

MORROW COUNTY, OHIO

***BASIC
FINANCIAL STATEMENTS***

***FOR THE YEAR ENDED
DECEMBER 31, 2003***

HONORABLE MARY M. HOLTREY, AUDITOR



**Auditor of State
Betty Montgomery**

Board of Commissioners
Morrow County
48 E. Main St.
Mt Gilead, OH 43338

We have reviewed the Independent Auditor's Report of Morrow County, prepared by Ciuni & Panichi, Inc., for the audit period January 1, 2003 through December 31, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

September 29, 2004

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Morrow County, Ohio

For The Year Ended December 31, 2003

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Morrow County, Ohio

For The Year Ended December 31, 2003

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CPAs and Business Advisors

Independent Auditor's Report

Board of County Commissioners
Morrow County, Ohio

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Morrow County as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Morrow County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Morrow County Hospital, which represent ninety-eight percent and ninety-nine percent, respectively, of the total assets and total revenue of the business-type activities. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Morrow County Hospital, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Morrow County, as of December 31, 2003, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund, Emergency Squad, Motor Vehicle and Gas Tax, Public Assistance, and the MRDD Special Revenue Funds thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3 to the financial statements, the City has implemented a new reporting model, as required by the provisions of GASB Statement No. 34 *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as of December 31, 2003.

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Board of County Commissioners
Morrow County, Ohio

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2004, on our consideration of Morrow County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Cini & Parichi, Inc.

Cleveland, Ohio
August 27, 2004

MORROW COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2003 UNAUDITED

The discussion and analysis of Morrow County's (the "County") financial performance provides an overall review of the County's financial activities for the year ended December 31, 2003. The intent of this discussion and analysis is to look at the County's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the County's financial performance.

Financial Highlights

Key financial highlights for 2003 are as follows:

- The total net assets of the County increased \$2,634,009. Net assets of governmental activities increased \$2,008,977, which represents a 6.27% increase over fiscal year 2002. Net assets of business-type activities increased \$625,032 or 6.23% from fiscal year 2002.
- General revenues accounted for \$8,156,540 or 35.36% of total governmental activities revenue. Program specific revenues accounted for \$14,909,083 or 64.64% of total governmental activities revenue.
- The County had \$21,067,383 in expenses related to governmental activities; \$14,909,083 of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of \$8,156,540 were adequate to provide for these programs.
- The general fund, the County's largest major fund, had revenues of \$8,291,987 in 2003, an increase of \$319,209 or 4.00% from 2002 revenues. The general fund, had expenditures of \$7,709,287 in 2003, a decrease of \$674,543 or 8.05% from 2002. The decrease in expenditures and increase in revenues contributed to the general fund balance increase of \$457,776 from 2002 to 2003.
- The emergency squad fund, a County major fund, had revenues of \$734,666 in 2003. The emergency squad fund, had expenditures of \$703,149. The emergency squad fund balance increased \$31,517 from 2002 to 2003.
- The motor vehicle and gas tax, a County major fund, had revenues of \$3,271,084 in 2003. The motor vehicle and gas tax, had expenditures of \$2,424,663 in 2003. The motor vehicle and gas tax balance increased \$684,885 from 2002 to 2003.
- The public assistance fund, a County major fund, had revenues of \$3,905,063 in 2003. The public assistance fund, had expenditures of \$3,883,401 in 2003. The public assistance fund balance increased \$21,662 from 2002 to 2003.
- The MR/DD fund, a County major fund, had revenues of \$2,191,848 in 2003. The MR/DD fund, had expenditures of \$2,723,486 in 2003. The MR/DD fund balance decreased \$511,638 from 2002 to 2003.
- Net assets for the business-type activities, which are made up of the Ketterman Project and Morrow County Hospital enterprise funds, increased in 2003 by \$625,032. This increase in net assets was due to adequate charges for services revenue to cover operating expenses.
- In the general fund, the actual revenues came in \$569,501 higher than they were originally budgeted and actual expenditures were \$106,239 higher than the amount in the original budget. The County uses a conservative budgeting process.

MORROW COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2003 UNAUDITED

Using this Basic Financial Statements (BFS)

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the County as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole County, presenting both an aggregate view of the County's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the County's most significant funds with all other nonmajor funds presented in total in one column. In the case of the County, there are five major governmental funds. The general fund is the largest major fund.

Reporting the County as a Whole

Statement of Net Assets and the Statement of Activities

The Statement of Net Assets and the Statement of Activities answer the question, "How did we do financially during 2003?" These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the County's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the County as a whole, the financial position of the County has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the County's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the County is divided into two distinct kinds of activities:

Governmental Activities - Most of the County's programs and services are reported here including human services, health, public safety, public works and general government. These services are funded primarily by taxes and intergovernmental revenues including federal and state grants and other shared revenues.

Business-Type Activities - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided.

Reporting the County's Most Significant Funds

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

MORROW COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2003 UNAUDITED

Fund financial reports provide detailed information about the County's major funds. The County uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the County's most significant funds. The County's major governmental funds are the General Fund, Emergency Squad Fund, Motor Vehicle and Gas Tax, Public Assistance Fund and the County Board of Mental Retardation and Developmentally Disabled (MR/DD). The analysis of the County's major governmental and proprietary funds begins on page 9.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

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

The County maintains a multitude of individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances for the major funds. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental financial statements can be found on pages 19-24 of this report.

Proprietary Funds

The County maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses enterprise funds to account for its Ketterman project and Morrow County Hospital operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses an internal service fund to account for a self-funded health insurance program for employees of the County. Because this service predominantly benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements. The basic proprietary fund financial statements can be found on pages 30-33 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the County. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statement can be found on page 34 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 35-72 of this report.

MORROW COUNTY, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
UNAUDITED**

Government-Wide Financial Analysis

The Statement of Net Assets provides the perspective of the County as a whole. Recall that the Statement of Net Assets provides the perspective of the County as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting; therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available. The table below provides a summary of the County's net assets for 2003.

	Governmental Activities	Business-Type Activities
	2003	2003
<u>Assets</u>		
Current and other assets	\$ 15,121,987	\$ 8,479,789
Capital assets	29,294,660	11,831,291
Total assets	44,416,647	20,311,080
<u>Liabilities</u>		
Long-term liabilities outstanding	6,078,433	5,559,335
Other liabilities	4,305,165	3,893,972
Total liabilities	10,383,598	9,453,307
<u>Net Assets</u>		
Invested in capital assets, net of debt	23,741,772	6,633,321
Restricted	8,603,120	-
Unrestricted	1,688,157	4,224,452
Total net assets	\$ 34,033,049	\$ 10,857,773

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2003, the County's assets exceeded liabilities by \$44,890,822. This amounts to \$34,033,049 in governmental activities and \$10,857,773 in business-type activities. The County's finances remained strong during 2003, despite the decline in the economy.

Capital assets reported on the government-wide statements represent the largest portion of the County's net assets. At year-end, capital assets represented 63.54% of total governmental and business-type assets. Capital assets include land, land improvements, buildings, buildings and improvements, furniture and equipment, vehicles, infrastructure, construction in progress, the Ketterman project and the Morrow County Hospital. Capital assets, net of related debt to acquire the assets at December 31, 2003, was \$30,375,093. These capital assets are used to provide services to citizens and are not available for future spending. Although the County's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

As of December 31, 2003, the County is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

A portion of the County's net assets, \$8,603,120 or 19.16%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of government-wide unrestricted net assets of \$1,688,157 may be used to meet the government's ongoing obligations to citizens and creditors.

The table below shows the changes in net assets for fiscal year 2003. Since this is the first year the County has prepared

MORROW COUNTY, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
UNAUDITED**

financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2002 are not available. A comparative analysis will be provided in future years when prior year information is available.

	Governmental Activities	Business-Type Activities
	2003	2003
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 3,837,066	\$ 23,036,434
Operating grants and contributions	11,072,017	28,808
General revenues:		
Property taxes	3,217,785	-
Sales tax	2,489,471	-
Unrestricted grants	855,107	-
Investment earnings	340,933	104,593
Gain from sale of capital assets	14,066	-
Other	1,239,178	1,517,300
Total revenues	23,065,623	24,687,135
<u>Expenses</u>		
Program expenses:		
General government		
Legislative and executive	\$ 3,672,238	\$ -
Judicial	1,273,900	-
Public safety	4,587,168	-
Public works	1,922,118	-
Health	2,846,616	-
Human services	5,733,902	-
Economic development and assistance	88,799	-
Intergovernmental	217,000	-
Other	495,519	-
Interest and fiscal charges	230,123	-
Morrow County Hospital	-	24,026,626
Ketterman Project	-	24,740
Total expenses	21,067,383	24,051,366
Change in net assets before transfers	1,998,240	635,769
Transfers	10,737	(10,737)
Increase in net assets	\$ 2,008,977	\$ 625,032

MORROW COUNTY, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
UNAUDITED**

Governmental Activities

Governmental assets increased by \$2,008,977 in 2003 over 2002. This increase is due to increasing revenues and controlled expenditures in 2003 compared to 2002.

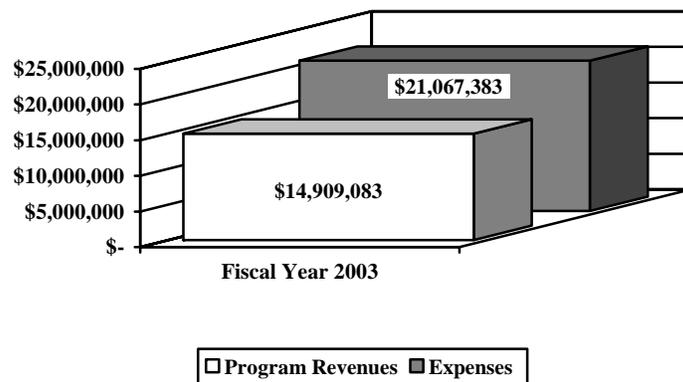
Human services accounts for \$5,733,902 of expenses, or 27.22% of total governmental expenses of the County. These expenses were funded by \$90,414 in charges to users of services in 2003. General government, which includes legislative and executive and judicial programs, expenses totaled \$4,946,138 or 23.48% of total governmental expenses. General government expenses were covered by \$1,808,774 of direct charges to users in 2003.

The state and federal government contributed to the County revenues of \$11,072,017 in operating grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions, \$5,305,834, or 47.92%, subsidized human services programs.

General revenues totaled \$8,156,540, and amounted to 35.36% of total revenues. These revenues primarily consist of property and sales tax revenue of \$5,707,256 or 69.97% of total general revenues in 2003. The other primary source of general revenues is grants and entitlements not restricted to specific programs, with local government and local government revenue assistance making up \$855,107, or 10.48% of the total. In August 2002, the state placed a freeze on local government and local government revenue assistance to be distributed to local governments in 2003.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2003. That is, it identifies the cost of these services supported by tax revenue and unrestricted state grants and entitlements. As can be seen in the Graph below, the County is highly dependent upon property and income taxes as well as unrestricted grants and entitlements to support its governmental activities.

Governmental Activities – Program Revenues vs. Total Expenses



MORROW COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2003 UNAUDITED

Governmental Activities

	Total Cost of Services <u>2003</u>	Net Cost of Services <u>2003</u>
Expenses:		
General government		
Legislative and executive	\$ 3,672,238	\$ 2,382,193
Judicial	1,273,900	180,037
Public safety	4,587,168	2,668,936
Public works	1,922,118	(1,471,490)
Health	2,846,616	1,470,222
Human services	5,733,902	337,654
Economic development and assistance	88,799	5,004
Intergovernmental	217,000	217,000
Other	495,519	151,982
Interest and fiscal charges	<u>230,123</u>	<u>216,762</u>
Total expenses	<u>\$ 21,067,383</u>	<u>\$ 6,158,300</u>

The dependence upon general revenues for governmental activities is apparent, with 29.23% of expenses supported through taxes and other general revenues during 2003.

Business-Type Activities

The Morrow County Hospital and Ketterman Project are the County's only enterprise funds. These programs had revenues of \$24,687,135 and expenses of \$24,051,366 for fiscal year 2003. The net assets of the enterprise funds increased \$625,032 or 6.23% during 2003.

Financial Analysis of the Government's Funds

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the County's net resources available for spending at year-end.

The County's governmental funds (as presented on the balance sheet on pages 19-20) reported a combined fund balance of \$8,520,569, which is \$3,625,519 over last year's total of \$4,895,050. The schedule below indicates the fund balance and the total change in fund balance as of December 31, 2003 for all major and nonmajor governmental funds.

