



**Auditor of State
Betty Montgomery**

**FINANCIAL CONDITION
MERCER COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Board of Commissioners
Central Services Building
220 W. Livingston Street
Rm A201
Celina, Ohio 45822

To the Board of Commissioners:

We have audited the accompanying financial statements of Mercer County (the County) as of and for the year ended December 31, 2003. 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 accompanying financial statements and notes have been prepared on a 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 and notes 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 Mercer County, 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 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.

This report is intended solely for the information and use of the audit committee, management, Board of County Commissioners and other officials authorized to receive this report under Section 117.26, 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

April 21, 2004

MERCER COUNTY - FINANCIAL CONDITION

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN FUND CASH BALANCES-ALL GOVERNMENTAL FUND TYPES AND SIMILAR FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003

	Governmental Fund Types			Capital Project	Fiduciary Funds	Total (Memorandum Only)
	General	Special Revenue	Debt Service		Expendable Trust	
Receipts:						
Taxes	\$4,923,310	\$2,695,432				\$7,618,742
Charges For Services	936,069	972,721	99,512			2,008,302
Licenses And Permits	4,817					4,817
Fines And Forfeitures	47,379	44,280				91,659
Intergovernmental Receipts	1,192,976	13,040,160	10,000	105,315		14,348,451
Special Assessments		58,660	254,185	121,669		434,514
All Other Receipts	396,716	1,462,270	14,507		27,299	1,900,792
Total Receipts	7,501,267	18,273,523	378,204	226,984	27,299	26,407,277
Disbursements:						
General Government						
Legislative And Executive	3,255,049	555,275				3,810,324
Judicial	1,149,768	658,317				1,808,085
Public Safety	2,003,377	355,019				2,358,396
Public Works		6,249,786				6,249,786
Health	474,823	4,806,854			14,878	5,296,555
Human Services	71,489	5,414,925				5,486,414
Conservation - Recreation	256,968				16,244	273,212
Miscellaneous	72,287	4,180			726	77,193
Capital Outlay		49,767		106,200		155,967
Debt Service:						
Bond Principal Payment			200,636			200,636
Note Principal Payment			1,633,198			1,633,198
Interest And Fiscal Charges			275,105			275,105
Total Disbursements	7,283,761	18,094,123	2,108,939	106,200	31,848	27,624,871
Total Receipts Over (Under) Disbursements	217,506	179,400	(1,730,735)	120,784	(4,549)	(1,217,594)
Other Financing Sources (Uses)						
Proceeds of Notes	94,000		987,800	82,200		1,164,000
Operating Transfers-In		633,576	738,332		646	1,372,554
Operating Transfers-Out	(803,443)	(406,666)		(116,042)		(1,326,151)
Advances-In Not Repaid	4,000	39,892	2,000			45,892
Advances-Out Not Repaid	(71,892)	(10,648)		(3,880)		(86,420)
Other Financing Sources	206,271	233,345				439,616
Other Financing Uses	(287,736)		(350)			(288,086)
Total Other Financing Sources (Uses)	(858,800)	489,499	1,727,782	(37,722)	646	1,321,405
Total Receipts And Other Sources Over (Under) Disbursement And Other Uses	(641,294)	668,899	(2,953)	83,062	(3,903)	103,811
Fund Cash Balance January 1	1,755,264	3,537,312	833,550	115,074	129,625	6,370,825
Fund Cash Balance December 31	\$1,113,970	\$4,206,211	\$830,597	\$198,136	\$125,722	\$6,474,636

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

**FINANCIAL CONDITION
MERCER COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN FUND CASH BALANCES-ALL PROPRIETARY FUND TYPES AND SIMILAR FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Proprietary Fund Types</u>		<u>Fiduciary Funds</u>	<u>Total (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Agency</u>	
Receipts:				
Charges For Services	\$1,340,250	\$2,364,840		\$3,705,090
Other Operating Receipts	1,152			1,152
Total Receipts	1,341,402	2,364,840		3,706,242
Disbursements:				
Personal Services	391,950	27,703		419,653
Contract Services	610,994	2,403,322		3,014,316
Supplies And Materials	58,310			58,310
Capital Outlay	55,421			55,421
Total Disbursements	1,116,675	2,431,025		3,547,700
Total Receipts Over (Under) Disbursements	224,727	(66,185)		158,542
Non-Operating Receipts (Disbursements)				
Grants				
Other Non-Operating Revenue	5,981		59,981,250	59,987,231
Other Non-Operating Disbursements			(59,882,811)	(59,882,811)
Total Non-Operating Receipts (Disbursements)	5,981		98,439	104,420
Income Before Operating Transfers	230,708	(66,185)	98,439	262,962
Advances-in Not Repaid	28,528	41,000		69,528
Advances-out Not Repaid	(29,000)			(29,000)
Operating Transfers-Out	(46,403)			(46,403)
Net Income	183,833	(25,185)	98,439	257,087
Fund Cash Balance January 1	1,323,929	25,472	3,242,996	4,592,397
Fund Cash Balance December 31	\$1,507,762	\$287	\$3,341,435	\$4,849,484

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

**FINANCIAL CONDITION
MERCER COUNTY**

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

Fund Types/Fund	Budget	Actual	Variance Favorable/ (Unfavorable)
Governmental:			
General Fund	\$7,897,224	\$7,801,538	(\$95,686)
Special Revenue Funds	22,870,471	19,140,444	(3,730,027)
Debt Service Funds	2,067,008	2,104,336	37,328
Capital Project Funds	447,687	309,184	(138,503)
Proprietary:			
Enterprise Funds	1,339,898	1,347,383	7,485
Internal Service Funds	2,425,131	2,364,840	(60,291)
Fiduciary:			
Trust Funds	<u>15,660</u>	<u>27,945</u>	<u>12,285</u>
Total (Memorandum Only)	<u><u>\$37,063,079</u></u>	<u><u>\$33,095,670</u></u>	<u><u>(\$3,967,409)</u></u>

