



**Auditor of State
Betty Montgomery**

HIGHLAND COUNTY
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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Highland County
200 Governor Foraker Place
Hillsboro, Ohio 45133

To the Board of County Commissioners:

We have audited the accompanying financial statements of Highland County, Ohio (the County), as of and for the year ended December 31, 2003, as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Ohio Administrative Code, Section 117-2-03 (B) requires the County to prepare its annual financial report in accordance with generally accepted accounting principles. However, as discussed in Note 1, the County prepares its financial statements on the basis of accounting in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual reports in accordance with generally accepted accounting principles. This basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash, investments, and combined fund cash balances of Highland County, Ohio, as of December 31, 2003, and its combined cash receipts and disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements and encumbrances for the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2004 on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

This report is intended solely for the information and use of management, elected officials, federal awarding agencies and pass-through entities, and other officials authorized to receive this report under Section 117.26, of the Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

December 15, 2004

HIGHLAND COUNTY

COMBINED STATEMENT OF CASH, INVESTMENTS,
AND FUND CASH BALANCES - ALL FUND TYPES
AS OF DECEMBER 31, 2003

Cash and Cash Equivalents	\$719,290
Investments	<u>7,293,076</u>
Total cash and investments	<u><u>\$8,012,366</u></u>

CASH BALANCES BY FUND TYPE

Governmental funds:	
General fund	\$502,037
Special revenue funds	3,915,482
Debt service funds	826,055
Capital projects funds	135,769
Proprietary funds:	
Enterprise funds	654,552
Fiduciary funds:	
Expendable trust funds	80,871
Agency funds	<u>1,897,600</u>
Total	<u><u>\$8,012,366</u></u>

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

HIGHLAND COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2003

	Governmental Fund Types					Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
Cash Receipts:						
Local Taxes	\$4,466,807	\$2,394,651	\$0	\$0	\$0	\$6,861,458
Intergovernmental	1,120,680	11,791,621	260,643	900,908		14,073,852
Special Assessments			481,584			481,584
Charges for Services	1,563,239	305,881				1,869,120
Licenses, Permits, and Fees	5,285					5,285
Fines, Forfeitures, and Penalties	103,614	48,866				152,480
Earnings on Investments	68,841	6,846	104	2,605		78,396
Other Revenue	408,967	775,781	-	-	4,018	1,188,766
Total Cash Receipts	7,737,433	15,323,646	742,331	903,513	4,018	24,710,941
Cash Disbursements:						
Current:						
General Government - Legislative and Executive	2,214,188	410,890				2,625,078
General Government - Judicial	1,296,927					1,296,927
Public Safety	2,391,955	113,256				2,505,211
Public Works	174,668	7,507,127				7,681,795
Health	53,902	1,081,559				1,135,461
Human Services	180,135	6,051,663				6,231,798
Miscellaneous	1,438,806	648,188			293	2,087,287
Debt Service:						
Redemption of Principal - Bonds			267,900			267,900
Redemption of Principal - Notes			3,447,425			3,447,425
Interest and Fiscal Charges			577,791			577,791
Capital Outlay			32,114	2,454,911		2,487,025
Total Cash Disbursements	7,750,581	15,812,683	4,325,230	2,454,911	293	30,343,698
Total Receipts Over/(Under) Disbursements	(13,148)	(489,037)	(3,582,899)	(1,551,398)	3,725	(5,632,757)
Other Financing Receipts/(Disbursements):						
Proceeds from the Sale of Notes			1,715,828			1,715,828
Transfers-In	80,001	429,800	1,228,480	374,461		2,112,742
Advances-In	48,964	67,971	229,049	229,049		575,033
Transfers-Out	(1,016,271)	(474,763)	(570,000)	(621,708)		(2,682,742)
Advances-Out	(46,914)	(70,021)	(229,049)	(229,049)		(575,033)
Other Sources	153,032	767,918	90,908	148,192		1,160,050
Other Uses	(372,274)	(217,165)				(589,439)
Total Other Financing Receipts/(Disbursements)	(1,153,462)	503,740	2,465,216	(99,055)	-	1,716,439
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(1,166,610)	14,703	(1,117,683)	(1,650,453)	3,725	(3,916,318)
Fund Cash Balances, January 1 (As Restated)	1,668,647	3,900,779	1,943,738	1,786,222	77,146	9,376,532
Fund Cash Balances, December 31	\$502,037	\$3,915,482	\$826,055	\$135,769	\$80,871	\$5,460,214
Reserve for Encumbrances, December 31	\$9,934	\$185,523	\$0	\$3,643	\$0	\$199,100