MORROW COUNTY, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
UNAUDITED**

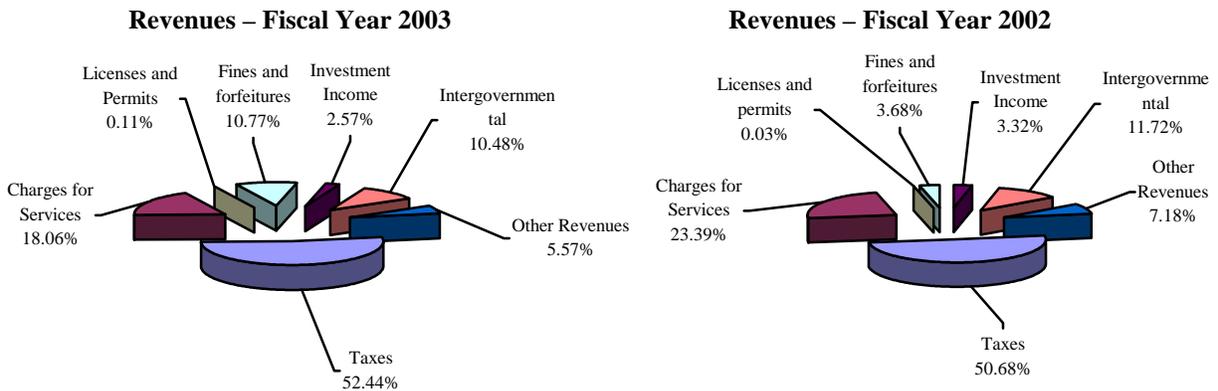
	<u>Fund Balance</u> <u>June 30, 2003</u>	<u>Fund Balance</u> <u>June 30, 2002</u>	<u>Increase</u> <u>(Decrease)</u>
Major Funds:			
General	\$ 1,538,935	\$ 1,081,159	\$ 457,776
Emergency Squad Fund	59,111	27,594	31,517
Motor Vehicle and Gas Tax	1,741,095	1,056,210	684,885
Public Assistance	137,726	116,064	21,662
MR/DD	879,789	1,391,427	(511,638)
Other Nonmajor Governmental Funds	<u>4,163,913</u>	<u>1,222,596</u>	<u>2,941,317</u>
Total	<u>\$ 8,520,569</u>	<u>\$ 4,895,050</u>	<u>\$ 3,625,519</u>

General Fund

The County's general fund balance increased \$457,776, primarily due to revenues increasing and a slight decline in expenditures. The table that follows assists in illustrating the revenues of the general fund.

	<u>2003</u> <u>Amount</u>	<u>2002</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
Revenues			
Taxes	\$ 4,348,768	\$ 4,040,836	7.62 %
Charges for services	1,749,719	1,864,651	(6.16) %
Licenses and permits	9,306	2,699	244.79 %
Fines and forfeitures	640,213	293,573	118.08 %
Intergovernmental	869,285	934,262	(6.95) %
Investment income	212,913	264,563	(19.52) %
Other	<u>461,783</u>	<u>572,194</u>	(19.30) %
Total	<u>\$ 8,291,987</u>	<u>\$ 7,972,778</u>	4.00 %

Tax revenue represents 52.45% of all general fund revenue. Tax revenue increased slightly by 7.62% over prior year. The decrease in investment income is due to low interest rates throughout the year. The increase in fines and forfeitures is due to the County reassessing what is considered charges for services. All other revenue remained comparable to 2002.



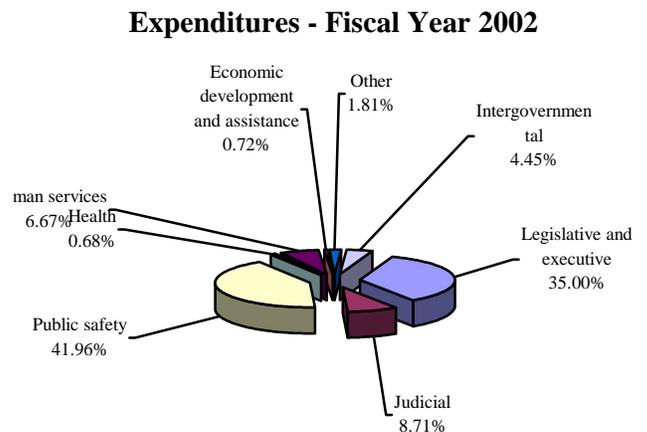
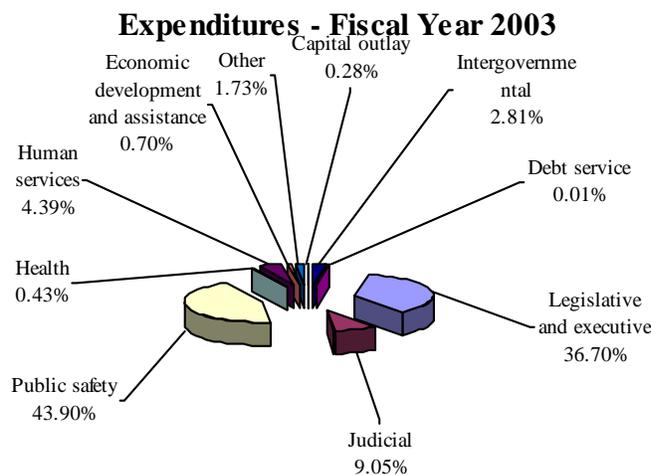
MORROW COUNTY, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
UNAUDITED**

The table that follows assists in illustrating the expenditures of the general fund.

	<u>2003 Amount</u>	<u>2002 Amount</u>	<u>Percentage Change</u>
<u>Expenditures</u>			
General government			
Legislative and executive	\$ 2,829,278	\$ 2,934,313	(3.58) %
Judicial	697,343	729,969	(4.47) %
Public safety	3,384,167	3,519,349	(3.84) %
Health	33,093	56,732	(41.67) %
Human services	338,818	558,977	(39.39) %
Economic development and assistance	54,223	59,950	(9.55) %
Other	133,538	151,457	(11.83) %
Capital outlay	21,277	-	100.00 %
Intergovernmental	217,000	373,083	(41.84) %
Debt service	550	-	100.00 %
Total	<u>\$ 7,709,287</u>	<u>\$ 8,383,830</u>	(8.05) %

The most significant increases were in the areas of capital outlay and debt service. These increases are primarily due to the County controlling the purchase of capital assets during the year. The decrease in health and human services is due to the County aggressively pursuing state and federal grants. All other expenditures remained comparable to 2002. The largest expenditure line item, public safety, decreased marginally, which is primarily attributed to wage and benefit controls by the County.



Emergency Squad Fund

The emergency squad fund, a County major fund, had revenues of \$734,666 in 2003. The emergency squad fund, had expenditures of \$703,149. The emergency squad fund balance increased \$31,517 from 2002 to 2003.

MORROW COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2003 UNAUDITED

Motor Vehicle License and Gas Tax Fund

The motor vehicle and gas tax fund, a County major fund, had revenues of \$3,271,084 in 2003. The motor vehicle and gas tax fund, had expenditures of \$2,424,663 in 2003. The motor vehicle and gas tax fund balance increased \$684,885 from 2002 to 2003.

Public Assistance Fund

The public assistance fund, a County major fund, had revenues of \$3,905,063 in 2003. The public assistance fund, had expenditures of \$3,883,401 in 2003. The public assistance fund balance increased \$21,662 from 2002 to 2003.

MR/DD Fund

The MR/DD fund, a County major fund, had revenues of \$2,191,848 in 2003. The MR/DD fund, had expenditures of \$2,723,486 in 2003. The MR/DD fund balance decreased \$511,638 from 2002 to 2003.

Budgeting Highlights - General Fund

The County's budgeting process is prescribed by the Ohio Revised Code (ORC). Essentially the budget is the County's appropriations which are restricted by the amounts of anticipated revenues certified by the Budget Commission in accordance with the ORC. Therefore, the County's plans or desires cannot be totally reflected in the original budget. If budgeted revenues are adjusted due to actual activity then the appropriations can be adjusted accordingly.

Budgetary information is presented for the general fund, motor vehicle license and gas tax, public assistance and MR/DD. In the general fund, there were no significant changes between the original and final budget. Actual revenues of \$8,055,812 exceeded final budgeted revenues by \$300,851 or 3.88%. This increase is due to the County's conservative approach to budgeting. Another significant difference between the final budget and actual expenditures was a \$181,234 or 2.17% decrease in expenditures.

Actual revenues for the motor vehicle license and gas tax were more than final budgeted revenues by \$582,769 while actual expenditures were \$424,409 lower than final budgeted expenditures. Actual revenues for public assistance were less than final budgeted revenues by \$234,072 while actual expenditures were \$282,767 lower than final budgeted expenditures. Actual revenues for MR/DD were more than final budgeted revenues by \$69,946 while actual expenditures were \$384,226 lower than final budgeted expenditures. Actual revenues for the emergency squad were less than final budgeted revenues by \$46,851 while actual expenditures were the same as final budgeted expenditures. There were no significant variances between the original and final budgeted revenue amounts.

Proprietary Funds

The County's proprietary funds provide the same type of information found in the government-wide financial statements for business-type activities, but in more detail.

MORROW COUNTY, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
UNAUDITED**

Capital Assets and Debt Administration

Capital Assets

During 2003, the County restated its governmental activities capital assets to include the retroactive infrastructure assets. See Note 3.A. to the basic financial statements for detail. At the end of 2003, the County had \$41,125,951 (net of accumulated depreciation) invested in land, land improvements, buildings, buildings and improvements, furniture and equipment, vehicles, infrastructure, construction in progress, the Ketterman project and the Morrow County Hospital. Of this total, \$29,294,660 was reported in governmental activities and \$11,831,291 was reported in business-type activities. The following table shows fiscal 2003 balances compared to 2002:

**Capital Assets at December 31
(Net of Depreciation)**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
	<u>2003</u>	<u>2003</u>	<u>2003</u>
Land	\$ 612,010	\$ -	\$ 612,010
Buildings	6,458,502	-	6,458,502
Buildings and improvements	364,748	-	364,748
Furniture and equipment	666,449	-	666,449
Vehicles	1,293,519	-	1,293,519
Infrastructure	19,878,532	-	19,878,532
Construction in progress	20,900	-	20,900
Ketterman project	-	225,608	225,608
Morrow County Hospital	-	11,605,683	11,605,683
	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 29,294,660</u>	<u>\$ 11,831,291</u>	<u>\$ 41,125,951</u>

Debt Administration

At December 31, 2003 the County had \$6,078,433 in general obligation bonds, special assessment notes, 2003 notes, loans payable, OWDA loans, capital leases and compensated absences payable outstanding. Of this total, \$3,028,185 is due within one year and \$3,050,248 is due within greater than one year. See Note 10 to the basic financial statements for detail. The following table summarizes the bonds, notes and loan outstanding.

Outstanding Debt, at Year End

	<u>Governmental Activities 2003</u>	<u>Governmental Activities 2002</u>
Long-Term Obligations		
General obligation bonds	\$ 2,505,000	\$ 3,207,362
Special assessment notes	49,184	79,603
2003 notes	2,590,000	-
Loans payable	211,051	449,416
OWDA loans	151,830	136,343
Capital leases	45,823	48,431
Compensated absences payable	525,545	521,707
	<u> </u>	<u> </u>
Total	<u>\$ 6,078,433</u>	<u>\$ 4,442,862</u>

MORROW COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2003 UNAUDITED

At December 31, 2003 the County's overall legal debt margin was \$8,342,333. The County maintains an Aa-3 rating from Moody's Investors Service.

Economic Factors and Next Year's Budget

Morrow County, Ohio is strategically located in north central Ohio and is home to a diverse manufacturing and agricultural base which includes fabricated and primary metals, polymers, automotive parts, and household goods and appliances. While primarily a rural community, Morrow County has easy access to all major city amenities from its two interchanges on Interstate 71, the major north-south transportation link between Cincinnati, Columbus, and Cleveland.

Location is also the key to Morrow County's future. Over 600 acres of industrial and commercial development opportunities are situated at the interchanges of Interstate 71 offering easy access for transportation of goods, materials and workers. Three new industrial based businesses broke ground for new facilities at State Route 61 and Interstate 71. While the County's 2003 overall unemployment rate (6.6%) was slightly higher than the State's average (6.0%), most of the County's major industrial companies increased employment levels.

Location also plays a key role in residential growth in the County. With an estimated 2003 population of 33,600, new home construction continues to increase population figures at a 2% rate per year. Approximately 244 new homes were constructed in 2003, which is slightly higher than in 2002. Early 2004 estimates indicate that these figures will be comparable if not slightly larger.

In 2003, the County undertook several new initiatives. The County began the planning process for a Comprehensive Land-Use Plan, which should be completed in late 2004. Additionally, residents in six townships approved county-wide zoning. Both efforts will enable the County to better guide future growth, better coordinate capital improvement plans, and serve as a catalyst for quality development.

Contacting the County's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mary Holtrey, County Auditor at 48 East Main Street, Mount Gilead, Ohio 43338.

