion of their pay until a later date, usually after retirement. The deferred pay and any income earned thereon are not subject to federal and state income taxes until actually received by the employee.

RELATED PARTIES

The Hocking Valley Community Hospital Memorial Fund, Inc. (Foundation) was organized as a separate not-for-profit membership corporation. The purpose of the Foundation is to solicit gifts for the benefit of the Hospital. The Board of Directors of the Foundation is elected by the Foundation's members. The accompanying financial statements do not include the assets, obligations, revenues or expenses of the Foundation.

Hocking Valley Health Services (HVHS), is a not-for-profit membership corporation located in Logan, Ohio. The purpose of HVHS is to provide healthcare and physician services and to own, lease, operate and/or provide healthcare facilities for the promotion of health in the area served by the Hospital. Additionally, HVHS is to conduct strategic healthcare planning and otherwise operate exclusively for the benefit and support of the Board of Governors of the Hospital. The Board of Trustees of HVHS are elected by HBHS's members of whom fifty percent of the voting rights are controlled by the Board of Governors of the Hospital.

Hocking Valley Medical Group, Inc. (HVMG) was organized as a separate not-for-profit stock professional corporation. The purpose of HVMG is to engage in the practice, and to render the professional services, of medicine and to further the charitable purposes of the Foundation and the Hospital. At December 31, 2002 the sole shareholder of HVMG has entered an agreement with the Foundation and HVMG that states the shares of HVMG will be voted as directed by the Foundation. The accompanying financial statements do not include the assets, obligations, revenues or expenses of HVMG. During 2002, the Hospital transferred \$313,001 to HVMG. These transfers are reflected in the changes in fund balance.

HOCKING COUNTY, OHIO

Notes to The General Purpose Financial Statements – Continued

NOTE 21 - COMPONENT UNIT DISCLOSURES - HOCKING VALLEY COMMUNITY HOSPITAL - Continued

RELATED PARTIES – CONTINUED

The Hospital entered into a 10-year non-cancelable lease with the Foundation for the Medical Arts Building. The Hospital is responsible for utilities, taxes, maintenance and insurance in addition to the rental payments of \$6,256 per month. Future minimum rental payments for the years ending December 31 are as follows:

2003	\$ 75,075
2004	75,075
2005	75,075
2006	75,075
2007	75,075
Thereafter	<u>131,381</u>
Total minimum lease payments	<u>\$ 506,756</u>

SUBSEQUENT EVENTS

Subsequent to December 31, 2002 the Hospital entered into capital leases for radiology and other equipment with a capitalized cost and capital lease obligation of approximately \$746,000.

NOTE 22 - COMPONENT UNIT DISCLOSURES - HOCKING VALLEY INDUSTRIES, INC.

As indicated in Note 1 to the General Purpose Financial Statements, the following disclosures are made on behalf of Hocking Valley Industries, Inc.:

ORGANIZATION AND OPERATIONS

Hocking Valley Industries, Inc. is incorporated in the State of Ohio. The Organization provides habilitation services for the mentally and physically handicapped.

ACCOUNTING POLICIES

Equipment is stated at cost and includes expenditures for new equipment and those which significantly extend the useful lives of existing equipment. Maintenance, repairs and renewals are expensed as incurred. When properties are retired or otherwise disposed of, the related cost and allowances for depreciation are removed from respective accounts and any gain or loss is included in the statement of income.

Depreciation is computed using the accelerated cost recovery system and the modified accelerated depreciation system (straight-line) as appropriate. The cost of property, plant and equipment is depreciated over the estimated useful lives of the related assets.

Basis of accounting - The accompanying financial statements have been prepared on the cash basis. Consequently, certain revenues and expenses are recognized in the determination of income in different reporting periods than they would be if the financial statements were prepared in conformity with generally accepted accounting principles.

Inventory is priced at lower of cost or market, principally first-in, first-out.

Use of Estimates - The preparation of financial statements in conformity with cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

HOCKING COUNTY, OHIO

Notes to The General Purpose Financial Statements – Continued

NOTE 22 - COMPONENT UNIT DISCLOSURES - HOCKING VALLEY INDUSTRIES, INC. - Continued

ACCOUNTING POLICIES – CONTINUED

Advertising costs- Advertising costs are expensed as incurred. Advertising expense for the years then ended December 31, 2002 was \$532.

TAX STATUS

The Agency is a nonprofit voluntary agency, exempt from income tax under Section 501 (c) (3) of the U.S. Internal Revenue Code. The nonprofit corporation is in compliance with the Internal Revenue Code in its respective filings of Form 990, Return of Organization Exempt from Income Tax.