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

**FINANCIAL CONDITION
MERCER COUNTY**

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

Fund Types/Fund	Prior Year Carryover Appropriations	2003 Appropriations	Total
Governmental:			
General Fund	\$441,457	\$8,843,723	\$9,285,180
Special Revenue Funds	1,300,546	23,307,911	24,608,457
Debt Service Funds		2,112,113	2,112,113
Capital Project Funds	622	443,678	444,300
Proprietary:			
Enterprise Funds	91,642	1,540,520	1,632,162
Internal Service Funds		2,433,084	2,433,084
Fiduciary:			
Trust Funds	1,567	21,700	23,267
Total (Memorandum Only)	<u>\$1,835,834</u>	<u>\$38,702,729</u>	<u>\$40,538,563</u>

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

<u>Actual 2003 Disbursements</u>	<u>Encumbrances Outstanding At 12-31-03</u>	<u>Total</u>	<u>Variance Favorable/ (Unfavorable)</u>
\$8,374,940	\$192,301	\$8,567,241	\$717,939
18,500,789	2,305,390	20,806,179	3,802,278
2,109,289	275	2,109,564	2,549
222,242	18,125	240,367	203,933
1,163,078	213,715	1,376,793	255,369
2,431,025		2,431,025	2,059
<u>31,848</u>	<u>671</u>	<u>32,519</u>	<u>(9,252)</u>
<u><u>\$32,833,211</u></u>	<u><u>\$2,730,477</u></u>	<u><u>\$35,563,688</u></u>	<u><u>\$4,974,875</u></u>

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**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

1. REPORTING ENTITY AND BASIS OF PRESENTATION

Mercer County (the County) was established in 1824. The County operates under the direction of a three-member elected Board of Commissioners. Other officials elected by the voters of the County that manage various segments of the County's operations are the Auditor, Treasurer, Recorder, Clerk of Courts, Coroner, Engineer, Prosecuting Attorney, Sheriff, a Common Pleas Court Judge, and a Probate/Juvenile 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 County.

A. Reporting Entity

Governmental Accounting Standards Board Codification (GASB) Section 2100 indicates that the criteria for including a potential component unit within the reporting entity is the County Commissioner's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of this ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the accountability for fiscal matters and the ability to influence operations significantly.

A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the County or whether the activity is conducted within the geographic boundaries of the County and is generally available to its residents.

A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the County is able to exercise oversight responsibility.

Based on the criteria established by Section 2100 of the Codification of Governmental Accounting and Financial Reporting Standards (GAFRS), the financial activities of the various potential component units are (1) part of the reporting entity of the County and included in the financial statements; (2) reported as Agency funds in the financial statements; (3) Joint Ventures and disclosed in the notes to the financial statements; or (4) excluded from the reporting entity.

The Mercer County Board of Mental Retardation and Developmental Disabilities is included as a part of the reporting entity and is presented in the financial statements, although governed by its own board, the County Commissioners have oversight responsibility.

The County Treasurer, as the custodian of public funds, invests all public monies held on deposit in the County treasury. In the case of separate agencies, boards and commissions as listed below, the County serves as fiscal agent but does not exercise primary oversight responsibility. Accordingly, the activities of the following districts and entities have been included in the County's financial statements as Agency Funds:

District Board of Health
Tri-County Mental Health Board
Soil and Water Conservation District
Lakefield Airport Authority
Mercer County Regional Planning Commission

**FINANCIAL CONDITION
MERCER COUNTY**

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

1. REPORTING ENTITY AND BASIS OF PRESENTATION (Continued)

Although the following entities meet the scope of public service criterion, the County exercises no oversight responsibility. The entities may be related to the County in that the organizations may share the County name or the County may provide resources to support them as monies are available. The governing authorities of these entities are selected independently of Mercer County officials. Each individual governing authority may: (1) designate its own management; (2) have total control over their operations; (3) be solely responsible for reviewing, approving and revising its own budget; (4) have the ability to issue and be responsible for its own debt; (5) function as fiscal manager by controlling the collection and disbursement of funds and holding title to assets; and (6) have the ability to generate their own revenue. The following organizations are to be excluded from the reporting entity:

- Mercer County Board of Education
- Mercer County Agricultural Society
- Mercer County Law Library Association
- Mercer County Council on Aging
- Mercer County Historical Society
- Mercer County Community Improvement Corporation
- Mercer County Cooperative Extension Services
- Auglaize and Mercer Counties Convention and Visitors Bureau

C. A. Industries, Inc. is a legally separate, not-for-profit corporation, served by a board appointed by the Mercer County Board of MRDD. The workshop, under contractual agreement with the Mercer County Board of Mental Retardation and Developmental Disabilities, provides sheltered employment for mentally retarded or handicapped individuals in Mercer County. The Mercer County Board of MRDD provides the workshop with personnel necessary for the operation of the habilitation services to the clients, land and buildings for the operation of the center, maintenance and repair of the buildings, and professional staff to supervise and train clients of the C. A. Industries, Inc. 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 retarded and handicapped adults of Mercer County, the workshop is a component unit of Mercer County. However, the County reports on the cash basis of accounting which does not reflect component units within the financial statements and related note disclosures. Separately issued financial statements can be obtained from the C. A. Industries, Inc. at P.O. Box 137, Celina, Ohio 45822.

Mercer County is associated with eight organizations which are defined as an insurance purchasing pool, jointly governed organizations, a joint venture, and a related organization. These organizations include: Midwest Risk Management Agency, Inc., Midwest Employee Benefit Consortium, County Commissioners Association of Ohio Worker's Compensation Group Rating Plan, Tri-County Mental Health Board, West Central Ohio Network, West Central Partnership, Inc., Mercer County Regional Planning Commission, and Mercer County District Library.