**BASIC
FINANCIAL STATEMENTS**

MORROW COUNTY, OHIO

STATEMENT OF NET ASSETS
DECEMBER 31, 2003

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets:				
Equity in pooled cash and cash equivalents	\$ 6,538,814	\$ 100,535	\$ 6,639,349	\$ 34,816
Cash and cash equivalents in segregated accounts.	-	733,021	733,021	-
Investments	-	2,854	2,854	47,386
Receivables (net of allowances for uncollectibles):				
Property and other local taxes.	3,131,004	1,150,000	4,281,004	-
Sales taxes	400,269	-	400,269	-
Accounts	789,781	3,690,722	4,480,503	4,892
Special assessments.	41,692	-	41,692	-
Accrued interest	34,454	266	34,720	-
Notes.	-	406,397	406,397	-
Due from other governments	3,030,101	-	3,030,101	-
Prepayments.	139,090	228,446	367,536	-
Deposits.	-	-	-	333
Materials and supplies inventory.	115,325	292,543	407,868	32,157
Notes receivable	901,457	-	901,457	-
Restricted assets:				
Equity in pooled cash and cash equivalents	-	1,551,467	1,551,467	-
Investments.	-	309,235	309,235	-
Accrued interest	-	14,303	14,303	-
Capital assets:				
Land and construction in progress.	632,910	411,081	1,043,991	-
Depreciable capital assets, net	28,661,750	11,420,210	40,081,960	15,344
Total capital assets.	29,294,660	11,831,291	41,125,951	15,344
Total assets.	44,416,647	20,311,080	64,727,727	134,928

-- Continued

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MORROW COUNTY, OHIO

STATEMENT OF NET ASSETS (CONTINUED)
DECEMBER 31, 2003

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Liabilities:				
Accounts payable	526,288	1,049,916	1,576,204	8,003
Accrued wages and benefits	415,677	1,212,958	1,628,635	1,246
Compensated absences	3,011	-	3,011	-
Due to other governments	497,298	-	497,298	-
Deferred revenue	2,696,657	1,150,000	3,846,657	1,345
Accrued interest payable	38,452	25,269	63,721	-
Claims payable	127,782	-	127,782	-
Medicare and medicaid third party settlement	-	355,829	355,829	-
Long-term liabilities:				
Due within one year	3,028,185	920,841	3,949,026	3,394
Due in more than one year	3,050,248	4,738,494	7,788,742	5,468
Total liabilities	10,383,598	9,453,307	19,836,905	19,456
Net assets:				
Invested in capital assets, net of related debt	23,741,772	6,633,321	30,375,093	-
Restricted for:				
Capital projects	859,558	-	859,558	-
Debt service	391,648	-	391,648	-
Public safety	473,024	-	473,024	-
Public works	2,812,822	-	2,812,822	-
Human services	1,431,308	-	1,431,308	-
Other purposes	2,634,760	-	2,634,760	-
Unrestricted	1,688,157	4,224,452	5,912,609	115,472
Total net assets	\$ 34,033,049	\$ 10,857,773	\$ 44,890,822	\$ 115,472

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MORROW COUNTY, OHIO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2003

	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
Primary Government:			
Governmental Activities:			
General government:			
Legislative and executive	\$ 3,672,238	\$ 1,202,769	\$ 87,276
Judicial	1,273,900	606,005	487,858
Public safety	4,587,168	1,461,403	456,829
Public works	1,922,118	4,428	3,389,180
Health	2,846,616	374,148	1,002,246
Human services	5,733,902	90,414	5,305,834
Economic development and assistance	88,799	5,952	77,843
Intergovernmental	217,000	-	-
Other.	495,519	78,586	264,951
Interest and fiscal charges	230,123	13,361	-
Total governmental activities	<u>21,067,383</u>	<u>3,837,066</u>	<u>11,072,017</u>
Business-type Activities:			
Morrow County Hospital	24,026,626	23,003,084	28,808
Ketterman Project.	24,740	33,350	-
Total business-type activities	<u>24,051,366</u>	<u>23,036,434</u>	<u>28,808</u>
Total primary government	<u>\$ 45,118,749</u>	<u>\$ 26,873,500</u>	<u>\$ 11,100,825</u>
Component Unit:			
Whetstone Industries, Inc.	<u>\$ 773,559</u>	<u>\$ 698,117</u>	<u>\$ 65,970</u>

General Revenues:

Property taxes levied for:
General purposes.
Special purposes.
Sales taxes levied for:
General purposes.
Grants and entitlements not restricted to specific programs
Gain from sale of capital assets
Investment earnings
Miscellaneous
Total general revenues
Transfers
Total general revenues and transfers.
Change in net assets
Net assets, January 1
Net assets, December 31

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Net (Expense) Revenue and Changes in Net Assets

		Primary Government		
Governmental		Business-type		Component
Activities		Activities	Total	Unit
\$ (2,382,193)	\$ -	\$ (2,382,193)	\$ -	
(180,037)	-	(180,037)	-	
(2,668,936)	-	(2,668,936)	-	
1,471,490	-	1,471,490	-	
(1,470,222)	-	(1,470,222)	-	
(337,654)	-	(337,654)	-	
(5,004)	-	(5,004)	-	
(217,000)	-	(217,000)	-	
(151,982)	-	(151,982)	-	
(216,762)	-	(216,762)	-	
(6,158,300)	-	(6,158,300)	-	
-	(994,734)	(994,734)	-	
-	8,610	8,610	-	
-	(986,124)	(986,124)	-	
(6,158,300)	(986,124)	(7,144,424)	-	
-	-	-	(9,472)	
1,955,369	-	1,955,369	-	
1,262,416	-	1,262,416	-	
2,489,471	-	2,489,471	-	
855,107	-	855,107	-	
14,066	-	14,066	-	
340,933	104,593	445,526	-	
1,239,178	1,517,300	2,756,478	4,779	
8,156,540	1,621,893	9,778,433	4,779	
10,737	(10,737)	-	-	
8,167,277	1,611,156	9,778,433	4,779	
2,008,977	625,032	2,634,009	(4,693)	
32,024,072	10,232,741	42,256,813	120,165	
<u>\$ 34,033,049</u>	<u>\$ 10,857,773</u>	<u>\$ 44,890,822</u>	<u>\$ 115,472</u>	

MORROW COUNTY, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2003

	General	Emergency Squad	Motor Vehicle & Gas Tax	Public Assistance
Assets:				
Equity in pooled cash and cash equivalents	\$ 993,018	\$ 59,111	\$ 1,284,714	\$ 121,983
Receivables (net of allowance for uncollectibles):				
Sales taxes	391,693	-	-	-
Real and other taxes	1,752,715	828,314	-	-
Accounts	327,114	-	3,075	3,239
Special assessments	-	-	-	-
Accrued interest	32,906	-	-	-
Due from other funds	61,817	-	182	102,605
Due from other governments	435,248	24,929	1,744,242	138,850
Notes receivable	-	-	-	-
Prepayments	76,936	-	19,686	34,775
Materials and supplies inventory	16,892	-	90,461	7,972
Total assets	<u>\$ 4,088,339</u>	<u>\$ 912,354</u>	<u>\$ 3,142,360</u>	<u>\$ 409,424</u>
Liabilities:				
Accounts payable	\$ 190,464	\$ -	\$ 75,487	\$ 113,625
Accrued wages and benefits	176,985	-	57,497	60,789
Compensated absences payable	3,011	-	-	-
Due to other funds	5,953	-	2,095	23,333
Due to other governments	180,585	-	90,361	73,951
Claims and judgements payable	-	-	-	-
Deferred revenue	1,992,406	853,243	1,175,825	-
Total liabilities	<u>2,549,404</u>	<u>853,243</u>	<u>1,401,265</u>	<u>271,698</u>
Fund Balances:				
Reserved for encumbrances	188,642	-	211,602	5,707
Reserved for materials and supplies inventory	16,892	-	90,461	7,972
Reserved for debt service	-	-	-	-
Reserved for prepayments	76,936	-	19,686	34,775
Reserved for notes receivable	-	-	-	-
Reserved for unclaimed monies	29,115	-	-	-
Unreserved, Undesignated, reported in:				
General fund	1,227,350	-	-	-
Special revenue funds	-	59,111	1,419,346	89,272
Capital projects funds	-	-	-	-
Total fund balances	<u>1,538,935</u>	<u>59,111</u>	<u>1,741,095</u>	<u>137,726</u>
Total liabilities and fund balances	<u>\$ 4,088,339</u>	<u>\$ 912,354</u>	<u>\$ 3,142,360</u>	<u>\$ 409,424</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

<u>MR/DD</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 731,707	\$ 3,312,400	\$ 6,502,933
-	8,576	400,269
549,975	-	3,131,004
329,148	127,205	789,781
-	41,692	41,692
-	1,548	34,454
-	219,332	383,936
22,186	664,646	3,030,101
-	901,457	901,457
-	7,693	139,090
-	-	115,325
<u>\$ 1,633,016</u>	<u>\$ 5,284,549</u>	<u>\$ 15,470,042</u>
\$ 73,871	\$ 72,841	\$ 526,288
60,793	59,613	415,677
-	-	3,011
-	352,555	383,936
45,333	107,068	497,298
1,069	-	1,069
572,161	528,559	5,122,194
<u>753,227</u>	<u>1,120,636</u>	<u>6,949,473</u>
68,975	224,000	698,926
-	-	115,325
-	387,278	387,278
-	7,693	139,090
-	901,457	901,457
-	-	29,115
-	-	1,227,350
810,814	1,796,304	4,174,847
-	847,181	847,181
<u>879,789</u>	<u>4,163,913</u>	<u>8,520,569</u>
<u>\$ 1,633,016</u>	<u>\$ 5,284,549</u>	<u>\$ 15,470,042</u>

MORROW COUNTY, OHIO

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2003

Total governmental fund balances		\$ 8,520,569
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		29,294,660
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Property taxes	\$ 429,818	
Special assessments	41,692	
Accrued interest	16,612	
Intergovernmental revenues	1,937,415	
Total		2,425,537
Internal service funds are used by management to charge the costs of health insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. The net assets of the internal service funds are:		(90,832)
Long-term liabilities, including bonds, accrued interest, and compensated absences, are not due and payable in the current period and therefore are not reported in the funds.		
Accrued interest payable	(38,452)	
Special assessment notes	(49,184)	
General obligation bonds	(2,505,000)	
Notes payable	(2,590,000)	
Loans payable	(362,881)	
Compensated absences	(525,545)	
Capital lease payable	(45,823)	
Total		(6,116,885)
Net assets of governmental activities		\$ 34,033,049

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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MORROW COUNTY, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>General</u>	<u>Emergency Squad Fund</u>	<u>Motor Vehicle & Gas Tax</u>	<u>Public Assistance Fund</u>
Revenues:				
Property taxes	\$ 1,924,062	\$ 734,666	\$ -	\$ -
Sales taxes	2,424,706	-	-	-
Charges for services	1,749,719	-	-	-
Licenses and permits	9,306	-	-	-
Fines and forfeitures	640,213	-	566	-
Intergovernmental	869,285	-	3,237,477	3,777,263
Special assessments	-	-	-	-
Investment income	212,913	-	6,258	-
Rental income	172,910	-	-	-
Other	288,873	-	26,783	127,800
Total revenues	<u>8,291,987</u>	<u>734,666</u>	<u>3,271,084</u>	<u>3,905,063</u>
Expenditures:				
Current:				
General government:				
Legislative and executive	2,829,278	-	-	-
Judicial	697,343	-	-	-
Public Safety	3,384,167	703,149	-	-
Public works	-	-	2,398,286	-
Health	33,093	-	-	-
Human Services	338,818	-	-	3,883,401
Economic development and assistance	54,223	-	-	-
Other	133,538	-	-	-
Capital outlay	21,277	-	-	-
Intergovernmental	217,000	-	-	-
Debt service:				
Principal retirement	370	-	23,515	-
Interest and fiscal charges	180	-	2,862	-
Note issuance costs	-	-	-	-
Total expenditures	<u>7,709,287</u>	<u>703,149</u>	<u>2,424,663</u>	<u>3,883,401</u>
Excess (deficiency) of revenues over (under) expenditures	<u>582,700</u>	<u>31,517</u>	<u>846,421</u>	<u>21,662</u>
Other financing sources (uses):				
Proceeds from sale of capital assets	15,609	-	-	-
Proceeds from sale of notes	-	-	-	-
Premium on sale of notes	-	-	-	-
Proceeds from loan	-	-	-	-
Proceeds from capital lease transactions	21,277	-	-	-
Transfers in	-	-	-	-
Transfers out	(161,810)	-	(161,536)	-
Total other financing sources (uses)	<u>(124,924)</u>	<u>-</u>	<u>(161,536)</u>	<u>-</u>
Net change in fund balances	457,776	31,517	684,885	21,662
Fund balances at beginning of year (restated)	<u>1,081,159</u>	<u>27,594</u>	<u>1,056,210</u>	<u>116,064</u>
Fund balances at end of year	<u>\$ 1,538,935</u>	<u>\$ 59,111</u>	<u>\$ 1,741,095</u>	<u>\$ 137,726</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MR/DD	Other Governmental Funds	Total Governmental Funds
\$ 497,980	\$ -	\$ 3,156,708
-	64,765	2,489,471
196,556	896,717	2,842,992
-	87,985	97,291
-	108,189	748,968
897,310	3,478,210	12,259,545
-	144,477	144,477
-	6,701	225,872
75,537	110,343	358,790
524,465	132,932	1,100,853
<u>2,191,848</u>	<u>5,030,319</u>	<u>23,424,967</u>
-	732,281	3,561,559
-	568,085	1,265,428
-	304,083	4,391,399
-	21,281	2,419,567
2,645,696	103,278	2,782,067
19,417	1,449,503	5,691,139
-	32,790	87,013
56,541	316,492	506,571
-	299,806	321,083
-	-	217,000
1,574	999,085	1,024,544
258	212,696	215,996
-	10,205	10,205
<u>2,723,486</u>	<u>5,049,585</u>	<u>22,493,571</u>
<u>(531,638)</u>	<u>(19,266)</u>	<u>931,396</u>
-	-	15,609
-	2,590,000	2,590,000
-	11,500	11,500
20,000	25,000	45,000
-	-	21,277
-	334,083	334,083
-	-	(323,346)
<u>20,000</u>	<u>2,960,583</u>	<u>2,694,123</u>
(511,638)	2,941,317	3,625,519
1,391,427	1,222,596	4,895,050
<u>\$ 879,789</u>	<u>\$ 4,163,913</u>	<u>\$ 8,520,569</u>