LEASES

The Agency is leasing its premises from Hocking County Board of Mental Retardation and Developmental Disabilities (169 Board). Effective for the three-year period July 1, 1999 through June 30, 2002, these payments were to be \$850 per month. During 2001, the lease was renegotiated and for the period of August 1, 2001 through December 2001 no rent was required. Lease expense (rent) for the year ended December 31, 2002 was \$10,200. In 2002, rent payments were resumed, and are stipulated (subject to renegotiation) at the rate of \$850 per month for the contract period of July 1, 2002 through June 30, 2005.

The following is a schedule of remaining lease payments as last determined:

2003	\$ 10,200
2004	10,200
2005	<u>5,100</u>
Total lease payments	<u>\$25,500</u>

IN-KIND CONTRIBUTIONS

In-kind contributions represent the value of salaries, administrative services, facilities rent and capital costs provided by Hocking County. This amount is taken from the In-Kind Contribution Report submitted by the County Board and has not been independently verified.

NOTE 23 – CONSTRUCTION COMMITMENTS OUTSTANDING

The County had several major projects in process as of December 31, 2002. Significant outstanding construction contracts are listed below:

<u>Name of Contractor</u>	<u>Contract Award Amount</u>	<u>Outstanding Balance</u>
Shelly & Sands	\$627,299	\$627,299
PDK Construction	413,227	413,227
Oglesby Construction	17,266	17,266

NOTE 24 – NEW ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board has issued GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – For State and Local Governments*. The phase-in period of this accounting principle will require the County to implement the change for the year ended December 31, 2003. The County is preparing for this change in accounting principle, but has elected not to early implement it for fiscal year 2002.

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Hocking County Financial Condition
Hocking County
Schedule of Federal Awards Expenditures
For the Year Ended December 31, 2002

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U. S. Department of Housing & Urban Development			
<i>Passed through the Ohio Department of Development</i>			
Community Development Block Grants		14.228	
Formula Grant	G10635		\$104,886
Formula Grant	G20436		106,431
Community Housing Improvement Program	G20526		<u>347,346</u>
Total Community Development Block Grants			558,663
HOME Investment Partnership Program	G20525	14.239	<u>45,724</u>
Total U. S. Department of Housing & Urban Development			604,387
U. S. Department of Justice			
<i>Direct from the Federal Government</i>			
Drug Court Discretionary Grant Program	N	16.585	153,482
<i>Passed through the Ohio Office of Attorney General</i>			
Crime Victim Assistance Grant	VAGENE220	16.575	31,810
<i>Passed through the Ohio Department of Criminal Justice Services</i>			
Byrne Formula Grant Program	DG-F01-7336	16.579	58,235
Local Law Enforcement Block Grants Program	LE-LEB-3544	16.592	25,000
<i>Passed through the Ohio Department of Public Safety - Emergency Management Agency</i>			
State Domestic Preparedness Equipment Support Program	N/A	16.007	<u>13,371</u>
Total U. S. Department of Justice			281,898
U.S. Department of Labor			
<i>Passed through the State Department of Job & Family Services</i>			
Workforce Initiative Allocation Cluster:			
WIA Adult Program	N/A	17.258	229,512
WIA Youth Activities	N/A	17.259	200,818
WIA Dislocated Workers	N/A	17.260	<u>177,829</u>
Total Workforce Initiative Allocation Cluster			608,159
Total U. S. Department of Labor			608,159
U. S. Department of Transportation			
<i>Passed through the Ohio Department of Transportation</i>			
Highway Planning and Construction	N/A	20.205	230,832
Emergency Planning and Community Right to Know	N/A	20.703	<u>11,329</u>
Total U. S. Department of Transportation			242,161
Federal Emergency Management Assistance Act			
<i>Passed through the Ohio Department of Public Safety - Emergency Management Agency</i>			
Emergency Management Performance Grants	N/A	83.552	<u>11,791</u>
Total Federal Emergency Management Assistance Act			11,791
U.S. Department of Education			
<i>Passed through the Hocking County Family and Children's First Council</i>			
Special Education: Grants for Infants and Families with Disabilities	N/A	84.181A	<u>25,898</u>
Total U. S. Department of Education			25,898
U.S. Department of Health & Human Services			
<i>Passed through the State Department of MRDD</i>			
Social Services Block Grant - Title XX	N/A	93.667	31,798
Medical Assistance Program	N/A	93.778	<u>239,212</u>
Total U. S. Department of Health & Human Services			271,010
Total Federal Financial Assistance			<u>\$2,045,304</u>

N - Direct Award
N/A - Pass through entity number not available
See Accompanying Notes to the Schedule of Federal Awards Expenditures

**HOCKING COUNTY FINANCIAL CONDITION
HOCKING COUNTY**

NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards expenditures is a summary of the activity of the County's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - FEDERAL FUNDS NOT REPORTED

Certain federal funds received by the Hocking County Department of Jobs and Family Services are not included in this schedule due to the fact that the funds are both reported and audited at the State of Ohio level of government.