B. Basis Of Accounting

Although required by Ohio Administrative Code Section 117-2-3 to prepare its annual financial report in accordance with generally accepted accounting principles, the County chooses to prepare its financial statements on the basis of accounting formerly prescribed or permitted by the Auditor of State. 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).

**FINANCIAL CONDITION
MERCER COUNTY**

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

1. REPORTING ENTITY AND BASIS OF PRESENTATION (Continued)

These statements include adequate disclosure of material matters, as formerly prescribed or permitted by the Auditor of State.

C. 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 type 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

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.

Capital Projects Funds

To account for the financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary and trust funds).

Debt Service Funds

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 fund accounts for the payment of long-term debt for governmental funds only. Under Ohio law, the debt service fund might 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.

2. Proprietary Funds

Enterprise Funds

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.

**FINANCIAL CONDITION
MERCER COUNTY**

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

1. REPORTING ENTITY AND BASIS OF PRESENTATION (Continued)

Internal Service Fund

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

3. Fiduciary Funds

Trust and Agency Funds

To account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include expendable trust funds and agency funds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Budgetary Process

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 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 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.

**FINANCIAL CONDITION
MERCER COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

B. Property, Plant and Equipment

Fixed assets acquired or constructed for general governmental service are recorded as expenditures. Depreciation is not recorded for these fixed assets.

C. Cash And Cash Equivalents

Cash balances of the County's funds are pooled and invested in long- and short-term investments in order to provide improved cash management. Investments are stated at cost. During fiscal year 2003, investments were limited to STAROhio, nonnegotiable certificates of deposit, and various Federal Agency mortgage-backed securities. All investments are reported at cost. (See Note 3)

The County has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during fiscal year 2003. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2003.

Interest is distributed to the General Fund, Community Housing Improvement Grant Fund, Revolving Loan Special Revenue Fund, Pre-pay Investment Earnings Fund, and Northeast Sanitary Sewer EDA Debt Fund. Interest revenue earned during 2003 amounted to \$320,043.

D. Accumulated Unpaid Vacation and Sick Leave

Accumulated unpaid vacation and sick pay are not accrued under the cash basis of accounting described in Note 1. At December 31, 2003, and in accordance with the County's sick leave policy, management estimates that \$ 1,396,615 in sick leave and \$817,819 in vacation leave has been accumulated by the employees of the County. All leave will either be absorbed by time off from work, or within certain limitations, be paid to the employees. It is not practicable to determine the actuarial value of these benefits as of December 31, 2003.

E. 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.

**FINANCIAL CONDITION
MERCER COUNTY**

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

3. DEPOSITS AND INVESTMENTS

The Treasurer is responsible for selecting depositories and investing funds. Monies held by the County are classified by State Statute into two categories.

Active monies are public monies determined to be necessary to meet current demand upon the County treasury. Active monies must be maintained either as cash in the County treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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.

Inactive moneys may be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond and other obligations of the State of Ohio or its political subdivisions, provided that such political subdivisions are located wholly or partly within the County;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which the County lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2) or cash or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed five percent of the County's total average portfolio;
10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the County's total average portfolio;

**FINANCIAL CONDITION
MERCER COUNTY**

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

3. DEPOSITS AND INVESTMENTS (Continued)

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

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

At year-end, the County had \$162,626 in undeposited cash on hand; this amount is uninsured and uncollateralized.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3 "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Deposits

At year-end, the carrying amount of the County's deposits was \$6,873,863 and the bank balance was \$7,735,074. Of the bank balance, \$755,326 was covered by federal deposit insurance and \$6,679,748 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the County's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements would potentially subject the County to a successful claim by the Federal Deposit Insurance Corporation.

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 for which the securities are held by the County or its agent in the County's name. Category 2 includes uninsured and unregistered investments for which the securities are held in the counterparty's trust department or agent in the County's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the County's name. The County's investment in STAR Ohio, an investment pool operated by the Ohio State Treasurer, is an unclassified investment since they are not evidenced by securities that exist in physical or book entry form.

	Category 2	Carrying Value	Fair Value
Federal Agency Securities	\$3,546,037	\$3,546,037	\$3,556,680
STAR Ohio		<u>741,594</u>	<u>741,594</u>
Total	<u>\$3,546,037</u>	<u>\$4,287,631</u>	<u>\$4,298,274</u>

**FINANCIAL CONDITION
MERCER COUNTY**

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

4. DEBT OBLIGATIONS

Debt outstanding at December 31, 2003, consisted of the following:

General Obligation Note	
Principal Outstanding	\$841,900
Interest Rates	2.25 – 3.0%
Special Assessment Notes	
Principal Outstanding	\$322,100
Interest Rates	2.45 – 3.25%
Special Assessment Bonds	
Principal Outstanding	\$99,100
Interest Rates	5.00%
Ohio Public Works Commission Loan	
Principal Outstanding	\$706,208
Interest Free	
Ohio Water Development Authority Loan	
Principal Outstanding	\$980,547
Interest Rates	2.00 - 7.89%
General Obligation Bond	
Principal Outstanding	\$3,365,000
Interest Rate	4.15 - 5.00%
Ohio Water & Sewer Commission Loan	
Principal Outstanding	\$400,718
Interest Free	
Rural Industrial Park Loan Program - Director of Development of the State of Ohio	
Principal Outstanding	\$200,000
Interest Rate	0.00 – 3.00%

All outstanding notes at December 31 had been issued as allowed by law. The general obligation notes are of the bond anticipation type and have been renewed.

The general obligation notes were used to finance costs of making improvements to various ditches within the County; construction of trunk sanitary sewer and water main lines to service an industrial corridor (State Route 29); constructing a new wastewater collection system, lagoons and sanitary sewer force main in the Village of Philothea; and improvements to the Fairgrounds, including construction of a restroom and shower facility. The Mercer County Commissioners intend to renew the notes within statutory limitations or issue bonds to pay off the notes.