MORROW COUNTY, OHIO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2003

Net change in fund balances - total governmental funds \$ 3,625,519

*Amounts reported for governmental activities in the
statement of activities are different because:*

Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$2,248,831) exceeded depreciation expense (\$1,874,124) in the current period.	374,707
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	(1,543)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(373,410)
Proceeds of notes, loans, and capital leases provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.	(2,656,277)
Repayment of bonds, loans, notes and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	1,024,544
In the statement of activities, interest is accrued on outstanding bonds, loans, and notes whereas in governmental funds, an interest expenditure is reported when due.	(15,422)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(3,838)
An internal service fund used by management to charge the costs of health insurance to individual funds is not reported in the entity-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.	34,697

Change in net assets of governmental activities \$ 2,008,977

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MORROW COUNTY, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 GENERAL FUND
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 1,729,818	\$ 1,791,783	\$ 1,855,788	\$ 64,005
Sales taxes	2,236,549	2,316,666	2,399,420	82,754
Charges for services	1,284,103	1,330,101	1,392,634	62,533
Licenses and permits.	8,628	8,937	9,256	319
Fines and forfeitures.	800,612	829,291	858,914	29,623
Intergovernmental	822,876	852,353	882,800	30,447
Investment income	204,733	212,067	219,642	7,575
Rental income	161,173	166,946	172,910	5,964
Other	237,819	246,817	264,448	17,631
Total revenues.	<u>7,486,311</u>	<u>7,754,961</u>	<u>8,055,812</u>	<u>300,851</u>
Expenditures:				
Current:				
General government:				
Legislative and executive	3,196,147	3,158,032	2,990,920	167,112
Judicial.	678,728	736,593	724,646	11,947
Public safety	3,176,870	3,415,120	3,420,753	(5,633)
Health	30,341	31,451	31,403	48
Human services	359,373	359,128	357,304	1,824
Economic development and assistance	52,948	54,814	54,966	(152)
Other	136,368	163,110	157,022	6,088
Intergovernmental	217,095	217,095	217,095	-
Debt service:				
Principal retirement	54,500	54,500	54,500	-
Total expenditures	<u>7,902,370</u>	<u>8,189,843</u>	<u>8,008,609</u>	<u>181,234</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(416,059)</u>	<u>(434,882)</u>	<u>47,203</u>	<u>482,085</u>
Other financing sources:				
Proceeds from sale of capital assets	14,549	15,071	15,609	538
Operating transfers out	(161,810)	(161,810)	(161,810)	-
Total other financing sources.	<u>(147,261)</u>	<u>(146,739)</u>	<u>(146,201)</u>	<u>538</u>
Net change in fund balance	(563,320)	(581,621)	(98,998)	482,623
Fund balance at beginning of year, restated . . .	327,877	327,877	327,877	-
Prior year encumbrances appropriated	<u>329,961</u>	<u>329,961</u>	<u>329,961</u>	<u>-</u>
Fund balance at end of year.	<u>\$ 94,518</u>	<u>\$ 76,217</u>	<u>\$ 558,840</u>	<u>\$ 482,623</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MORROW COUNTY, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 EMERGENCY SQUAD
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 750,000	\$ 750,000	\$ 703,149	\$ (46,851)
Total revenues	750,000	750,000	703,149	(46,851)
Expenditures:				
Current:				
Public safety	-	703,149	703,149	-
Total expenditures	-	703,149	703,149	-
Net change in fund balance	750,000	46,851	-	(46,851)
Fund balance at beginning of year	-	-	-	-
Prior year encumbrances appropriated	-	-	-	-
Fund balance at end of year	\$ 750,000	\$ 46,851	\$ -	\$ (46,851)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MORROW COUNTY, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 MOTOR VEHICLE AND GAS TAX
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Fines and forfeitures.	\$ 370	\$ 370	\$ 456	\$ 86
Intergovernmental	2,466,629	2,466,629	3,041,698	575,069
Investment income	7,938	7,938	9,789	1,851
Other.	25,063	25,063	30,826	5,763
Total revenues	2,500,000	2,500,000	3,082,769	582,769
Expenditures:				
Current:				
Public works	3,075,493	3,143,164	2,718,755	424,409
Total expenditures	3,075,493	3,143,164	2,718,755	424,409
Excess (deficiency) of revenues over (under) expenditures	(575,493)	(643,164)	364,014	1,007,178
Other financing sources (uses):				
Operating transfers out	(161,536)	(161,536)	(161,536)	-
Total other financing sources (uses)	(161,536)	(161,536)	(161,536)	-
Net change in fund balance	(737,029)	(804,700)	202,478	1,007,178
Fund balance at beginning of year	648,189	648,189	648,189	-
Prior year encumbrances appropriated	156,511	156,511	156,511	-
Fund balance at end of year.	\$ 67,671	\$ -	\$ 1,007,178	\$ 1,007,178

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MORROW COUNTY, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 PUBLIC ASSISTANCE
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ 3,869,058	\$ 3,906,929	\$ 3,680,519	\$ (226,410)
Other	130,942	132,223	124,561	(7,662)
Total revenues.	4,000,000	4,039,152	3,805,080	(234,072)
Expenditures:				
Current:				
Human services	4,337,895	4,225,062	3,942,295	282,767
Total expenditures	4,337,895	4,225,062	3,942,295	282,767
Net change in fund balance	(337,895)	(185,910)	(137,215)	48,695
Fund balance at beginning of year	4,418	4,418	4,418	-
Prior year encumbrances appropriated	181,492	181,492	181,492	-
Fund balance at end of year.	\$ (151,985)	\$ -	\$ 48,695	\$ 48,695

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MORROW COUNTY, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 MR/DD
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 794,942	\$ 794,942	\$ 466,463	\$ (328,479)
Charges for services	66,320	66,320	196,556	130,236
Intergovernmental	803,532	803,532	909,265	105,733
Rental income	32,243	32,243	96,050	63,807
Other	121,463	121,463	220,112	98,649
Total revenues.	<u>1,818,500</u>	<u>1,818,500</u>	<u>1,888,446</u>	<u>69,946</u>
Expenditures:				
Current:				
Health	1,848,685	3,169,713	2,793,882	375,831
Human services	17,924	28,704	23,729	4,975
Other	47,200	61,793	58,373	3,420
Total expenditures	<u>1,913,809</u>	<u>3,260,210</u>	<u>2,875,984</u>	<u>384,226</u>
Net change in fund balance	(95,309)	(1,441,710)	(987,538)	454,172
Fund balance at beginning of year	1,440,490	1,440,490	1,440,490	-
Prior year encumbrances appropriated	<u>81,827</u>	<u>81,827</u>	<u>81,827</u>	<u>-</u>
Fund balance at end of year.	<u>\$ 1,427,008</u>	<u>\$ 80,607</u>	<u>\$ 534,779</u>	<u>\$ 454,172</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MORROW COUNTY, OHIO

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2003

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Morrow County Hospital	Nonmajor	Total	
Assets:				
Current assets:				
Equity in pooled cash and cash equivalents	\$ -	\$ 100,535	\$ 100,535	\$ 35,881
Cash in segregated accounts	733,021	-	733,021	-
Investments	2,854	-	2,854	-
Receivables (net of allowance for uncollectibles):				
Real and other taxes.	1,150,000	-	1,150,000	-
Accounts	3,690,308	414	3,690,722	-
Accrued interest.	-	266	266	-
Notes receivable -current	119,798	-	119,798	-
Materials and supplies inventory	292,543	-	292,543	-
Prepayments.	228,446	-	228,446	-
Total current assets.	<u>6,216,970</u>	<u>101,215</u>	<u>6,318,185</u>	<u>35,881</u>
Noncurrent assets:				
Restricted assets:				
Equity in pooled cash and cash equivalents	1,551,467	-	1,551,467	-
Cash with fiscal and escrow agents.	309,235	-	309,235	-
Accrued Interest	14,303	-	14,303	-
Notes receivable - Long Term	286,599	-	286,599	-
Capital assets:				
Land and construction in progress	411,081	-	411,081	-
Depreciable capital assets, net	11,194,602	225,608	11,420,210	-
Total capital assets	<u>11,605,683</u>	<u>225,608</u>	<u>11,831,291</u>	<u>-</u>
Total noncurrent assets	<u>13,767,287</u>	<u>225,608</u>	<u>13,992,895</u>	<u>-</u>
Total assets	<u>19,984,257</u>	<u>326,823</u>	<u>20,311,080</u>	<u>35,881</u>
Liabilities:				
Current liabilities:				
Accounts payable	1,049,916	-	1,049,916	-
Accrued wages and benefits	1,212,958	-	1,212,958	-
Deferred revenue	1,150,000	-	1,150,000	-
Accrued interest payable	25,269	-	25,269	-
Claims and judgements payable.	-	-	-	126,713
Notes payable - current	610,228	-	610,228	-
Capital lease payable - short term.	310,613	-	310,613	-
Total current liabilities	<u>4,358,984</u>	<u>-</u>	<u>4,358,984</u>	<u>126,713</u>
Noncurrent liabilities:				
Notes payable - long term	4,394,488	-	4,394,488	-
Capital lease obligations - long term	344,006	-	344,006	-
Medicare and Medicaid third party settlement	355,829	-	355,829	-
Total noncurrent liabilities	<u>5,094,323</u>	<u>-</u>	<u>5,094,323</u>	<u>-</u>
Total liabilities	<u>9,453,307</u>	<u>-</u>	<u>9,453,307</u>	<u>126,713</u>
Net assets:				
Invested in capital assets, net of related debt.	6,407,713	225,608	6,633,321	-
Unreserved (deficit).	4,123,237	101,215	4,224,452	(90,832)
Total net assets.	<u>\$ 10,530,950</u>	<u>\$ 326,823</u>	<u>\$ 10,857,773</u>	<u>\$ (90,832)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MORROW COUNTY, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental</u>
	<u>Morrow County</u>			<u>Activities -</u>
	<u>Hospital</u>	<u>Nonmajor</u>	<u>Total</u>	<u>Internal</u>
				<u>Service Fund</u>
Operating revenues:				
Charges for services	\$ -	\$ 33,350	\$ 33,350	\$ 1,693,414
Patient service revenue, net	23,003,084	-	23,003,084	-
Other operating revenue	1,542,674	-	1,542,674	-
Total operating revenues	24,545,758	33,350	24,579,108	1,693,414
Operating expenses:				
Personal services	10,577,814	-	10,577,814	-
Contractual services.	4,694,912	17,493	4,712,405	-
Materials and supplies	4,799,610	460	4,800,070	-
Depreciation	1,321,470	5,127	1,326,597	-
Claims Expense	-	-	-	1,658,717
Provision for bad debts	1,714,233	-	1,714,233	-
Interest.	371,922	-	371,922	-
Other	546,665	1,660	548,325	-
Total operating expenses.	24,026,626	24,740	24,051,366	1,658,717
Operating income	519,132	8,610	527,742	34,697
Nonoperating revenues (expenses):				
Interest income.	103,127	1,466	104,593	-
Loss on sale of investments	(25,374)	-	(25,374)	-
Total nonoperating revenues (expenses).	77,753	1,466	79,219	-
Income before contributions and transfers.	596,885	10,076	606,961	34,697
Contributions.	28,808	-	28,808	-
Transfers out	-	(10,737)	(10,737)	-
Changes in net assets.	625,693	(661)	625,032	34,697
Net assets (deficit), January 1.	9,905,257	327,484	10,232,741	(125,529)
Net assets (deficit), December 31	\$ 10,530,950	\$ 326,823	\$ 10,857,773	\$ (90,832)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MORROW COUNTY, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2003