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

HIGHLAND COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN FUND CASH BALANCES -
PROPRIETARY FUND TYPE AND AGENCY FUNDS -
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>PROPRIETARY FUND TYPE</u>	<u>FIDUCIARY FUND TYPE</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating cash receipts:			
Charges for services	\$300,988	\$0	\$300,988
Other operating revenues	6,262		6,262
Total operating cash receipts	307,250	0	307,250
Operating cash disbursements:			
Contractual services	459,204		459,204
Total operating cash disbursements	459,204	0	459,204
Operating income/(loss)	(151,954)	0	(151,954)
Non-operating cash receipts/ disbursements			
Debt Service	(20,000)		(20,000)
Other non-operating cash receipts	66,309	48,490,700	48,557,009
Other non-operating cash disbursements		(48,482,617)	(48,482,617)
Excess non-operating cash receipts over/(under) non-operating cash disbursements	46,309	8,083	54,392
Net receipts over/(under) disbursements before transfers	(105,645)	8,083	(97,562)
Transfers-in	570,000		570,000
Transfers-out	-		-
Net receipts over/(under) disbursements	464,355	8,083	472,438
Fund cash balances, January 1 (As Restated)	190,197	1,889,517	2,079,714
Fund cash balances, December 31	\$654,552	\$1,897,600	\$2,552,152
Reserve for Encumbrances, December 31	\$6,914	\$0	\$6,914

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

HIGHLAND COUNTY

COMBINED STATEMENT OF RECEIPTS - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2003

<u>Fund Types/Funds</u>	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Governmental:			
General fund	\$8,017,280	\$8,019,430	\$2,150
Special revenue funds	16,255,395	16,589,335	333,940
Debt service funds	3,567,938	4,006,596	438,658
Capital projects funds	1,865,515	1,655,215	(210,300)
Proprietary:			
Enterprise fund	522,668	943,559	420,891
Fiduciary:			
Expendable trust funds	-	4,018	4,018
Totals (Memorandum only)	<u>\$30,228,796</u>	<u>\$31,218,153</u>	<u>\$989,357</u>

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

HIGHLAND COUNTY

COMBINED STATEMENT OF DISBURSEMENTS AND ENCUMBRANCES
 COMPARED WITH EXPENDITURE AUTHORITY
 FOR THE YEAR ENDED DECEMBER 31, 2003

<u>Fund Types/Funds</u>	<u>Prior Year Carryover Appropriations</u>	<u>Appropriations</u>	<u>Total</u>	<u>Disbursements</u>	<u>Encumbrances Outstanding At 12/31/02</u>	<u>Total</u>	<u>Variance Favorable/ (Unfavorable)</u>
Governmental:							
General fund	\$69,380	\$9,675,765	\$9,745,145	\$9,186,040	\$9,934	\$9,195,974	\$549,171
Special revenue funds	172,676	18,024,656	18,197,332	16,574,632	185,523	16,760,155	1,437,177
Debt service funds	0	5,129,209	5,129,209	5,124,279	-	5,124,279	4,930
Capital projects funds	-	3,569,304	3,569,304	3,305,668	3,643	3,309,311	259,993
Proprietary:							
Enterprise fund	-	560,658	560,658	479,204	6,914	486,118	74,540
Fiduciary:							
Expendable trust funds	-	20,000	20,000	293	-	293	19,707
Totals (Memorandum only)	<u>\$242,056</u>	<u>\$36,979,592</u>	<u>\$37,221,648</u>	<u>\$34,670,116</u>	<u>\$206,014</u>	<u>\$34,876,130</u>	<u>\$2,345,518</u>

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

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HIGHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Highland County, Ohio (the County), is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The County operates under the direction of a three-member Board of County Commissioners. The County Auditor is responsible for the fiscal controls of the resources of the County which are maintained in the funds described below. The County Treasurer is the custodian of funds and the investment officer. All of these officials are elected. Services provided by the County include public safety, health, public works, human services, conservation-recreation services, sanitation, and maintenance of highways and streets.