Outstanding special assessment note proceeds were used to finance making the Northeast Grand Lake sewer improvements in the County, including construction, equipping, engineering and land acquisition costs; making street and related drainage and sanitary sewer improvements in the Renoir-Visions area of the County; and making improvements to the Marion Township Industrial Park, including street, drainage and sanitary sewer improvements. These notes are payable from the proceeds of special assessments against benefited property owners.

**FINANCIAL CONDITION
MERCER COUNTY**

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

4. DEBT OBLIGATIONS (Continued)

Outstanding special assessment bonds for the construction of the southwest sanitary sewer collection system of the Montezuma Club Island is payable from the proceeds of assessments against benefited property in the improved areas.

The Ohio Public Works Commission (OPWC) loans were used to finance the Northwood collection system construction, three road bridge replacement projects, the County Home waterline and Philothea Area Wastewater collection and transport.

The Ohio Water Development Authority (OWDA) loans were used to finance the Montezuma Club Island sanitary sewer construction project, Staeger Road sanitary sewer extension construction, and the Lift Station No. 5 forcemain extension project. The scheduled payments include only payments required for OWDA loans for the Montezuma Club Island Sanitary Sewer construction project and the Staeger Road Sanitary Sewer Extension Project. As of December 31, 2003, the County has drawn \$394,810 of the approved \$400,196 for the Lift Station No. 5 OWDA Loan. There is no amortization schedule for this loan because money is still being disbursed; however, two principal installment payments totaling \$14,628 were made during 2003 and the outstanding balance payable is \$371,704. This loan is not included in the outstanding debt schedule below and the schedule of payments will be adjusted to reflect any revisions in amounts actually borrowed. Property and revenue of the sewer district have been pledged to repay these loans.

The general obligation bond was issued for the purpose of renovating a building for the use as County offices known as the Central Services Building.

The County has entered into a cognovit promissory note with the Director of Development of the State of Ohio from the Rural Industrial Park Loan Program for the purpose of acquiring public right-of-way and extending the sanitary and water main lines to serve the State Route 29 industrial corridor project.

The annual requirements to amortize long-term debt outstanding as of December 31, 2003, including interest payments of \$2,203,201 are as follows:

Year Ending December 31	Special Assessment Bond	Ohio Water Development Authority (O.W.D.A) Loans	Ohio Public Works Commission (O.P.W.C) Loans	Rural Industrial Park Loan Program	General Obligation Bond
2004	\$11,955	\$137,230	\$23,580	\$0	\$270,485
2005	11,905	131,503	47,160	0	276,495
2006	11,940	89,485	47,160	0	273,725
2007	11,955	50,331	47,160	19,312	275,585
2008	11,950	50,331	47,160	23,175	271,705
2009-2013	59,555	187,795	235,801	115,878	1,347,685
2014-2018	11,970	38,787	168,564	73,387	1,344,755
2019-2023	0	15,515	89,623	0	1,351,750
Total	\$131,230	\$700,977	\$706,208	\$231,752	\$5,412,185

**FINANCIAL CONDITION
MERCER COUNTY**

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

4. DEBT OBLIGATIONS (Continued)

The County has also received three loan agreements from the Ohio Water and Sewer Rotary Commission in regard to the construction of three sewer districts. These loans provide funding assistance for that portion of the project for which collections of assessments from certain owners of undeveloped property located within an agricultural district are exempted pursuant to Section 929.03 of the Ohio Revised Code, subject to the performance of certain terms and conditions of repayment. As part of the agreement, upon change of the use of any parcel pursuant to Section 1525-1-06 of the Administrative Code would require repayment to the Ohio Water and Sewer Rotary Commission for the full amount of the assessment for the portion of the property for which the use has changed pursuant to Division C of Section 929.03 of the Ohio Revised Code. The first loan was used to finance the Sandy Beach Sewer System construction and at the end of the year the original loan amount of forty-two thousand, eight hundred and twenty-two dollars (\$42,822) remains outstanding. The second loan was used to finance the Southwest Sewer System construction for a term not to exceed twenty years and is payable from the proceeds of assessments against benefited property in the improved area for the property for which the use has not changed and interest is to be paid from the General Fund at a rate per annum equal to the rate of interest published as the 20-bond index rate in "The Bond Buyer" minus four percent per annum, or at a rate of five percent per annum, which ever is greater, for any monies not repaid to the Commission within one year of the date of the disqualification of the property for the continual deferment which requires such repayment, and such interest shall continue until such repayment is made. At the end of the year, the original amount of the Southwest Sewer loan of two hundred and sixty-nine thousand, two hundred and twenty-three dollars (\$269,223) remains outstanding. The third loan was used to finance the State Route 29 Industrial Corridor Project. At the end of the year, eighty-eight thousand, six hundred and seventy-three dollars (\$88,673) remains outstanding the State Route 29 Industrial Corridor Project loan.

The annual requirements to amortize all note debt outstanding as of December 31, 2003, including interest payments of \$29,135 are as follows:

<u>Year Ending December 31</u>	<u>General Obligation Notes</u>	<u>Special Assessment Notes</u>
2004	<u>\$862,636</u>	<u>\$330,499</u>

On March 28, 2001, Mercer County issued \$600,000 in Health Care Facilities Revenue Bonds on behalf of Foundations Behavioral Health Services, Inc., for the purpose of financing or refinancing costs of acquiring constructing, installing and equipping property comprising "hospital facilities". The project is to be owned by the Foundations Behavioral Health Services, Inc., an Ohio non-profit corporation (the "Corporation") as defined in Section 140.01 of the Ohio Revised Code. The project is the subject of a sublease dated as of March 1, 2001 between Mercer County and the Corporation, which was executed and delivered in order to provide improved health care and treatment for the residents of the Issuer.