	Business-type Activities - Enterprise Funds			Governmental
	Morrow County			Activities -
	Hospital	Nonmajor	Total	Internal
				Service Funds
Cash flows from operating activities:				
Cash received from customers	\$ -	\$ 32,936	\$ 32,936	\$ 1,693,414
Cash received from patients and third-party payers. . .	21,330,395	-	21,330,395	-
Cash received from other operations.	1,528,137	-	1,528,137	-
Cash payments to suppliers for services and goods. . .	(10,152,391)	(17,493)	(10,169,884)	-
Cash payments for employees for services.	(10,459,914)	-	(10,459,914)	-
Cash payments for interest.	(563,576)	-	(563,576)	-
Cash payments for materials and supplies	-	(460)	(460)	-
Cash payments for claims	-	-	-	(1,668,622)
Cash payments for other expenses.	-	(1,660)	(1,660)	-
Net cash provided by operating activities.	1,682,651	13,323	1,695,974	24,792
Cash flows from noncapital financing activities:				
Cash payments for transfers out.	-	(10,737)	(10,737)	-
Proceeds from non-capital contributions.	28,808	-	28,808	-
Net cash provided by (used in) noncapital financing activities	28,808	(10,737)	18,071	-
Cash flows from capital and related financing activities:				
Net proceeds (advances) on notes receivable.	(291,577)	-	(291,577)	-
Acquisition of capital assets	(1,085,295)	-	(1,085,295)	-
Proceeds from notes.	175,364	-	175,364	-
Proceeds from capital lease obligations	170,585	-	170,585	-
Repayment of note and capital lease obligations.	(701,778)	-	(701,778)	-
Net cash used in capital and related financing activities	(1,732,701)	-	(1,732,701)	-
Cash flows from investing activities:				
Interest received.	103,127	1,200	104,327	-
Loss on sale of investment	(25,374)	-	(25,374)	-
Assets limited as to use.	265,026	-	265,026	-
Net cash provided by investing activities.	342,779	1,200	343,979	-
Net increase in cash and cash equivalents	321,537	3,786	325,323	24,792
Cash and cash equivalents at beginning of year . . .	1,962,951	96,749	2,059,700	11,089
Cash and cash equivalents at end of year.	<u>\$ 2,284,488</u>	<u>\$ 100,535</u>	<u>\$ 2,385,023</u>	<u>\$ 35,881</u>

-- continued

MORROW COUNTY, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental Activities - Internal Service Funds</u>
	<u>Morrow County</u>			
	<u>Hospital</u>	<u>Nonmajor</u>	<u>Total</u>	
Reconciliation of operating income to net cash provided by operating activities:				
Operating income.	\$ 519,132	\$ 8,610	\$ 527,742	\$ 34,697
Adjustments:				
Depreciation	1,321,470	5,127	1,326,597	-
Changes in assets and liabilities:				
Decrease in materials and supplies inventory.	84,400	-	84,400	-
Increase in accounts receivable.	(14,537)	(414)	(14,951)	-
Increase in patient accounts receivable.	(382,078)	-	(382,078)	-
Increase in prepayments.	(75,203)	-	(75,203)	-
Decrease in accounts payable.	(120,401)	-	(120,401)	-
Increase in accrued expenses.	117,900	-	117,900	-
Increase in accrued Medicare and Medicaid third party settlements.	355,829	-	355,829	-
Decrease in accrued interest.	(191,654)	-	(191,654)	-
Increase in Medicare and Medicaid third party settlements	67,793	-	67,793	-
Decrease in claims payable.	-	-	-	(9,905)
Net cash provided by operating activities.	<u>\$ 1,682,651</u>	<u>\$ 13,323</u>	<u>\$ 1,695,974</u>	<u>\$ 24,792</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MORROW COUNTY, OHIO

STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 DECEMBER 31, 2003

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 2,264,852
Cash and cash equivalents with fiscal agent	1,133,613
Investments with fiscal agent	27,319
Receivables (net of allowance for uncollectibles):	
Special assessments.	41,692
Real and other taxes.	21,145,314
Due from other governments.	1,653,548
Total assets	\$ 26,266,338
 Liabilities:	
Accounts payable.	\$ 188,599
Due to other governments	22,747,318
Undistributed assets.	3,330,421
Total liabilities	\$ 26,266,338

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 1 - DESCRIPTION OF THE COUNTY

Morrow County, Ohio (the "County"), was created in 1848. The County is governed by a board of three commissioners elected by the voters of the County. Other officials elected by the voters of the County that manage various segments of the County's operations are the Auditor, Treasurer, Recorder, Clerk of Courts, Coroner, Engineer, Prosecuting Attorney, Sheriff, and a Common Pleas/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 entire County.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the County have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to government units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The County also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The County has the option to also apply FASB Statements and Interpretations issued after November 30, 1989 to its business-type activities and enterprise funds, subject to this same limitation. The County has elected not to apply these FASB Statements and Interpretations.

The most significant of the County's accounting policies are described below.

A. Reporting Entity

The County's reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". The basic financial statements include all funds, agencies, boards, commissions, and component units for which the County and the County Commissioners are "accountable". Accountability as defined in GASB Statement No. 14 was evaluated based on financial accountability, the nature and significance of the potential component unit's (PCU) relationship with the County and whether exclusion would cause the County's basic financial statements to be misleading or incomplete. Among the factors considered were separate legal standing; appointment of a voting majority of the PCU's board; fiscal dependency and whether a benefit or burden relationship exists; imposition of will; and the nature and significance of the PCU's relationship with the County.

The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the County. For the County, this includes the Morrow County Board of Mental Retardation and Developmental Disabilities (the MRDD Board); the Children Services Board; the Morrow County Hospital; and other departments and activities that are directly operated by the elected County officials.

Based on the foregoing criteria, the financial activities of the following PCUs have been reflected in the accompanying basic financial statements as:

MORROW COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

DISCRETELY PRESENTED COMPONENT UNIT

Whetstone Industries, Inc. - Whetstone Industries, Inc. (the Industries) is a legally separate, not-for-profit corporation, served by a self-appointing Board of Trustees. The Industries, under a contractual agreement with the MRDD Board, provides sheltered, transitional, and outside employment for mentally retarded or handicapped adults in Morrow County. The MRDD Board provides the Industries with available resources and staff for operation of the Industries. Based on the significant resources and services provided by the county to the Industries and the Industries sole purpose of providing assistance to retarded and handicapped adults of the County, the Industries is reflected as a discretely presented component unit of the County. It is reported separately to emphasize that it is legally separate from the County. Separately issued financial statements can be obtained from Whetstone Industries, Inc., Mt. Gilead, Ohio.

EXCLUDED POTENTIAL COMPONENT UNITS

As counties are structured in Ohio, the County Auditor and County Treasurer, respectively, serve as fiscal officer and custodian of funds for various agencies, boards, and commissions. As fiscal officer, the County Auditor certifies the availability of cash and appropriations prior to the processing of payments and purchases. As the custodian of all public funds, the County Treasurer invests public monies held on deposit in the County Treasury.

In the case of the separate agencies, boards, and commissions listed below, the County serves as fiscal agent and custodian, but is not accountable; therefore the operations of the following PCUs have been excluded from the County's BFS, but the funds held on behalf of these PCUs in the County Treasury are included in the agency funds within the BFS.

Morrow County Soil and Water Conservation District
Morrow County Disaster Services
Morrow County Law Library
Morrow County General Health District
Morrow County Air Facility

Information in the notes to the BFS are applicable to the primary government. When information is provided relative to the component unit, it is specifically identified.

JOINTLY GOVERNED ORGANIZATIONS

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

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

JOINT VENTURE WITHOUT EQUITY INTEREST

Delaware-Morrow Mental Health and Recovery Services Board - The Delaware-Morrow Mental Health and Recovery Services Board is a joint venture between Delaware and Morrow Counties. The Board provides mental health and recovery services. Statutorily created, the Board is made up of eighteen members, with ten appointed by the County Commissioners, four by the State Director of Alcohol and Drug Addiction Services, and four by the State Director of Mental Health. The County Commissioners' appointments are based on county population. Four of the ten members are appointed by the County Commissioners from Morrow County while six are appointed by the County Commissioners of Delaware County. Revenues to provide mental health and recovery services are generated through a one mill district wide tax levy and through state and federal grants.

The Board does not have any outstanding debt. The Board is not accumulating significant financial resources nor experiencing fiscal stress that may cause an additional benefit or burden to the County. The existence of the Board depends upon the continuing participation of the County. Separate financial statements may be obtained by contracting the Delaware-Morrow Health and Recovery Services Board, 40 North Sandusky Street, Suite 301, Delaware, Ohio 43015.

B. Basis of Presentation

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

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

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

C. Fund Accounting

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

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

General - This is the primary operating fund of the County. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Emergency Squad - This fund accounts for the operation of the County's emergency squad.

Motor Vehicle and Gas Tax - This fund accounts for monies received by the County for state gasoline tax and vehicle registration fees used for County road and bridge maintenance, construction and improvements.

County Board of Mental Retardation and Developmentally Disabled (MR/DD) - This fund accounts for the operation of a school and the costs of administering a workshop for the mentally retarded and developmentally disabled. Revenue sources include a countywide property tax levy and federal and state grants.

Public Assistance - This fund accounts for various federal and state grants, as well as transfer from the general fund used to provide public assistance to general relief recipients, pay their providers for medical assistance, and for certain public social services.

Other governmental funds of the County are used to account for (a) the accumulation of resources for, and payment of, long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary and trust funds; and (c) for grants and other resources whose use is restricted to a particular purpose.

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

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Enterprise Funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The County has presented the following major proprietary fund:

Morrow County Hospital - This fund accounts for the operation of the County Hospital. The cost of operating this facility is financed primarily through user charges.

Fiduciary Funds - Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the County under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the County's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The County's fiduciary funds are agency funds.

COMPONENT UNITS

Component Units - Component units are either legally separate organizations for which the elected officials of the County are not financially accountable, or legally separate organizations for which the nature and significance of its relationship with the County is such that exclusion would not cause the County's financial statement to be misleading or incomplete. The County considers Whetstone Industries, Inc. to be a separate discretely presented component unit of the County.

D. Measurement Focus

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the County are included on the statement of net assets.

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

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

Agency funds do not report a measurement focus as they do not report operations.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. Basis of Accounting

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

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

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: sales tax (See Note 7), interest, federal and state grants and subsidies, state-levied locally shared taxes (including motor vehicle license fees and gasoline taxes), fees and rentals.

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

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

On governmental fund financial statements, receivables that will not be collected within the available period have been reported as deferred revenue.

Expense/Expenditures - On the full accrual basis of accounting, expenses are recognized at the time they are incurred.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

F. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the Tax Budget, the Certificate of Estimated Resources, and the Appropriation Resolution, all of which are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources and the Appropriation Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

All funds, other than agency funds, are required to be budgeted and appropriated. The primary level of budgetary control is at the object level within each department. Budgetary modifications may only be made by resolution of the County Commissioners.

Budgetary information for the Industries and Hospital is not reported because it is not included in the entity for which the "appropriated budget" is adopted and separate budgetary financial records are not maintained.

Tax 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. All funds, except agency funds, are legally required to be budgeted. The expressed purpose of the Tax Budget is to reflect the need for existing (or increased) tax rates.

Estimated Resources - The County Budget Commission determines if the budget substantiates a need to levy the full amount of authorized property tax rates and reviews revenue estimates. The Commission certifies its actions to the County by September 1. As part of this certification, the County receives the official Certificate of Estimated Resources, which states the projected revenue of each fund.

On or about January 1, the Certificate of Estimated Resources is amended to include unencumbered fund balances at December 31. Further amendments may be made during the year if the County Auditor determines that revenue to be collected will be greater than or less than the prior estimates and the Budget Commission finds the revised estimates to be reasonable. The amounts set forth in the budgetary statements represent estimates from the final amended certificate issued during 2003.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Appropriations - A temporary appropriations resolution to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriations resolution must be passed by April 1 of each year for the period January 1 to December 31. The appropriations resolution may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified.

The allocation of appropriations among departments and objects within a fund may be modified during the year by a resolution of the County Commissioners. Several supplemental appropriation resolutions were legally enacted by the County Commissioners during the year. The original budget and all budgetary amendments and supplemental appropriations necessary during 2003 are included in the final budget amounts in the budget-to-actual comparisons.

Lapsing of Appropriations - 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 is not reappropriated.

G. Cash and Investments

To improve cash management, cash received by the County is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the County's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

During fiscal year 2003, investments were limited to federal agency securities, repurchase agreements, certificates of deposit, and investments in the State Asset Treasury Reserve of Ohio (STAR Ohio).

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

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$212,913 which includes \$193,979 assigned from other County funds.

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

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the County are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

An analysis of the Treasurer's investment account at year-end is provided in Note 4.

H. Inventories of Materials and Supplies

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption.

I. Capital Assets

Governmental capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. During 2003, the County increased its capitalization threshold from \$500 to \$5,000. The County's infrastructure consists of roads, bridges, culverts and sanitary sewers. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of capital assets is also capitalized.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Land improvements	10 - 40 years	10 - 40 years
Buildings	20 - 50 years	20 - 50 years
Machinery and Equipment	5 - 50 years	5 - 50 years
Infrastructure	20 - 50 years	20 - 50 years
Vehicles	5 - 20 years	N/A

MORROW COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The County's policy is to capitalize net interest on construction projects until substantial completion of the project. The amount of capitalized interest equals the difference between the interest cost associated with the tax-exempt borrowing used to finance the project from the date of borrowing until completion of the project and the interest earned from temporary investment of the debt proceeds over the same period.