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 Highland County, this includes the Highland County Board of Mental Retardation and Developmental Disabilities and all departments and activities that are not directly operated by the elected County officials.

Highland County provides services and/or subsidies to the Law Library Association, Regional Airport Authority, District Board of Health, Soil and Water Conservation District, and the Family and Children First Council. These are separate reporting entities. Separate financial and compliance audits are performed for these entities. The County Auditor is the fiscal agent for the District Board of Health, the Family and Children First Council, and the Soil and Water Conservation District, and the receipts and disbursements of these entities are accounted for in the Agency Funds of the County.

Highland County is involved with the Solid Waste Management District, a joint venture including Ross, Pickaway, Fayette, and Highland Counties. Ross County is the fiscal agent over the District. Highland County has no liability to the District nor do they expend any monies to the District. A separate financial and compliance audit is performed for the District.

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 also includes organizations that are fiscally dependent on the County in that the County approves the organization's budget, the issuance of its debt or levying of its taxes.

HIGHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2003 (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Highco, Inc. is a legally separate, not-for-profit corporation, served by a board of trustees appointed by the Highland County Board of Mental Retardation and Developmental Disabilities (MRDD). The workshop, under contractual agreement with the Highland County Board of MRDD, provides sheltered employment for mentally and/or physically handicapped adults in Highland County.

The Highland County Board of MRDD provides the workshop with staff salaries, transportation, equipment, staff to administer and supervise training programs, and other funds necessary for the operation of the workshop. Based on the significant services and resources provided by the County to the workshop and the workshop's sole purpose of providing assistance to the mentally and/or physically handicapped adults of Highland County, the workshop is considered a component unit of Highland County. Separately issued financial statements can be obtained from Highco, Inc., 8919 U.S. Route 50, Hillsboro, Ohio 45133.

Management believes the financial statements included in this report represent all of the funds and activities for which the County is financially accountable, except for Highco, Inc.

B. Basis of Accounting

Although required by Ohio Administrative Code, Section 117-2-03 (B) to prepare its annual financial report in accordance with generally accepted accounting principles, the County chooses to prepare its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual financial reports in accordance with generally accepted accounting principles. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

C. Cash, Cash Equivalents and Investments

The County Treasurer invests all available funds of the County. County funds are invested in "Now" checking accounts with local commercial banks, repurchase agreements, US government and agency securities and mutual funds. The County pools its cash for investment purposes to capture the highest rate of return. Investment income is distributed to County funds based upon the Ohio Revised Code. Investments are stated at cost.

HIGHLAND COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting

The County maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

1. Governmental Funds

General Fund

The General Fund is the general operating fund of the County. It is used to account for all financial resources except those required by law or contract to be accounted for in another fund.

Special Revenue Funds

Special revenue funds are used to account for proceeds of specific revenue sources (other than expendable trusts, or major capital projects) that are legally restricted to disbursements for specified purposes.

Debt Service Funds

Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. According to governmental accounting principles, the debt service funds account for the payment of long-term debt for governmental funds only. Under Ohio law, the debt service fund may also be used to account for the payment of the long-term debt of proprietary funds and the short-term debt of both governmental and proprietary funds. For purposes of this report, these funds have been classified into the proper groups, if practicable.

Capital Projects Funds

Capital projects 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 proprietary funds and trust funds).

2. Proprietary Funds

Enterprise Funds

Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has 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 purpose.

HIGHLAND COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Fiduciary Funds

Trust and Agency Funds

Trust and agency funds are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, other governmental units, and/or other funds. These include Expendable Trust and Agency Funds.

E. Budgetary Process

The Ohio Revised Code requires that each fund except certain agency funds be budgeted annually.

1. Budget

A budget of estimated cash receipts and disbursements is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

2. Estimated Resources

The County Budget 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 projected receipts of each fund. On or about January 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to December 31, the County must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying financial statements do not include January 1, 2003 unencumbered fund balances. However, those fund balances are available for appropriations.

3. Appropriations

A temporary appropriation measure to control cash disbursements may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation measure must be passed by April 1 of each year for the period January 1 to December 31. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources.

4. Encumbrances

The County is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation. At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations.

HIGHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2003 (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be re-appropriated. The County did not encumber all commitments required by Ohio law. The budgetary presentations have been adjusted to include material items that should have been encumbered.