On March 20, 2003, Mercer County issued \$7,000,000 in Health Care Facilities Revenue Bonds on behalf of the Grand Lakes Regional Cancer Center, Inc., for the purpose of financing the renovation, construction, equipping and installation of certain Hospital Facilities, as that term is defined in Section 140.01, Ohio Revised Code, consisting of a one story building of approximately 23,000 square feet located at 900 Havemann Road, Celina, Ohio, to be used as a cancer treatment center (the Project) and owned and operated by The Cancer Network of West Central Ohio.

**FINANCIAL CONDITION
MERCER COUNTY**

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

5. PROPERTY TAX

Real property taxes are levied on assessed values which equal 35 percent of appraised value. The County Auditor reappraises all real property every six years with a triennial update. The last reappraisal was completed for tax year 1999.

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 calendar year ended December 31, 2003, was \$8.79 per \$1,000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$6.8459 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$8.2411 per \$1,000 of assessed valuation for all other real property. Real property owner's 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 \$8.79 per \$1,000 of assessed valuation.

Real Property - 2002 Valuation

Residential/Agricultural	\$538,950,600
Commercial/Industrial	80,572,220
Public Utilities	44,770

Tangible Personal Property

General - 2003 Valuation	68,608,545
Public Utilities - 2001 Valuation	<u>24,264,230</u>

Total Valuation \$712,440,365

The Mercer County Treasurer collects property tax on behalf of all taxing districts within the County. The Mercer 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.

6. RISK MANAGEMENT

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During 2003, the County contracted with Midwest Pool Management, Inc. for liability, property and crime insurance.

**FINANCIAL CONDITION
MERCER COUNTY**

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

6. RISK MANAGEMENT (Continued)

Coverages provided by the insurance pool are as follows:

Liability	
(A) General, Auto, Law and Nursing Home Liability Combined (per occurrence)	\$5,000,000
(B) Public Official Errors and Omissions Liability (per occurrence - included above)	1,000,000
Aggregate	5,000,000
(C) Excess Liability, General, Liquor, Auto, Law, Public Official Liability and Miscellaneous Errors and Omissions	5,000,000
Property	39,252,883
Crime Insurance:	
Money and Securities	250,000
Employee Dishonesty	250,000
Depositors Forgery	250,000

The County pays all elected officials' bonds by statute.

Workers' compensation benefits are provided through the State Bureau of Workers' Compensation. For 2003, the County participated in the County Commissioners' Association of Ohio Workers' Compensation Group Rating Program (CCAO), a workers' compensation insurance purchasing pool (See Note 11). The intent of the CCAO is to achieve lower workers' compensation rates while establishing safe working conditions and environments for the participants. The workers' compensation experience of the participating counties is calculated as one experience and a common premium rate is applied to all counties in the CCAO. Each participant pays its workers' compensation premium to the State based on the rate for the CCAO rather than its individual rate. In order to allocate the savings derived by formation of the CCAO, and to maximize the number of participants in the CCAO, annually the CCAO's executive committee calculates the total savings which accrued to the CCAO through its formation. This savings is then compared to the overall savings percentage of the CCAO. The CCAO's executive committee then collects rate contributions from or pays rate equalization rebates to the various participants. Participation in the CCAO is limited to counties that can meet the CCAO's selection criteria. The firm of Comp Management, Inc. provides administrative, cost control and actuarial services to the CCAO. Each year, the County pays an enrollment fee to the CCAO to cover the costs of administering the CCAO.

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

**FINANCIAL CONDITION
MERCER COUNTY**

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

6. RISK MANAGEMENT (Continued)

The County participates in the Midwest Employee Benefit Consortium (MEBC), an insurance purchasing pool consisting of five counties (see Note 11). Each member pays premiums to the MEBC for employee medical and life insurance premiums. The MEBC is responsible for the management and operation of the program. Upon withdrawal, the County is obligated for the payment of supplementary payments attributable to years during which the County was a member of the MEBC. Such supplementary payments may include, but are not limited to, sums sufficient to pay claims, retain reserve levels and pay for continuing claims administration. In addition, the County will continue to be responsible for all other obligations of membership attributable to such prior years. The MEBC Board of Trustees has the right to return monies to an existing member subsequent to the settlement of all expenses and claims. The County's payment for health insurance coverage to the Midwest Employee Benefit Consortium in 2003 was \$2,370,568.

7. LOCAL SALES TAX

For the purpose of providing additional general revenues, the Mercer County Commissioners have levied a tax at the rate of one percent upon certain retail sales made in the County. Tax receipts are credited to the general fund and amounted to \$3,262,441 for 2003.

8. DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. The Ohio Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705.

**FINANCIAL CONDITION
MERCER COUNTY**

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

8. DEFINED BENEFIT PENSION PLANS

For the year ended December 31, 2003, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The 2003 employer contribution rate for local government employer units was 13.55% of covered payroll, except for those plan members in law enforcement or public safety, the rate is 16.7% of covered payroll. The County's contribution rate for pension benefits for 2003 was 8.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the County's pension contributions were 11.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

Mercer County's contributions paid to OPERS during the years ended December 31, 2003 2002, and 2001 were \$2,321,726, \$2,114,714, and \$1,959,419 respectively. All required payments of contributions have been made through December 31, 2003.

B. State Teachers Retirement System

Mercer County contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

**FINANCIAL CONDITION
MERCER COUNTY**

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

8. DEFINED BENEFIT PENSION PLANS (Continued)

Plan members contributed 9.3% of their annual covered salary until July 1, 2003, when the amount became 10%. Mercer County was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

Mercer County's contributions paid to STRS during the years ended December 31, 2003, 2002, and 2001 were \$12,268, \$14,061, and \$13,722 respectively. All required payments of contributions have been made through December 31, 2003.

9. POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2003 local government employer contribution rate was 13.55% of covered payroll; 5.00% was the portion that was used to fund health care for the year. The law enforcement employer rate was 16.70% and 5% was used to fund health care for the year.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2002, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 based on additional annual pay increases. Health care premiums were assumed to increase 4.00 percent annually.