Capitalized interest is amortized on the straight-line method over the estimated useful life of the asset.

J. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for sick leave is based on the sick leave accumulated at December 31, 2003, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. Sick leave benefits are accrued using the "Vesting" method. The County records a liability for accumulated unused vested sick leave after fifteen years of service with the County or over fifty-five years of age.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at December 31, 2003, and reduced to the maximum payment allowed by labor contract and/or statute, plus applicable additional salary related payments.

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

The entire compensated absences liability is reported on the government-wide financial statements.

On governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the accounts "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported.

K. Prepaid Items

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

MORROW COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

L. Accrued Liabilities and Long-term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases and long-term loans are recognized as a liability in the fund financial statements when due.

M. Note Issuance Costs

Bond issuance costs for governmental activities are deferred and amortized over the term of the notes using the straight-line method since the results are not significantly different from the effective interest method. Note issuance costs are recorded as deferred charges, which is included in other assets on the statement of net assets.

N. Interfund Transactions

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

During the normal course of operations, the County has numerous transactions between funds. Transfers represent movement of resources from a fund receiving revenue to a fund through which those resources will be expended and are recorded as other financing sources (uses) in governmental funds and as transfers in proprietary funds. Interfund transactions that would be treated as revenues and expenditures/expenses if they involved organizations external to the County are treated similarly when involving other funds of the County.

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivable/interfund payable" for the current portion of interfund loans or advances to/from other funds for the non-current portion of interfund loans. All other outstanding balances outstanding between funds are reported as "due to/from other funds." These amounts are eliminated in the Statement of Net Assets, except for any residual balances outstanding between the governmental activities and business-type activities, which are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the governmental fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

O. Fund Balance Reserves

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

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The County reports amounts representing encumbrances outstanding, materials and supplies inventory, debt service, prepayments, note receivable and unclaimed monies as reservations of fund balance in the governmental funds.

P. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities of the proprietary funds. For the County, these revenues are charges for services for the Hospital, Ketterman project and self-insurance program. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

Q. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the County or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The County applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

R. Estimates

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

NOTE 3 - ACCOUNTABILITY AND CHANGE IN ACCOUNTING PRINCIPLES

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2003, the County has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At December 31, 2002, there was no effect on fund balance as a result of implementing GASB Statement Nos. 37, 38 and 41.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 3 - ACCOUNTABILITY AND CHANGE IN ACCOUNTING PRINCIPLES - (Continued)

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the County not being able to present budgetary comparison for the general and each major special revenue fund.

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

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

The government-wide financial statements split the County's programs between business-type and governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at December 2002, caused by the conversion to the accrual basis of accounting.

In addition to implementing GASB Statement No. 34, the County switched from the purchase method to the consumption method of accounting for inventory of materials and supplies. This change in accounting principle had no effect on fund balance at December 31, 2002.

Governmental Activities - Fund Reclassification and Restatement of Fund Balance - Certain governmental funds have been reclassified to properly reflect their intended purpose in accordance with the standards of GASB Statement No. 34. Certain funds previously reported as expendable trust funds are now reported in the general fund. In addition, monies that were previously reported in agency funds have been reported in the general fund and special revenues funds.

The fund reclassifications and the implementation of GASB Interpretation No. 6 had the following effect on the County's governmental fund balances as previously reported follows:

	<u>General</u>	Motor Vehicle <u>and Gas Tax</u>	Emergency <u>Squad</u>	Public <u>Assistance</u>	<u>MR/DD</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balance							
December 31, 2002	\$ 894,617	\$ 1,049,655	\$ -	\$ 103,997	\$ 1,353,644	\$ 1,211,651	\$ 4,613,564
Fund reclassifications	164,826	-	27,594	-	27,594	3,968	223,982
GASB interpretation							
No. 6 adjustments	<u>21,716</u>	<u>6,555</u>	<u>-</u>	<u>12,067</u>	<u>10,189</u>	<u>6,977</u>	<u>57,504</u>
Restated fund balance,							
December 31, 2002	<u>\$ 1,081,159</u>	<u>\$ 1,056,210</u>	<u>\$ 27,594</u>	<u>\$ 116,064</u>	<u>\$ 1,391,427</u>	<u>\$ 1,222,596</u>	<u>\$ 4,895,050</u>

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 3 - ACCOUNTABILITY AND CHANGE IN ACCOUNTING PRINCIPLES - (Continued)

The transition from governmental fund balance to net assets of the governmental activities is also presented.

Adjusted fund balance, December 31, 2002		\$ 4,895,050
GASB Statement No. 34 adjustments:		
Capital assets		28,921,496
Internal service fund		(125,529)
Long-term liabilities		(4,442,862)
Accrued interest payable		(23,030)
Long-term (deferred assets)		<u>2,798,947</u>
Governmental activities net assets, December 31, 2002		<u>\$ 32,024,072</u>

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund - The general fund unencumbered fund balance at the beginning of the year has been restated from \$206,597 to \$327,877 due to fund reclassifications to properly reflect its intended purpose in accordance with GASB Statement No. 34.

B. Deficit Fund Balances

	<u>Deficit</u>
<u>Nonmajor Governmental Funds</u>	
Social Services Bond Retirement	\$ 1,723,243
Court Support Diversion	9
DOJ/WMD Terror Equipment	2,348
Grant Court Support Program	1,716
Children and Family Center	213,696
Health Care Internal Service Fund	90,832

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

A. Primary Government

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.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or its political 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 for a period not to exceed 180 days and in an amount not to exceed twenty-five percent of the County's total average portfolio; and
10. Bankers acceptances for a period not to exceed 180 days and in an amount not to exceed twenty-five percent of the County's total average portfolio.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 4 - EQUITY IN POOLED CASH 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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

Deposits: At year-end, the carrying amount of the County's deposits, including nonnegotiable certificates of deposit and cash in segregated accounts, was \$11,903,404 and the bank balance, including nonnegotiable certificates of deposit and cash in segregated accounts, was \$12,789,305. Of the bank balance:

1. \$1,136,042 was covered by federal depository insurance, covered by collateral held in the pledging bank's trust department in the County's name, or surety company bonds deposited with the County; and
2. \$11,653,263 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the County to a successful claim by the FDIC.

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

	Category 1	Category 2	Category 3	Fair Value
U. S. Government securities	\$ 312,089	\$ -	\$ -	\$ 312,089
Investment in STAR Ohio				418,898
U.S. Government money market mutual fund				27,319
Total Investments				\$ 758,306

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

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

A reconciliation between the classifications of cash and cash equivalents on the basic financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$ 12,349,621	\$ 312,089
Investments of the cash management pool:		
U.S. Government money market	(27,319)	27,319
Investment in STAR Ohio	(418,898)	418,898
GASB Statement No. 3	\$ 11,903,404	\$ 758,306

B. Component Unit

At June 30, 2003, the carrying amount of the component unit's demand deposits, including a nonnegotiable certificate of deposit, was \$34,816 and the bank balance was \$34,816. The entire bank balance was covered by FDIC. In accordance with GASB Statement No. 9, the certificate of deposit is reported as an "Investment in Segregated Accounts" on the combined balance sheet since the maturity is greater than ninety days from the date of purchase. In addition, the component units have \$200 of undeposited cash on hand which is included in "Cash in Segregated Accounts". There are no statutory guidelines regarding the deposit and investment of funds by a not-for-profit corporation.

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund transfers for the year ended December 31, 2003, consisted of the following, as reported on the fund financial statements:

Transfers to Nonmajor Governmental from:	
Nonmajor Enterprise Fund	\$ 10,737
General Fund	161,810
Motor Vehicle and Gas Tax Fund	161,536
Total Transfers to Nonmajor Governmental Funds	\$ 334,083

Transfers are used to (1) move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

B. Due from/to other funds consisted of the following at December 31, 2003, as reported on the fund financial statements:

<u>Payable Fund</u>	<u>Receivable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 5,771
	Motor vehicle and gas tax fund	<u>182</u>
	Total due to General Fund	<u>5,953</u>
Nonmajor Governmental Funds	Nonmajor governmental funds	213,561
Motor Vehicle and Gas Tax Fund	General	2,095
Public Assistance Fund	General	23,333
Nonmajor Governmental Funds	General	36,389
Nonmajor Governmental Funds	Public Assistance	102,605

The balances resulted from the time lag between the dates that payments between the funds are made.

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the County. Real property taxes and public utility taxes are levied after October 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by state law at 35% of appraised market value. Public utility property taxes are assessed on tangible personal property, as well as land and improvements, at 88% of true value for taxable transmission and distribution property and 25% of true value for all other taxable property. Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25% of true value. The assessed value upon which the 2003 taxes were collected was \$501,956,980. The full tax rate for all County operations applied to real property for fiscal year ended December 31, 2003, was \$11.70 per \$1,000 of assessed valuation.

The assessed values of real and tangible personal property upon which 2002 property tax receipts were based are as follows:

<u>Real Property</u>	
Agricultural/Residential	\$ 404,613,560
Commercial/Industrial/Mineral	38,292,100
Tangible Personal Property	25,858,750
Public Utility	<u>33,192,570</u>
Total Assessed Value	<u>\$ 501,956,980</u>

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 6 - PROPERTY TAXES - (Continued)

Real property taxes are payable annually or semi-annually. If paid annually, payment is due March 1. If paid semi-annually, the first payment is due March 1 and the remainder payable July 15. Under certain circumstances, State statute permits earlier or later payment dates to be established.

The County Treasurer collects property tax on behalf of all taxing districts within the County. The County Auditor periodically remits to the taxing districts their portions of the taxes collected. Collections of the taxes and remittance of them to the taxing districts are accounted for in various agency funds of the County. Tangible personal property taxes for unincorporated and single county businesses are due semi-annually, with the first payment due May 10 and the remainder payable by September 20. Due dates are normally extended an additional 30 days. The due date for the entire tax for inter-county businesses is September 20 or the extended date. The first \$10,000 of taxable value is exempt from taxation for each business by state law.

The lien date is either December 31 or the end of their fiscal year (for incorporated businesses in operation more than one year). Since each business must file a return to the County Auditor, the tangible personal taxes are not known until all the returns are received.

"Real estate and other taxes" receivable represents delinquent real and tangible personal property and public utility taxes outstanding as of December 31 (net of allowances for estimated uncollectibles) and real and public utility taxes which were measurable as of the year end.

Since the current levy is not intended to finance 2003 operations, the receivable is offset by a credit to "deferred revenue". The delinquent real, public utility and tangible personal property taxes that will become available to the County within the first 31 days of 2004 are shown as 2003 revenue; the remainder is shown as "deferred revenue". The eventual collection of significantly all real and public utility property taxes (both current and delinquent) is reasonably assured due to the County's ability to force foreclosure of the properties on which the taxes are levied.

NOTE 7 - PERMISSIVE SALES AND USE TAX

The County Commissioners by resolution imposed a 1.5 percent tax on all retail sales made in the County, except sales of motor vehicles, and on the storage, use, or consumption of tangible personal property in the County, including motor vehicles, not subject to the sales tax. Vendor collections of the tax are paid to the State Treasurer by the twenty-third day of the month following collection. The State Tax Commissioner certifies to the State Auditor the amount of the tax to be returned to the County. The Tax Commissioner's certification must be made within forty-five days after the end of the month of collection. The State Auditor then has five days in which to draw the warrant payable to the County.

Proceeds of the tax are credited entirely to the general fund. A receivable is recognized at year-end for amounts that will be received from sales which occurred during 2003 and amounts that are measurable and available at year-end are accrued as revenue. Amounts received outside the available period are recorded as deferred revenue. Sales and use tax revenue for 2003 amounted to \$2,489,471.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 8 - RECEIVABLES

Receivables at December 31, 2003, consisted of taxes, accounts (billings for user charged services), special assessments, accrued interest, notes, and intergovernmental receivables arising from grants, entitlements and shared revenue. All intergovernmental receivables have been classified as "Due From Other Governments" on the BFS. Receivables have been recorded to the extent that they are measurable at December 31, 2003, as well as intended to finance fiscal 2003 operations.

A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:

Real estate and other taxes	\$ 3,131,004
Sales taxes	400,269
Accounts	789,781
Special assessments	41,692
Due from other governments	3,030,101
Accrued interest	34,454
Notes	901,457

Business-Type Activities:

Real estate and other taxes	1,150,000
Accounts	3,690,722
Accrued interest	266

Receivables have been disaggregated on the face of the BFS. The only receivable not expected to be collected within the subsequent year are the special assessments which are collected over the life of the assessment.