5. Legal Level of Control

Each County department prepares a budget which is approved by the Board of County Commissioners. The County maintains budgetary control within an organizational unit and fund by not permitting expenditures and encumbrances to exceed appropriations at the object level (the legal level of control). Modifications to the original budget within expenditure objects require the approval of the Board of Commissioners.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. Total Columns on Financial Statements

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

2. EQUITY IN CASH EQUIVALENTS AND INVESTMENTS

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

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

- A. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States.
- B. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities.
- C. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

HIGHLAND COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003
(Continued)**

2. EQUITY IN CASH EQUIVALENTS AND INVESTMENTS (Continued)

- D. Bond and other obligations of the State of Ohio or its political subdivision, provided that such political subdivisions are located wholly or partly within the County;
- E. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
- F. 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;
- G. The State Treasurer's investment pool (STAROhio);
- H. Securities lending agreements in which the County lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2) or cash or both securities and cash, equal value for equal value;
- I. High grade commercial paper in an amount not to exceed five percent of the County's total average portfolio;
- J. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the County's total average portfolio;

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

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

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

Deposits

Government Accounting Standards Board (GASB) Statement No. 3 requires that all deposits be classified as to risk. The following categories are most typically used:

- A. Insured or collateralized with securities held by the entity or by its agent in the entity's name;
- B. Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name;
- C. Uncollateralized. (This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the entity's name).

HIGHLAND COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003
(Continued)**

2. EQUITY IN CASH EQUIVALENTS AND INVESTMENTS (Continued)

At December 31, 2003, the carrying amount of the County's deposits was \$719,290. The bank balance of \$1,174,765 for deposits is classified by risk as follows:

- A. \$484,057 was insured by the Federal Depository Insurance Corporation.
- B. \$690,708 was covered by collateral held by third party trustees pursuant to Section 135.181, of the Ohio Revised Code, in single institution collateral pools securing all public funds on deposit with specific depository institutions. The Code specifies that the total value of securities pledged as collateral must be at least equal to 110% of the total amount of the insured deposits, including any portion covered by federal deposit insurance. The code also specifies what kind of securities are eligible to be pledged and what percentage of their face value counts as being eligible for collateral.

Investments

The County's investments are categorized below to give an indication of the level of risk assumed by the County at year end. Category 1 includes investments that are insured or registered or securities are held by the County or its agent in the County's name. Category 2 includes uninsured and unregistered investments with securities held by the broker's or dealer's trust department or agent in the County's name. Category 3 includes uninsured and unregistered investments with the securities held by the broker or dealer, or by its trust department or agent, but not in the County's name.

	<u>Category 3</u>	<u>Unclassified</u>	<u>Carrying Amount</u>	<u>Fair Value</u>					
U.S. Government and Agency Securities	\$6,031,738		\$6,031,738	\$6,075,822					
Money Market Mutual Fund		\$58,183	\$58,183	\$58,183					
Repurchase Agreement	\$1,203,155		\$1,203,155	\$1,203,155					
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 40%;">Total Investments</td> <td style="text-align: right;"><u>\$7,234,89341</u></td> <td style="text-align: right;"><u>\$58,183</u></td> <td style="text-align: right;"><u>\$7,293,076</u></td> <td style="text-align: right;"><u>\$7,337,160</u></td> </tr> </table>					Total Investments	<u>\$7,234,89341</u>	<u>\$58,183</u>	<u>\$7,293,076</u>	<u>\$7,337,160</u>
Total Investments	<u>\$7,234,89341</u>	<u>\$58,183</u>	<u>\$7,293,076</u>	<u>\$7,337,160</u>					

The Money Market Mutual Fund is not classified by risk category because it is not evidenced by securities that exist in physical or book entry form.