NOTE C - MATCHING FUNDS

Certain federal programs require that the County contribute non-federal funds (matching funds) to support the federally-funded programs. The expenditures of non-federal matching funds is not included on the schedule.

NOTE D - COMMUNITY DEVELOPMENT GRANT PROGRAM

Hocking County administers a loan program with funds provided by the U.S. Department of Housing and Urban Development, through the Ohio Department of Development, under the Community Development Block CHIP Grant Program. The purpose of this program is to provide loans to low and moderate income families for building improvements. The loans are provided as declining mortgage loans with the intent that they do not have to repay the loans unless they leave the residence before ten years. As of December 31, 2002, the total amount of loans outstanding was \$70,624.

BALESTRA & COMPANY

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Ohio Society of Certified Public Accountants

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of County Commissioners
Hocking County
1 East Main Street
Logan, Ohio 43138

We have audited the general purpose financial statements of Hocking County (the County), as of and for the year ended December 31, 2002 and have issued our report thereon dated June 26, 2003. We did not audit the financial statements of Hocking Valley Community Hospital and Hocking Valley Industries, Inc., which are included as a discrete presentation in the County's general purpose financial statements. These financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion insofar as it relates to the amounts included for Hocking Valley Community Hospital and Hocking Valley Industries, Inc., is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the management of the County in a separate letter dated June 26, 2003.

Internal Control Over Financial Reporting

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

Board of County Commissioners

Hocking County

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Page 2

This report is intended solely for the information and use of the audit committee, management, the Board of County Commissioners, and 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.

Balestra & Company

Balestra & Company

June 26, 2003

BALESTRA & COMPANY

(A division of Harr & Scherer CPAs, Inc.)

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Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Board of County Commissioners
Hocking County
1 East Main Street
Logan, Ohio 43138

Compliance

We have audited the compliance of Hocking 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 its major federal program for the year ended December 31, 2002. Hocking County's major federal program is 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 its major federal program is the responsibility of the County's management. Our responsibility is to express an opinion on Hocking 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 with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County's compliance with those requirements.

In our opinion, Hocking County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2002. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2002-001.

Board of County Commissioners
Hocking County

Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Page 2

Internal Control Over Compliance

The management of Hocking County is responsible for establishing and maintaining effective internal control over compliance with the 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 the internal control over compliance in accordance with OMB Circular A-133.

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

This report is intended solely for the information and use of the audit committee, management, County Commissioners, and 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.

Balestra & Company
Balestra & Company

June 26, 2003

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 SECTION .505**

**HOCKING COUNTY FINANCIAL CONDITION
HOCKING COUNTY
DECEMBER 31, 2002**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under section .510?	Yes
(d)(1)(vii)	Major Programs (list):	Community Development Block Grant, CFDA #14.228
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 SECTION .505**

**HOCKING COUNTY FINANCIAL CONDITION
HOCKING COUNTY
DECEMBER 31, 2002**

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

Finding Number	None
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3. FINDINGS FOR FEDERAL AWARDS

Finding Number	2002-001
CFDA Title and Number	Community Development Block Grants, CFDA #14.228
Federal Award Number/Year	2002
Federal Agency	U.S. Department of Housing and Urban Development
Pass-Through Agency	Ohio Department of Development

Noncompliance Citation

Fifteen Day Rule Violation

The *Ohio Department of Development's Office of Housing and Community Partnership Financial Management Rules and Regulations Handbook* states that "funds drawn down should be limited to amounts that will enable the grantee to disburse the funds on hand to a balance of less than \$5,000 within fifteen days of receipt of any funds." The County was not in compliance with the fifteen day rule for most all drawdowns received. The County should develop a cash management system to ensure compliance with the fifteen day rule relating to prompt disbursement of funds.

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2002-001	The County Commissioners will more closely monitor the CDBG cash balances in order to ensure the County's compliance with the fifteen day rule.	December 31, 2003	Hocking County Commissioners

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505**

**HOCKING COUNTY FINANCIAL CONDITION
HOCKING COUNTY
DECEMBER 31, 2002**

Finding Number	Finding Summary	Fully Corrected	Not Corrected; Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-001	Program Income and Cash Management (Workforce Investment Act Program)	No	Not corrected. Management is working on a system of breaking down the WIA fund balances for purposes of allocating interest and managing cash on hand to meet the immediate needs of the WIA program. See current year management letter comment.
2001-002	Internal Controls - Individual Training Accounts (Workforce Investment Act Program)	Yes	Corrected.



**Auditor of State
Betty Montgomery**

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FINANCIAL CONDITION

HOCKING 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
SEPTEMBER 4, 2003**