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

The number of active contributing participants in the traditional and combined plans was 364,881. Actual employer contributions for 2003 which were used to fund postemployment benefits were \$447,364. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2002, (the latest information available) were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

**FINANCIAL CONDITION
MERCER COUNTY**

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

9. POSTEMPLOYMENT BENEFITS (Continued)

In December 2001, the Board adopted the Health Care "Choices" Plan. The Choices Plan will be offered to all persons newly hired in an OPERS covered position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices will incorporate a cafeteria approach, offering a broader 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.

B. State Teachers Retirement System

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2003, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve. For the fiscal year ended June 30, 2002, 4.5 percent of covered payroll was allocated to the fund. For Mercer County, this amount equaled \$522 for 2003.

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

10. DEFERRED COMPENSATION PLANS

Mercer County employees and elected officials may participate in either of two state-wide deferred compensation plans created in accordance with Internal Revenue Code Section 457, one offered by the State of Ohio, the other by the County Commissioners Association of Ohio. Participation is on a voluntary payroll deduction basis. Each plan permits deferral of compensation until future years. According to the plans, the deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

**FINANCIAL CONDITION
MERCER COUNTY**

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

11. PUBLIC ENTITY RISK POOLS

A. County Commissioners Association Of Ohio Workers' Compensation Group Rating Plan

The County is participating in the County Commissioners' Association of Ohio Workers' Compensation Group Rating Program as established under the Section 4123.29 of the Ohio Revised Code. The County Commissioners' Association of Ohio Service Corporation (CCAOSC) was established through the County Commissioners' Association of Ohio (CCAO) as a group purchasing pool. A group executive committee is responsible for calculating annual rate contributions and rebates; approving the selection of a third party administrator; reviewing and approving proposed third party fees, fees for risk management services, and general management fees; determining ongoing eligibility of each participant; and performing any other acts and functions which may be delegated to it by the participating employers. The group executive committee consists of seven members. Two members are the president and treasurer of the CCAOSC; the remaining five members are representatives of the participants. These five members are elected for the ensuing year by the participants at a meeting held in the month of December each year. No participants can have more than one member on the group executive committee in any year, and each elected member shall be a County Commissioner.

B. Midwest Pool Risk Management Agency, Inc.

The Midwest Pool Risk Management Agency, Inc. (the Pool) is an Ohio nonprofit corporation established by five counties for the purpose of establishing an insurance program. Member counties agree to jointly participate in coverage of losses and pay all contributions necessary for the specified insurance coverages provided by the Pool. These coverages include comprehensive general liability, automobile liability, certain property insurance, and public officials' error and omissions liability insurance.

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

C. Midwest Employee Benefit Consortium

The County participates in the Midwest Employee Benefit Consortium (MEBC), an insurance purchasing pool consisting of five counties. The MEBC is responsible for the administration of the program and processing of all claims for each member. The County pays premiums to the MEBC for employee medical and life insurance benefits.

The MEBC is governed by a Board of Trustees consisting of one county commissioner from each participation member. Each participant decides which plan offered by the Board of Trustees will be extended to its employees. Participation in MEBC is by written application subject to acceptance by the Board of Trustees and payment of the monthly premiums.

**FINANCIAL CONDITION
MERCER COUNTY**

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

12. JOINTLY GOVERNED ORGANIZATIONS

A. Alcohol, Drug Addiction and Mental Health Services Board of Mercer, Paulding and Van Wert Counties (Tri-County Mental Health Board)

The Tri-County Mental Health Board is a jointly governed organization among Mercer, Paulding and Van Wert Counties. The Tri-County Mental Health Board provides leadership in planning for and supporting community-based alcohol, drug addiction and mental health services in cooperation with public and private resources with emphasis on the development of prevention and early intervention programming while respecting, protecting and advocating for the rights of persons as consumers of alcohol, drug addiction and mental health services. The ability to influence operations depends on the County's representation on the Board. The Board of Trustees consists of eighteen members: four members are appointed by the Director of the Ohio Department of Mental Health, four members are appointed by the Director of the Ohio Department of Alcohol and Drug Addiction Services and the remaining ten members are appointed by the County Commissioners of Mercer, Paulding and Van Wert counties in the same proportion as the County's population bears to the total population of the three counties combined. During 2003, a tax levy provided \$451,777 for the operations of the organization.

B. West Central Ohio Network

The West Central Ohio Network (West CON) is a regional council of government. West CON is comprised of the boards of Mental Retardation and Developmental Disabilities (MRDD) of several counties, including, Auglaize, Darke, Logan, Mercer, Miami, Shelby, Union, and Hardin. The Board of Directors is made up of the Superintendents from each of these MRDD Boards, and the degree of control exercised by any participating government is limited to its representation on the Board.

West CON is the administrator and fiscal agent of Supported Living funds for each of these Boards of Mental Retardation and Developmental Disabilities. For 2003, the County contributed \$214,551 for the operation of West CON.

C. West Central Partnership, Inc.

The West Central Partnership, Inc. (the Partnership) is a jointly governed organization among Allen, Hancock, Hardin, Mercer, Paulding, Putnam and Van Wert counties. The Partnership was formed to administer local loan programs in these counties for the State of Ohio Department of Development using 166 funds and raising money for such purposes and to expend, contribute, disburse, or otherwise handle and dispose of the same for such purpose. The Board of Trustees consists of nine members, including a County Commissioner from each of the member county and the Director of Region 3, West Central SBDC Partnership. The County was not required to contribute any funds to the Partnership in 2003.

**FINANCIAL CONDITION
MERCER COUNTY**

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

13. JOINT VENTURE

Mercer County Regional Planning Commission

The Mercer County Regional Planning Commission (the Commission) is a joint venture among the County, the City of Celina, and townships and villages within the County. The degree of control exercised by any participating government is limited to its representation on the Board. The Board is comprised of the Mercer County Engineer, Mercer County Health Commissioner, seven county members appointed by the Mercer County Commissioners (one for each two townships in the county), a representative from each municipal corporation wishing to participate, except that municipalities of city status shall be entitled to two representatives, and two citizens of Mercer County designated by the Board of County Commissioners.