HIGHLAND COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003
(Continued)**

3. DEBT

Long-Term debt and other obligations of the County at December 31, 2003 were as follows:

<u>Issue</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Balance 12/31/2002</u>	<u>Additions</u>	<u>- Deletions</u>	<u>Balance 12/31/2003</u>
1994 GO Bonds Series B Madsion Township	4.50%	2034	\$106,300	\$0	\$1,600	\$104,700
1996 GO Bonds Series A Tec. Center	5%	2016	1,085,800	0	55,400	1,030,400
1996 GO Bonds Series B Tec Center	5%	2016	397,100	0	20,200	376,900
2002 GO Bonds Correctional Facilities	1.5 - 4.8%	2022	5,000,000	0	180,000	4,820,000
Total GO Bonds			<u>6,589,200</u>	<u>0</u>	<u>257,200</u>	<u>6,332,000</u>
1994 Sewer Assessment Series A Madison Twp.	4.50%	2034	735,300	0	10,700	724,600
OWDA Loan Rocky Fork Water Pollution Control Loan	2.20%	2020	7,297,379	0	346,013	6,951,366
OPWC Loan Rocky Lake Area Wastewater Collection System	0%	2020	330,000	0	20,000	310,000
Salt Barn Loan	5.75%	2010	383,390	0	58,305	325,085
MRDD Project	4.38%	2004	430,000		86,000	344,000
ODOD Loan Leesburg Industrial Park	2.10%	2007	489,172	165,828	0	655,000
OPWC Loan 2003 Rolling Acres WWTP	0%	2034	41,083		2,107	38,976
Total Long Term Debt			<u>\$16,295,524</u>	<u>\$165,828</u>	<u>\$780,325</u>	<u>\$15,681,027</u>

HIGHLAND COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003
(Continued)**

3. DEBT (Continued)

The annual requirements to amortize all long term debt outstanding as of December 31, 2003, including interest payments of \$5,377,612 are as follows:

<u>Year Ending December</u>	<u>General Obligation Bonds</u>	<u>Special Assessment Bonds</u>	<u>OWDA, ODOD and OPWC Loans</u>	<u>Long Term Notes (Salt Barn and MRDD Project)</u>	<u>Totals (Memorandum Only)</u>
2004	\$539,517	\$43,807	\$263,384	\$129,552	\$976,260
2005	540,240	43,803	526,768	154,270	1,265,081
2006	540,390	43,776	526,768	150,504	1,261,438
2007	545,005	43,827	573,189	146,737	1,308,758
2008	534,129	43,752	606,347	56,970	1,241,198
2009-2013	2,701,480	218,908	3,031,736	142,426	6,094,550
2014-2018	2,407,068	219,030	2,905,736		5,531,834
2019-2023	1,571,103	219,021	1,037,793		2,827,917
2024-2028	31,732	219,052			250,784
2029-2033	31,663	218,997			250,660
2034-2038	6,374	43,785			50,159
Totals	<u>\$9,448,701</u>	<u>\$1,357,758</u>	<u>\$ 9,471,721</u>	<u>\$780,459</u>	<u>\$ 21,058,639</u>

Short-Term debt of the County at December 31, 2003 were as follows:

<u>Issue</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Balance 12/31/2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2002</u>
Bond Anticipation Note						
Land Acquisition	2.50%	2004	\$1,405,000	\$0	\$1,405,000	\$0
Bond Anticipation Note						
Various Purposes	1.75%	2004	700,000	700,000	700,000	700,000
Bond Anticipation Note						
Courthouse Improvement	1.50%	2004	850,000	850,000	850,000	850,000
Total Notes			<u>\$2,955,000</u>	<u>\$1,550,000</u>	<u>\$2,955,000</u>	<u>\$1,550,000</u>

HIGHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003
(Continued)

4. PROPERTY TAX

Real property taxes are levied on assessed values which equal 35% of appraised value. The County Auditor reappraises all real property every six years with a triennial update. The last update was completed for tax year 2003 and the reappraisal was completed for tax year 2000.

Real property taxes become a lien on all non-exempt real property located in the County on January 1. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20 of the following year. Under certain circumstances, state statute permits later payment dates to be established.

The full tax rate applied to real property for the fiscal year ended December 31, 2003 was \$9.25 per \$1,000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$7.17 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$7.44 per \$1,000 of assessed valuation for all other real property. Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the County by the State of Ohio.

Owners of tangible personal property are required to file a list of such property, including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for the fiscal year ended December 31, 2003 was \$9.25 per \$1,000 of assessed valuation.

Real Property - 2002 Valuation	
Residential/Agricultural	\$ 399,051,420
Commercial/Industrial	62,587,940
Public Utilities	142,170
Tangible Personal Property - 2003 Valuation	
General	57,679,629
Public Utilities	<u>27,704,760</u>
Total Valuation	\$ <u>547,165,919</u>

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

5. RISK MANAGEMENT

The County is exposed to various risks of loss related to torts, theft, damage to or destruction of assets, errors and omissions, employee injuries, and natural disasters. The County addresses these risks by maintaining a comprehensive risk management program through the purchase of various types of liability, inland marine, and property insurance from private carriers.