NOTE 9 - NOTES RECEIVABLE

A summary of the changes in notes receivable reported in the special revenue funds during 2003 follows:

	<u>Balance at</u> <u>01/01/03</u>	<u>Loans</u> <u>Issued</u>	<u>Principal</u> <u>Received</u>	<u>Balance at</u> <u>12/31/03</u>
<u>Special Revenue Funds</u>				
Community Development Block				
Grant Commercial Loans	\$ 91,286	\$ 500,000	\$ (31,924)	\$ 559,362
Water/Sewer Revolving Loans	94,802	17,478	(16,683)	95,597
Rural Hardship				
Revolving Loans	<u>214,861</u>	<u>82,802</u>	<u>(51,165)</u>	<u>246,498</u>
Total	<u>\$ 400,949</u>	<u>\$ 600,280</u>	<u>\$ (99,772)</u>	<u>\$ 901,457</u>

MORROW COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003**

NOTE 10 - RESTRICTED ASSETS

Assets whose use is limited consists of invested funds securing bank debt and invested funds designated by the Hospital's Board of Trustees for the replacement, improvement, and expansion of the Hospital's facilities. Investments consist principally of U.S. Government securities and are recorded at cost which approximates market. The composition of assets whose use is limited at December 31, 2003, is set forth in the following table:

Board restricted for capital improvements:	
Cash and cash equivalents	\$ 1,551,467
Investments	309,235
Accrued interest receivable	<u>14,303</u>
Total	<u>\$ 1,875,005</u>

NOTE 11 - CAPITAL ASSETS

A. Business-Type Capital Assets

A summary of the enterprise fund capital assets at December 31, 2003 is as follows:

Land and improvements	\$ 609,671
Buildings	5,624,710
Equipment	15,455,407
Construction in progress	411,081
Infrastructure	<u>256,370</u>
Total gross assets	22,357,239
Less: accumulated depreciation	<u>(10,525,948)</u>
Total net assets	<u>\$ 11,831,291</u>

Construction in progress primarily consists of hospital facility improvements.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 11 - CAPITAL ASSETS - (Continued)

- B.** The beginning capital asset balances of the governmental activities have been restated at December 31, 2002 due to a change in the capitalization threshold (See Note 2.I.), to include the retroactive reporting of infrastructure assets, and due to errors and omissions reported in the previous year.

Governmental Activities:	<u>Balance</u> <u>12/31/02</u>	<u>Adjustments</u>	<u>Restated</u> <u>Balance</u> <u>1/1/03</u>
Land	\$ 624,248	\$ (12,238)	\$ 612,010
Land improvements	145,697	-	145,697
Buildings	8,054,047	501,905	8,555,952
Buildings improvements	973,497	(39,749)	933,748
Equipment	2,976,138	(1,886,998)	1,089,140
Vehicles	3,567,642	526,937	4,094,579
Infrastructure	-	31,763,627	31,763,627
Less: accumulated depreciation	<u>-</u>	<u>(18,273,257)</u>	<u>(18,273,257)</u>
Total	<u>\$ 16,341,269</u>	<u>\$ 12,580,227</u>	<u>\$ 28,921,496</u>

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 11 - CAPITAL ASSETS - (Continued)

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

Governmental Activities:	Restated Balance <u>1/1/03</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/03</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 612,010	\$ -	\$ -	\$ 612,010
Construction in progress	<u>-</u>	<u>20,900</u>	<u>-</u>	<u>20,900</u>
Total capital assets, not being depreciated	<u>612,010</u>	<u>20,900</u>	<u>-</u>	<u>632,910</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	145,697	-	-	145,697
Buildings	8,555,952	-	-	8,555,952
Building and improvements	933,748	-	-	933,748
Equipment	1,089,140	128,004	(7,200)	1,209,944
Vehicles	4,094,579	34,429	-	4,129,008
Infrastructure	<u>31,763,627</u>	<u>2,065,498</u>	<u>-</u>	<u>33,829,125</u>
Total capital assets, being depreciated	<u>46,582,743</u>	<u>2,227,931</u>	<u>(7,200)</u>	<u>48,803,474</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(145,697)	-	-	(145,697)
Buildings	(1,939,245)	(158,205)	-	(2,097,450)
Building and improvements	(549,042)	(19,958)	5,657	(563,343)
Equipment	(424,936)	(124,216)	-	(549,152)
Vehicles	(2,509,094)	(326,395)	-	(2,835,489)
Infrastructure	<u>(12,705,243)</u>	<u>(1,245,350)</u>	<u>-</u>	<u>(13,950,593)</u>
Total accumulated depreciation	<u>(18,273,257)</u>	<u>(1,874,124)</u>	<u>5,657</u>	<u>(20,141,724)</u>
Total capital assets being depreciated, net	<u>28,309,486</u>	<u>353,807</u>	<u>(1,543)</u>	<u>28,661,750</u>
Governmental activities capital assets, net	<u>\$ 28,921,496</u>	<u>\$ 374,707</u>	<u>\$ (1,543)</u>	<u>\$ 29,294,660</u>

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 11 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

Legislative and executive	\$ 94,839
Judicial	6,110
Public safety	196,024
Public works	1,436,218
Health	8,381
Human services	128,476
Economic development	1,029
Other	<u>3,047</u>
 Total depreciation expense - governmental activities	 <u>\$ 1,874,124</u>

NOTE 12 - CAPITAL LEASES - LESSEE DISCLOSURE

- A. During prior fiscal years, the County entered into capital leases for the acquisition of an asphalt roller and a street sweeper. In the current year, the County entered into capital leases for the purchase of copiers. These leases meet the criteria of a capital lease as defined by FASB Statement No. 13, “Accounting for Leases”, which defines a capital lease as one which transfers benefits and risks of ownership to the lessee.

Equipment has been capitalized in the amount of \$122,935. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the government-wide financial statements. Principal and interest payments for fiscal year 2003 were \$23,885 and \$3,042, respectively. These amounts are reported as debt service expenditures in the special revenue funds and the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2003:

Fiscal Year Ending	<u>Amount</u>
<u>December 31,</u>	
2004	\$ 31,553
2005	5,178
2006	5,178
2007	5,177
2008	<u>4,627</u>
 Total future minimum lease payments	 51,713
Less: amount representing interest	<u>(5,890)</u>
 Present value of net minimum lease payments	 <u>\$ 45,823</u>

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 12 - CAPITAL LEASES - LESSEE DISCLOSURE - (Continued)

- B.** At December 31, 2003, the Hospital has capital leases for a computer hardware and software system, the CT scanner system and other medical equipment. The obligations under these capital leases have been recorded at the present value of future minimum lease payments, discounted at appropriate interest rates. The capitalized costs of \$1,867,222 less accumulated depreciation of \$1,267,295 are included in property and equipment, in the financial statements. The liability for the obligation under capital lease at December 31, 2003 was \$654,619.

Annual minimum lease payments of the capital leases required for the years subsequent to December 31, 2003 are as follows:

Fiscal Year Ending <u>December 31,</u>	<u>Amount</u>
2004	\$ 347,145
2005	292,091
2006	43,851
2007	<u>23,117</u>
Total minimum lease payments	<u>706,204</u>
Amounts representing interest	<u>(51,585)</u>
Present value of net minimum payments	<u>\$ 654,619</u>

- C.** At December 31, 2003, the Whetstone Industries has a capital lease for a walk behind fork lift. The obligation under this capital lease has been recorded at the present value of future minimum lease payments, discounted at appropriate interest rates. The capitalized costs of \$13,950 less accumulated depreciation of \$2,093 are included in property and equipment. The interest expense for this capital lease for the year ended December 31, 2003 was \$1,124. Annual minimum lease payments of the capital lease required for the five years subsequent to December 31, 2003 are as follows:

Fiscal Year Ending <u>December 31,</u>	<u>Amount</u>
2004	\$ 4,176
2005	4,176
2006	<u>1,740</u>
Total minimum lease payments	<u>10,092</u>
Amounts representing interest	<u>(1,230)</u>
Present value of net minimum payments	8,862
Less current portion	<u>(3,394)</u>
Long-term capitalized lease obligations	<u>\$ 5,468</u>

MORROW COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003**

NOTE 13 - OPERATING LEASES - LESSEE DISCLOSURE

The Hospital has entered into an operating lease agreement for medical equipment and a vehicle. Future minimum lease payments are as follows:

<u>Fiscal Year Ending</u> <u>December 31,</u>	<u>Amount</u>
2004	\$ 188,987
2005	173,301
2006	55,078
2007	51,328
2008	<u>-</u>
Total minimum lease payments	<u>\$ 468,694</u>

NOTE 14 - COMPENSATED ABSENCES

Vacation and sick leave accumulated by governmental fund type employees has been recorded in the general long-term obligations account group. Vacation and sick leave earned by proprietary funds type employees is expensed when earned.

County employees earn vacation at varying rates ranging from two to five weeks per year. Vacation is to be taken within one year of the employee's anniversary date. In certain cases, vacation can accumulate up to three times the annual vacation rate for an employee. All accumulated, unused vacation time is paid upon separation from the County. Sick leave is accumulated at the rate of .0575/hour for every hour worked. Upon retirement, employees with ten years of service are entitled to 25 percent of their accumulated sick leave up to a maximum of 30 days. At December 31, 2003 vested benefits for vacation leave for governmental fund type employees totaled \$402,024 and vested benefits for sick leave totaled \$64,037. In accordance with GASB Statement No. 16, an additional liability of \$59,484 was accrued to record termination (severance) payments expected to become eligible to retire in the future for the governmental fund type employees.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 15 - LONG-TERM OBLIGATIONS

A. Governmental Long-Term Obligations

The balance of the County's governmental activities long-term obligations at December 31, 2002 has been restated. The compensated absences liability increased \$58,217 from \$463,490 to \$521,707 due to the implementation of GASB Interpretation No. 6 as described in Note 3.A. The effect on the total governmental activities long-term obligations at January 1, 2003 was an increase from \$4,384,645 to \$4,442,862. During the fiscal year 2003, the following changes occurred in the County's governmental long-term obligations:

	Maturity Date	Interest Rate	Restated Balance at 01/01/03	Additions	Reductions	Balance at 12/31/03	Amount Due in One Year
<u>General obligation bonds:</u>							
Jail bond retirement	2013	4.875%	\$ 617,362	\$ -	\$ (617,362)	\$ -	\$ -
MRDD building bonds	2011	6.2-7.95%	290,000	-	(25,000)	265,000	25,000
County services building	2022	1.5-4.8%	2,300,000	-	(60,000)	2,240,000	85,000
Total general obligation bonds			<u>\$ 3,207,362</u>	<u>\$ -</u>	<u>\$ (702,362)</u>	<u>\$ 2,505,000</u>	<u>\$ 110,000</u>
<u>Loans payable:</u>							
MR/DD Van loan	2008	3.90%	\$ -	\$ 20,000	\$ (1,574)	\$ 18,426	\$ 3,745
Engineers vehicles #5	2003	5.513%	33,681	-	(33,681)	-	-
Engineers vehicles #6	2004	5.44%	18,781	-	(18,781)	-	-
Engineers vehicles #7	2005	4.90%	84,430	-	(42,215)	42,215	42,215
Engineers vehicles #9	2005	5.90%	127,904	-	(42,634)	85,270	42,635
Building - Walnut Place	2004	5.00%	155,694	-	(102,486)	53,208	53,208
Court computerization	2004	6.15%	28,926	-	(16,994)	11,932	11,932
Total loans payable			<u>\$ 449,416</u>	<u>\$ 20,000</u>	<u>\$ (258,365)</u>	<u>\$ 211,051</u>	<u>\$ 153,735</u>
OWDA loan payable	2011	7.50%	\$ 86,343	\$ -	\$ (7,638)	\$ 78,705	\$ 8,210
OWDA loan payable	2023	0.00%	50,000	25,000	(1,875)	73,125	1,875
Total OWDA loans payable			<u>\$ 136,343</u>	<u>\$ 25,000</u>	<u>\$ (9,513)</u>	<u>\$ 151,830</u>	<u>\$ 10,085</u>
Special assessment note payable	2005	6.00%	\$ 79,603	\$ -	\$ (30,419)	\$ 49,184	\$ 32,296
<u>Notes payable:</u>							
Various purpose bond anticipation notes	2004	1.50%	\$ -	\$ 2,000,000	\$ -	\$ 2,000,000	\$ 2,000,000
Jail improvement bond anticipation note	2004	5.00%	-	30,000	-	30,000	30,000
Jail refunding bond anticipation notes	2004	5.00%	-	560,000	-	560,000	560,000
Total notes payable			<u>\$ -</u>	<u>\$ 2,590,000</u>	<u>\$ -</u>	<u>\$ 2,590,000</u>	<u>\$ 2,590,000</u>
<u>Other long-term obligations:</u>							
Compensated absences payable			\$ 521,707	\$ 118,220	\$ (114,382)	\$ 525,545	\$ 103,517
Capital lease payable			48,431	21,277	(23,885)	45,823	28,552
Total other long-term obligations			<u>\$ 570,138</u>	<u>\$ 139,497</u>	<u>\$ (138,267)</u>	<u>\$ 571,368</u>	<u>\$ 132,069</u>
Total long-term obligations			<u>\$ 4,442,862</u>	<u>\$ 2,774,497</u>	<u>\$ (1,138,926)</u>	<u>\$ 6,078,433</u>	<u>\$ 3,028,185</u>

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 15 - LONG-TERM OBLIGATIONS - (Continued)

General Obligation Bonds: The general obligation bonds are supported by the full faith and credit of the County. The Jail bond and MRDD building bonds were issued to provide resources for building renovations and improvements including energy conservation measures. In August 2002, the County issued bonds in the amount of \$2,300,000 to payoff the Social Services building notes. These bonds are being retired through rental charges and other County operating sources.