The Commission shall have the power and duty to make plans and maps of the region showing the Commission's recommendations for systems of transportation, highways, park and recreational facilities, water supply, sewerage and sewage disposal, garbage disposal, civic centers and other public improvements which affect the development of the region as a whole, or more than one political subdivision within the region and which do not begin and terminate within the boundaries of any single subdivision in the municipality. The County contributed \$4,000 (51percent) during 2003 for the operations of the Commission. The Commission is not accumulating significant financial resources and is not experiencing fiscal stress that may cause an additional financial benefit to or burden on members in the future. Complete financial statements can be obtained from the Commission located at 220 West Livingston Street, Room A201, Celina, Ohio 45822.

14. RELATED ORGANIZATION

The Mercer County District Library is a district political subdivision of the State of Ohio created under Chapter 3311.05 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Mercer County Commissioners and the Common Pleas Court Judge. The Board of Trustees possess its own contracting and budgeting authority, hires and fires personnel and does not depend on Mercer County for operational subsidies. Although the Mercer County Commissioners serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees.

15. CONTRACTUAL COMMITMENTS

The County had entered into the following contractual commitment as of December 31, 2003:

Celina Mendon Road Bridge Project	\$324,751
Hellwarth Ditch Project	105,267
Braun Ambulance purchase contract	103,763
Wabash Bridge Project	204,115
Purdy Road Bridge Project	229,387

The above contractual commitments were encumbered against the General, Special Revenue, or Enterprise fund types at December 31, 2003.

**FINANCIAL CONDITION
MERCER COUNTY**

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

16. PENDING LITIGATION

The County is party to legal proceedings. The County is of the opinion that ultimate disposition of claims will not have material effect, if any, on the financial condition of the County.

17. SUBSEQUENT EVENTS

The County Commissioners approved the following bond anticipation notes subsequent to year end:

Date	Issue	Amount
2/19/04	Bryanvilla & Bruns-Gerdes Ditch	\$51,200
3/30/04	Airport Improvements	\$126,000
5/4/04	Various Purpose Ditch Improvement	\$133,300

On 2/19/04, the County Commissioners also approved issuing \$130,500 of bonds for the purpose of making utility improvements, including water and sanitary sewer lines to service an industrial corridor in the County.

On 4/13/04, the County approved a Water Pollution control Loan through the Ohio EPA for Mercer County Lake Acres Sanitary Sewer Project for \$294,424 at 2.75% for a period of twenty years.

**FINANCIAL CONDITION
MERCER COUNTY**

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

Federal Grantor/ Pass Through Grantor County Department Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Passed through Ohio Department of Development)</i>			
Community Development Block Grants:			
Community Development Block Grants/State's Program			
	B-F-01-050-1	14.228	\$2,445
	B-F-02-050-1	14.228	144,739
	B-F-03-050-1	14.228	5,692
	B-C-01-050-1	14.228	231,607
	B-C-02-050-1	14.228	2,278
	B-C-03-050-1	14.228	2,699
	B-E-02-050-1	14.228	497,280
Total			<u>886,740</u>
Direct			
HOME Investment Partnership	B-C-01-050-2	14.239	116,747
Total Department of Housing and Urban Development			1,003,487
U.S. Department of Justice			
<i>(Passed through Attorney General's Crime Victim Services)</i>			
Crime Victim Assistance	2002VAGENE068	16.575	8,154
	2003VAGENE068	16.575	33,528
Total			<u>41,682</u>
<i>(Passed through Office of Criminal Justice Services)</i>			
Proactive Court of Justice - Byrne Grant	2002-DG-B01-7248	16.580	3,398
Violence Against Women Formula Grant	2002-WF-VA2-8116	16.588	2,268
	2003-WF-VA2-8116	16.588	15,669
Total			<u>17,937</u>
Total Department of Justice			63,017
U.S Department of Homeland Security			
<i>(Passed through Ohio Emergency Management Agency)</i>			
State Domestic Preparedness Equipment Support Program			
	S03-JE-99-54-0358	97.004	1,856
	2002-TE-CX--0106	97.004	23,317
	2002-TE-CX-0049	97.004	23,170
	S03-HE03-54-0465	97.004	16,782
Total			<u>65,125</u>
State and Local All Hazards Emergency Operations Planning	EMC-2003-GR-7026	97.051	26,337
Pre-Disaster Mitigation	EMC-2002-GR-7037	97.047	5,731
Citizens Corps	EMC-2003-GR-7027	97.053	5,000
CERT Grant	K281	97.053	5,000
Total			<u>10,000</u>
<i>(Passed through Ohio Department of Public Safety)</i>			
Emergency Management Performance Grant	S03-FE-54-0300	97.042	15,826
Emergency Management Performance Grant	EMC-2003-GR-7006	97.042	11,803
Total			<u>27,629</u>
Total Department of Homeland Security			134,822