The County's exposure for the safety of its employees is covered by Ohio's Workers' Compensation department. The County carries commercial insurance for employee health and accident insurance. The County pays all elected and appointed officials' bonds by statute.

HIGHLAND COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003
(Continued)**

6. PENSION PLANS

1. Public Employees Retirement System of Ohio

The County contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing, multiple employer public employee retirement system administered by the Public Employees Retirement Board. PERS provides basic retirement benefits, disability, and survivor benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. PERS issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215.

Plan members, other than those engaged in law enforcement, are required to contribute 8.5% of their annual covered salary to fund pension obligation; law enforcement employees contribute 10.10 percent. The 2003 employer pension contribution rate for the County was 13.55 percent of covered payroll. Also, the law enforcement contribution rate for the County was 16.70 percent of covered payroll. Contributions are authorized by State statute. The contribution rates are determined actuarially. The County's required contributions to OPERS for the years ended December 31, 2003, 2002 and 2001 were \$1,417,843 \$1,394,400, and \$1,250,514, respectively. The full amount has been contributed for 2001, 2002, 2003.

2. State Teachers Retirement System of Ohio

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

Plan members are required to contribute 9.3% (10% effective August 2003) of their annual covered salary and the employer is required to contribute 14%. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The County's contributions to STRS for the years ended December 31, 2003, 2002, and 2001 were \$31,266, \$28,616, and \$32,081, respectively. As of December 31, 2003, the County has made all required contributions.

7. COUNTY SALES TAX

The permissive tax was levied locally in the amount of one-half of one percent upon every retail sale made in Highland County. In 2003, the County received a total of \$3,021,437 from the State of Ohio as its share of the sales tax. Such receipts were credited to the County General Fund.

8. CONTINGENT LIABILITIES

Amounts received from grantor agencies are subject to audit and adjustment by the grantor, principally the federal government. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, based on prior experience, management believes such refunds, if any, would not be material.

HIGHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003
(Continued)

9. ACCUMULATED UNPAID VACATION, PERSONAL, COMPENSATORY TIME AND SICK LEAVE

Accumulated unpaid vacation, personal, compensatory time and sick leave are not accrued under the cash basis of accounting described in Note 1. All leave will either be absorbed by time off from work, or within certain limitations, be paid to the employees. The liability is not recorded on the financial statements under the basis of accounting the County uses.

10. PENDING LITIGATION

The County has various cases pending, the outcome of which is not determinable as of the date of this report; however, counsel believes that the resolution of these matters will not materially adversely affect the County's financial condition.

11. RESTATEMENT OF FUND BALANCES

For Year 2003, the County reclassified the Law Enforcement Trust Fund from an Agency Fund to a Special Revenue Fund in order to more properly present the fund activity. The implementation of this change had the following effects of fund balances of the County as they were previously reported.

	Special Revenue	Agency Fund
Fund Balances, December 31, 2002	3,887,019	1,903,277
Fund Reclassifications	13,760	(13,760)
Adjusted Fund Balances, December 31, 2002	3,900,779	1,889,517

HIGHLAND COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2003

Federal Grantor/Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed Through Ohio Department of Education:</i>				
Nutrition Cluster:				
Food Distribution Program (See Note B)	N/A	10.550	\$0	\$4,075
National School Lunch Program (See Note C)	066035	10.555	3,345	0
Total U.S. Department of Agriculture-Nutrition Cluster			3,345	4,075
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
<i>Passed Through Ohio Department of Development</i>				
Community Development Block Grant	B-F-01-033-1	14.228	11,450	
Community Development Block Grant	B-C-01-033-1	14.228	135,641	
Community Development Block Grant	B-F-02-033-1	14.228	138,131	
Home Investment Partnership Program	B-C-01-033-2	14.239	71,689	
Total U.S. Department of Housing and Urban Development			356,911	
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
<i>Passed Through State Department of Mental Retardation and Developmental Disabilities</i>				
Social Services Block Grant - Title XX	N/A	93.667	37,553	
Medical Assistance Program - Medicaid- Title XIX	N/A	93.778	550,576	
Total U.S. Department of Health and Human Services			588,129	
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education</i>				
Special Education Grants to States:				
Special Education Cluster:				
Special Education- Grants to States	066035-6B-SF-02P	84.027	1,440	
Special Education- Grants to States	066035-6B-SF-03P	84.027	9,656	
Special Education- Grants to States	066035-6B-SF-03P	84.027	4,901	
Special Education- Preschool Grants	066035-PGSI-03P	84.173	4,543	
Special Education- Preschool Grants	066035-PGSI-04P	84.173	2,127	
Total Special Education Cluster			22,667	
Innovative Education Program Strategies	006035-C2S1-03	84.298	209	
Innovative Education Program Strategies	006035-C2S1-04	84.298	48	
Total Innovative Education Program Strategies			257	
Total U.S. Department of Education			22,924	
U.S. DEPARTMENT OF JUSTICE				
<i>Passed Through Office of the Ohio Attorney General</i>				
Criminal Victim Assistance Grant	2003-VAGENE-025	16.575	51,506	
Criminal Victim Assistance Grant	2003-VAGENE-025X	16.575	19,311	
			70,817	
<i>Passed Through Office of the Criminal Justice Service</i>				
Byrne Formula Grant Program	02-DG-E01-702B	16.579	31,192	
Bulletproof Vest Program	N/A	16.607	2,719	
Assault Team	02-DG-D02-7229	16.588	28,561	
Assault Team	01-DG-E01-7229	16.588	3,481	
			65,953	
Total U.S. Department of Justice			136,770	
U.S. DEPARTMENT OF LABOR				
<i>Passed Through Ohio Dept. of Jobs and Family Services</i>				
WIA- Adult Program	N/A	17.258	106,260	
WIA- Youth Activities	N/A	17.259	136,136	
WIA- Dislocated Workers	N/A	17.260	98,807	
Total U.S. Department of Labor			341,203	
APPALACHIAN REGIONAL COMMISSION				
<i>Passed Through the Ohio Valley Regional Development Commission</i>				
Appalachian Regional Development	N/A	23.001	50,000	
U.S. DEPARTMENT OF COMMERCE				
<i>Economic Development Administration - Direct</i>				
Grants for Public Work and Economic Development Facilities	N/A	11.300	260,643	
Total Federal Financial Assistance			\$1,759,925	\$4,075

The accompanying notes to this schedule are an integral part of this schedule.

HIGHLAND COUNTY

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
DECEMBER 31, 2003**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FOOD DISTRIBUTION

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At December 31, 2003, the County had no significant food commodities in inventory.

NOTE C - NATIONAL SCHOOL LUNCH PROGRAM

Federal funds were commingled with state subsidy and revenue from sale of meals. Assumed federal revenues were expended on a first-in/first-out basis.



Auditor of State Betty Montgomery

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

Highland County
200 Governor Foraker Place
Hillsboro, Ohio 45133

To the Board of County Commissioners:

We have audited the accompanying financial statements of Highland County, Ohio (the County), as of and for the year ended December 31, 2003, and have issued our report thereon dated December 15, 2004, which we noted that the County prepares its financial statements on a basis of accounting other than that prescribed by Ohio Administrative Code Section 117-2-03 (B). 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 which could directly and materially affect determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-001 and 2003-002. We also noted certain immaterial instances of noncompliance that we have reported to the management of the County in a separate letter dated December 15, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings as items 2003-002 and 2003-003.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable conditions described above are material weaknesses. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the County in a separate letter dated December 15, 2004.

This report is intended for the information and use of 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.

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

Betty Montgomery
Auditor of State

December 15, 2004



Auditor of State Betty Montgomery

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

Highland County
200 Governor Foraker Place
Hillsboro, Ohio 45133

To the Board of County Commissioners:

Compliance

We have audited the compliance of Highland County, Ohio (the County), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal program for the year ended December 31, 2003. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, the County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2003. We noted instances of noncompliance that did not require inclusion in this report that we have reported to the management of the County in a separate letter dated December 15, 2004.