**FINANCIAL CONDITION
MERCER COUNTY**

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

Federal Grantor/ Pass Through Grantor County Department Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S DEPARTMENT OF TRANSPORTATION			
(Passed through Ohio Department of Transportation)			
Highway Planning and Construction	PID#22286	20.205	692,023
	PID#23806	20.205	800
	PID#23807	20.205	185,971
	PID#23811	20.205	181
Total			<u>878,975</u>
UNITED STATES DEPARTMENT OF LABOR			
(Passed through Ohio Department of Job & Family Services)			
WIA Cluster:			
Workforce Investment Act - Youth	N/A	17.259	701,413
Workforce Investment Act - Youth Administration	N/A	17.259	52,717
WIA Youth Passed through to Auglaize County	N/A	17.259	51,397
WIA Youth Passed through to Hardin County	N/A	17.259	17,108
WIA Youth Admin Passed through to Hardin County	N/A	17.259	4,200
Workforce Investment Act - Youth Total			<u>826,835</u>
Workforce Investment Act - Adult	N/A	17.258	572,320
Workforce Investment Act - Adult Administration	N/A	17.258	64,608
WIA Adult Passed through to Auglaize County	N/A	17.258	4,159
WIA Adult Passed through to Hardin County	N/A	17.258	8,737
WIA Adult Admin Passed through to Hardin County	N/A	17.258	2,145
Workforce Investment Act - Adult Total			<u>651,969</u>
Workforce Investment Act - Dislocated Worker	N/A	17.260	278,296
Workforce Investment Act - Dislocated Worker Administration	N/A	17.260	25,808
Workforce Investment Act - Rapid Response	N/A	17.260	1,889
WIA Dislocated Worker Passed through to Auglaize County	N/A	17.260	7,370
WIA Dislocated Worker Passed through to Hardin County	N/A	17.260	11,655
WIA Dislocated Worker Admin Passed through to Hardin County	N/A	17.260	2,861
Workforce Investment Act - Dislocated Worker Total			<u>327,879</u>
Total WIA Cluster			<u>1,806,683</u>
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES			
(Passed through Ohio Department of MRDD)			
Social Services Block Grant	MR-54 (02)	93.667	49
	MR-54 (03)	93.667	30,319
	MR-54 (04)	93.667	18,674
Total			<u>49,042</u>
(Passed through Ohio Department of MRDD)			
Medical Assistance Program	5400015	93.778	462,914
(Passed through Ohio Department of Job & Family Services)			
Emergency Service Assistance	N/A	93.556	8,392
(Passed through Ohio Department of Job & Family Services)			
Independent Living	N/A	93.674	5,497
(Passed through Ohio Department of Job & Family Services)			
Title VI-B Allocation	N/A	93.645	35,955
(Passed through Ohio Department of Job & Family Services)			
Child Abuse and Neglect State Grant	N/A	93.669	2,000
Total Department of Health and Human Services			<u>563,800</u>
Total Federal Assistance			<u><u>\$4,450,784</u></u>

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

**FINANCIAL CONDITION
MERCER COUNTY**

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

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 - MATCHING REQUIREMENTS

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

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

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

These loans are collateralized by mortgages on the property. At December 31, 2003, the gross amount of loans outstanding under this program were \$2,123,374. Delinquent amounts due were \$ 231,948.

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

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

Previous Federal Agency	CFDA No. used In 2002	Homeland Security CFDA No. used for 2003
Department of Justice	16.007	97.004
Federal Emergency Management Agency	83.562	97.051
Federal Emergency Management Agency	83.552	97.042
Federal Emergency Management Agency	83.557	97.047
Federal Emergency Management Agency	83.564	97.053

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**Auditor of State
Betty Montgomery**

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

Board of Commissioners
Mercer County
Central Services Building
220 W. Livingston Street
Room A201
Celina, Ohio 45822

To the Board of Commissioners:

We have audited the financial statements of Mercer County (the County) as of and for the year ended December 31, 2003, and have issued our report thereon dated April 21, 2004, wherein we noted that the County has continued to follow the basis of accounting previously prescribed by the Auditor of State rather than generally accepted accounting principles which is now required. We conducted our audit in accordance with generally accepted auditing standards 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 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 management of the County in a separate letter dated April 21, 2004.

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 others 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 April 21, 2004.

Board of Commissioners
Mercer County
Independent Accountants' Report on Compliance and
On Internal Control Required by *Government Auditing Standards*
Page 2

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

April 21, 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

Board of Commissioners
Mercer County
Central Services Building
220 W. Livingston Street
Room A201
Celina, Ohio 45822

To the Board of Commissioners:

Compliance

We have audited the compliance of Mercer 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, 2003. The County's major federal program is 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 to its major federal program 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 material 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 its major federal program for the year ended December 31, 2003. However, we noted certain instances of noncompliance that do not require inclusion in this report that we have reported to the management of the County in a separate letter April 21, 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 the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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**Internal Control Over Compliance
(Continued)**

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. However, we noted other matters involving the internal control over federal compliance, that do not require inclusion in this report, that we have reported to management of the County in a separate letter dated April 21, 2004.

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



Betty Montgomery
Auditor of State

April 21, 2004

**FINANCIAL CONDITION
MERCER COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS
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(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	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):	Workforce Investment Act: CFDA #s 17.258, 17.259, & 17.260
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

FINDING NUMBER 2003-001

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

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 and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38, the County may be fined and subject to various other administrative remedies for its failure to file the required financial report.

The County should prepare their 2004 financial statements in accordance with generally accepted accounting principles.

FINDING NUMBER 2003-002

Ohio Rev Code Section 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been appropriated.

The Expendable Trust Funds expenditures exceeded appropriations by \$8,852 at year end.

A periodic comparison between appropriations and expenditures should be performed in order to determine that expenditures do not exceed appropriations. If expenditures do exceed appropriations, then the necessary amendments should be obtained.

3. FINDINGS AND QUESTIONED COST FOR FEDERAL AWARDS

None

**FINANCIAL CONDITION
MERCER COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2003**

Finding Number	Finding Summary	Fully Corrected	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2002-001	OAC Sec. 117-2-03 - Not filing financial statements on GAAP basis	No	Not corrected – The County officials do not feel it is cost effective for conversion and future reporting needs - see finding number 2003-001
2002-002	OAC Sec. 117-2-02 (A) - Not recording all revenues and expenditures	No	Partially corrected – Repeated in Management Letter
2002-003	ORC Sec. 5705.41(B) - Expenditures exceeding appropriations	No	Not Corrected – See finding number 2003-002



**Auditor of State
Betty Montgomery**

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MERCER COUNTY FINANCIAL CONDITION

MERCER 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
JUNE 1, 2004**