Internal Control Over Compliance

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

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

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

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

Betty Montgomery
Auditor of State

December 15, 2004

HIGHLAND COUNTY
SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2003

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Medicaid - Title XIX, CFDA #93.778, Community Development Block Grant, CFDA #14.228, and Home Program CFDA #14.239
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A > \$300,000 Type B - all other programs
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2003- 001

Material Noncompliance

Ohio Administrative Code, Section 117-2-03 (B), requires the County to prepare its annual financial report in accordance with generally accepted accounting principles. However, the County prepares its financial statements in accordance with standards established by the Auditor of State, for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. The County can be fined and various other administrative remedies may be taken against the County.

FINDING NUMBER 2003- 002

Material Noncompliance / Reportable Condition

Ohio Revised Code, Section 5705.41 (D), requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon.

This section also provides two exceptions to the above requirements:

- A. Then-and-Now Certificates - If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the County may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within thirty days from receipt of such certificate.
- B. If the amount involved is less than one hundred (\$100), the fiscal officer may authorize payment through a Then-and -Now Certificate without the affirmation of the Board of County Commissioners, if such expenditure is otherwise valid.

Contrary to the above requirement, the availability of funds was not certified for 38% of the expenditures reviewed, and neither of the two exceptions provided above were utilized. Failure to certify the availability of funds and encumber appropriations can result in overspending funds and negative cash fund balances. Therefore, we recommend the County obtain approved purchase orders, which contain the Auditor's certification that the amount required to meet the obligation has been lawfully appropriated and authorized, prior to making a commitment.

FINDING NUMBER 2003- 003

Reportable Condition

The County's reconciliation process is two-fold. First, the County Treasurer must reconcile the County Treasurer's book balance to the various bank and investment accounts. Secondly, the County Treasurer must reconcile to the County Auditor's book balance. As of December 31, 2003, the Treasurer had not reconciled to the bank and investment accounts since April, 2003. However, the Treasurer had reconciled with the County Auditor's Fund Report.

The County Treasurer obtained a new investment account in May, 2003. The Treasurer never posted any interest income or charges as a result of the investment activity during 2003. Additionally, the investment statements from the bank showed the market value of the investments instead of the cost basis, which did not provide the Treasurer the proper information to reconcile. Therefore, the Treasurer did not accurately reconcile to the County's bank balance. As of the date of this report the County Treasurer has prepared a detailed monthly investment ledger beginning May 2003 to present. However, the bank/ investment accounts are not currently reconciled to the Treasurer's book balances. An overage of what is in the bank versus the book exists and the County Treasurer is continuing to identify and reconcile those amounts.

Also in 2003 the County changed procedures on redeeming County warrants through the bank. The bank established a warrant redemption clearing bank account in which the County deposited funds daily to cover the County warrants that were issued by the County Auditor. These County warrants were then redeemed through this same account. Since there were timing differences between when the warrants were issued and redeemed this bank account required reconciling on a monthly basis. This bank account had not been reconciled as of December 31, 2003 which also contributed to the overall reconciliation issues in the County. This account was closed in 2004 with new procedures developed with the bank on redeeming warrants.

Accurate reconciling is the most basic and important internal control. This allows the County management and Board of County Commissioners to make sound financial decisions. It also reduces the probability of County money being misappropriated.

We recommend that accurate reconciliations be performed monthly by the County Treasurer. A process needs to be completed in the Treasurer's office to determine the cost basis balance of investments each month. Reconciling items such as interest and bank charges need to be accounted for properly. Once the Treasurer has reconciled with the bank, then the Treasurer can complete the reconciliation process and balance with the County Auditor. The County may want to evaluate their current investment strategy and the affect this has on the Treasurer's monthly reconciliation process.

FINDINGS FOR FEDERAL AWARDS

None

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HIGHLAND COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2003

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2002-001	Ohio Administrative Code, Section 117-2-03 (B) preparing annual financial report on a cash basis.	No	Not Corrected - Repeated as finding 2003-001
2002-002	Ohio Rev. Code 5707.41(D) - not prior certifying funds before making purchases.	No	Not Corrected - Repeated as finding 2003-002
2002-003	Ohio Rev. Code 5705.41(B) – expenditures exceeded appropriations	Yes	
2002-004	ODOD, Office of Housing and Community Partnership Financial Management Rules and Regulations Handbook, Section (A)(3)(f) – not expending draws within fifteen days.	No	Not Corrected - Repeated as a management letter citation.



**Auditor of State
Betty Montgomery**

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FINANCIAL CONDITION

HIGHLAND 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
DECEMBER 30, 2004**