Loans Payable: Loans payable consist of money owed to the Ohio Water Development Authority for construction a sanitary sewer from the City of Galion to the Ketterman Subdivision and bank loans for vehicles used by the County's Engineer's Office. These loans are retired through the debt service with transfers from the motor vehicle gas tax special revenue fund. OWDA loans will be paid from the Ketterman debt service fund. The loans for the engineers' vehicles will be paid from the motor vehicle bond retirement debt service fund. In June 2001, the County issued a loan to purchase a building on Walnut Place for \$300,000. Proceeds of this loan were recorded in the general fund with the payments being made from the Walnut Place Building Loan retirement debt service fund. In August 2001, the County issued a loan through a line of credit to purchase computer equipment for the County courts in the amount of \$50,000. Payments will be made from the Common Pleas Court Information Systems special revenue fund. In 2003, the County issued a loan through a line of credit to purchase a vehicle for Whetstone in the amount of \$20,000. Payments will be made from the Whetstone special revenue fund.

Special Assessment Note: On July 17, 2000, the County issued a note for the purpose of obtaining 911 equipment. The note is payable as to principal and interest solely from 911 property tax assessments and other receipts. The special assessments are receipted into the 911 Note Retirement debt service fund and the subsequent principal and interest payments are made from this fund. In the event that special assessments are not sufficient to pay the annual principal and interest payments, the County is responsible for providing the resources to meet the payments as the full faith and credit of the County has been pledged for repayment.

Compensated Absences: Sick leave and vacation benefits are presented net of actual increases and decreases because of the practicality of determining these values. The benefits will be paid from the fund from which the person is paid.

Capital Leases Payable: Capital lease principal and interest payments are being made from the Motor Vehicle and Gas Tax special revenue fund. See Note 12.A. for further detail on the capital lease obligations.

Notes Payable - On July 22, 2003, the County issued \$2,590,000 in bond anticipation notes. A portion of the proceeds, \$2,000,000, was used to retire the social services building bond anticipation notes that matured on July 23, 2003. \$30,000 of the proceeds was used to finance jail improvements. The remaining \$560,000 of the proceeds was used to currently refund the remaining portion of the general obligation jail bonds. The bonds mature on July 21, 2004. The bond anticipation notes will be retired when they reissue bond anticipation notes in July 2004. In accordance with FASB Statement No. 6, "Classification of Short-Term Obligations Expected to Be Refinanced" the bond anticipation notes are considered long-term obligations because they have been replaced with long-term bonds before the financial statements have been issued.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 15 - LONG TERM OBLIGATIONS - (Continued)

Future Debt Service Requirements: The following is a summary of the County's future annual debt service principal and interest requirements for general long-term obligations:

Year Ended	General Obligation Bonds			Engineers, Building, MR/DD and Court Loans		
	Principal	Interest	Total	Principal	Interest	Total
2004	\$ 110,000	\$ 102,473	\$ 212,473	\$ 153,735	\$ 6,238	\$ 159,973
2005	120,000	99,215	219,215	46,528	1,761	48,289
2006	120,000	95,405	215,405	4,048	16,702	20,750
2007	120,000	91,220	211,220	4,208	188	4,396
2008	135,000	86,298	221,298	2,532	33	2,565
2009-2013	640,000	320,925	960,925	-	-	-
2014-2018	640,000	228,735	868,735	-	-	-
2019-2022	620,000	74,565	694,565	-	-	-
Total	<u>\$ 2,505,000</u>	<u>\$ 1,098,836</u>	<u>\$ 3,603,836</u>	<u>\$ 211,051</u>	<u>\$ 24,922</u>	<u>\$ 235,973</u>

Year Ended	OWDA Loans			Special Assessment Note		
	Principal	Interest	Total	Principal	Interest	Total
2004	\$ 10,085	\$ 5,903	\$ 15,988	\$ 32,296	\$ 2,505	\$ 34,801
2005	12,576	5,287	17,863	16,888	513	17,401
2006	13,238	4,625	17,863	-	-	-
2007	13,949	3,914	17,863	-	-	-
2008	14,714	3,149	17,863	-	-	-
2009-2013	49,768	4,265	54,033	-	-	-
2014-2018	18,750	-	18,750	-	-	-
2019-2023	18,750	-	18,750	-	-	-
Total	<u>\$ 151,830</u>	<u>\$ 27,143</u>	<u>\$ 178,973</u>	<u>\$ 49,184</u>	<u>\$ 3,018</u>	<u>\$ 52,202</u>

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

The Code further provides that the total voted and unvoted net debt of the County, less the same exempt debt, shall never exceed a sum equal to three percent of the first \$100,000,000 of the assessed valuation, plus one and one-half percent of such valuation in excess of \$100,000,000 and net in excess of \$300,000,000, plus two and one-half percent of such valuation in excess of \$300,000,000. Based on this calculation, the County's legal debt margin was \$8,342,333 as of December 31, 2003.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 15 - LONG TERM OBLIGATIONS - (Continued)

C. Enterprise Fund Obligations

The County had the following capital lease payable, revenue notes and installment loans payable outstanding at year-end related to enterprise fund operations:

	Interest Rate	Balance at 1/1/03	Additions	Reductions	Balance at 12/31/03	Amount Due in One Year
Capital lease payable		\$ 864,980	\$ 170,585	\$ (380,946)	\$ 654,619	\$ 310,613
Deed restriction on land		12,000	-	-	12,000	-
Hospital facilities revenue notes	5.90%	188,184	-	(91,333)	96,851	96,851
Facility improvements						
Lease and purchase	5.89%	4,950,000	-	(204,887)	4,745,113	426,986
Other notes payable		-	150,752	-	150,752	86,391
Total enterprise fund obligations		<u>\$ 6,015,164</u>	<u>\$ 321,337</u>	<u>\$ (677,166)</u>	<u>\$ 5,659,335</u>	<u>\$ 920,841</u>

Capital Leases Payable: The capital lease obligation represents the leases entered into for a computer and hardware system, a CT scanner and medical equipment for the Hospital. The leases are being retired from Hospital operating revenue.

Deed Restriction on Land: The Hospital has a deed restriction of \$12,000 for a donation of land. Payment is based on fulfillment of physician contract and disposal of land by the Hospital Foundation. Land is restricted for use of medical buildings and is unsecured.

Hospital Facilities Refunding Revenue Note: The Hospital Facilities Refunding Revenue Notes were issued for a five year period and will mature December 1, 2004. The notes will be retired from Hospital operating revenue.

Hospital Facility Improvement Lease and Purchase Agreement: The lease and purchase agreement was issued during 2001 for the financing of the construction of facility improvements. The financing was provided by the issuance of 10 year tax-exempt hospital bonds maturing August 28, 2012 with an interest rate of 5.89%.

Other Notes Payable: The notes payable were issued with a financial institution bearing interest at a fixed rate of 4.875% per annum to finance an independent physician contracts. The \$66,205 note requires monthly payments of \$3,628 principal and interest with the final payment due on July 21, 2005. The \$84,547 requires monthly payments of \$4,025 principal and interest with the final payment due on October 11, 2005.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 15 - LONG TERM OBLIGATIONS - (Continued)

The following is a summary of the future debt service requirements of the hospital:

<u>Year Ended</u> <u>December 31,</u>	<u>Amount</u>
2004	\$ 610,228
2005	517,833
2006	480,783
2007	509,738
2008	539,982
Thereafter	<u>2,346,152</u>
Total	<u>\$ 5,004,716</u>

The \$12,000 reported in the future debt service requirements represents the deed restriction on the land. This is reported as a separate liability from the Hospital Facilities Refunding Revenue Note on the financial statements.

NOTE 16 - BOND ANTICIPATION NOTES PAYABLE

The County had the following bond anticipation note activity during fiscal year 2003 in the capital projects funds. The bond anticipation notes were reported as a liability in the Social Services Bond Retirement capital projects fund, the fund that received the proceeds.

	<u>Issue</u> <u>Date</u>	<u>Maturity</u> <u>Date</u>	<u>Balance at</u> <u>01/01/03</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at</u> <u>12/31/03</u>
Social services building - 2.00%	07/24/02	07/23/03	<u>\$ 2,000,000</u>	<u>\$ -</u>	<u>\$ (2,000,000)</u>	<u>\$ -</u>

NOTE 17 - NET PATIENT SERVICE REVENUE AND CHARITY CARE

The Hospital provides services to certain patients covered by various third party payer arrangements that provide for payments to the Hospital at amounts different than its established rates. Gross patient service revenues and the allowances to reconcile to net patient services revenue for the year ended December 31, 2003 are as follows:

	<u>2003</u>
Gross patient service revenue	\$ 33,779,798
Less contractual allowances:	
Medicare	(5,923,357)
Medicaid and other	<u>(4,853,357)</u>
Total contractual allowances	<u>(10,776,714)</u>
Net patient service revenue	<u>\$ 23,003,084</u>

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under the charity care policy. Charity care, based on estimated rates, totaled approximately \$223,923 during the year ended December 31, 2003.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 18 - RISK MANAGEMENT

A. Property and Liability Insurance

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 the County Risk Sharing Authority, Inc. (CORSA) for liability, property, automotive, and crime insurance. The CORSA program has a \$2,500 deductible. Coverage provided by CORSA is as follows:

	<u>Amount</u>
General Liability (per occurrence)	\$ 1,000,000
Law Enforcement Liability (per occurrence)	1,000,000
Automobile Liability and Physical Damage Liability (per occurrence)	1,000,000
Medical Payments	
Per Person	5,000
Per Occurrence	50,000
Uninsured Motorist (per person)	250,000
Physical Damage	Actual Cost
Flood and Earthquake (pool limit)	100,000,000
Other Property Insurance:	
Extra Expense	1,000,000
Contractors' Equipment	Actual Cash Value
Valuable Papers and Records	1,000,000
Inland Marine	Actual Cash Value
Automatic Acquisition	3,000,000
Motor Truck Cargo	100,000
Crime Insurance:	
Faithful Performance	1,000,000
Money and Securities (inside and outside)	1,000,000
Depositor's Forgery	1,000,000
Money Orders and Counterfeit Paper Currency	1,000,000
Boiler and Machinery	100,000,000
Public Officials (per occurrence)	1,000,000
Umbrella (per occurrence)	4,000,000

There has been no significant reduction in insurance coverage from the prior year, and settled claims have not exceeded this coverage in the past three years. The County pays all elected officials' bonds by statute.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 18 - RISK MANAGEMENT - (Continued)

B. Health, Prescription Drug, Dental and Vision Insurance

The County has established an Employee Self-Insurance (an internal service fund) to account for and finance its health, prescription drug, dental and vision insurance. The County purchases commercial insurance for claims in excess of coverage provided by the Fund and for all other risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

All funds of the County participate in the program and make payments to the Employee Self-Insurance Fund based on actuarial estimates of the amounts needed to pay claims and actual amounts needed to pay fixed costs (premiums for stop-loss coverage and medical conversion and administrative fees and services). A third party administrator reviews, and the County pays, all claims. The liability for unpaid claims of \$126,713 reported in the financial statements at December 31, 2003, is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by FASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling the claims. Changes in the balances of the self insurance claims liabilities during the past two fiscal (calendar) years are as follows:

	<u>Beginning of Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>End of Year Liability</u>
2003	\$ 136,618	\$ 1,658,717	\$ (1,668,622)	\$ 126,713
2002	-	715,572	(578,954)	136,618

The County offers life insurance, however, this is at the cost of the employee if they choose to participate. The entire risk of loss transfers to the commercial insurance carrier.

C. Malpractice and General Patient Liability Insurance

The Hospital is at all time subject to pending and threatened legal actions which arise in the normal course of its activities. The Hospital purchases, through a commercial carrier, professional liability insurance on an occurrence basis without co-insurance. This insurance is subject to deductibles and covers claims up to specified policy limits per medical incident and in the aggregate.

D. Hospital Self-Insurance Program

Effective June 1, 1990, the Hospital began participating in a self-funded health and dental insurance plan. In addition, the Hospital purchases stop-loss insurance that provides coverage of claims in excess of certain amounts on individual claims. The self-funded plan is administered by a third party administrator which determines the current funding requirement of participants under the terms of the plan and the liability for claims and assessments that would be payable at any given point in time. In connection therewith, the Hospital charged to operations a provision of \$1,100,743 for 2002, which represents the sum of actual claims paid and estimates for incurred but unreported claims, resulting from incidents that occurred during the year. As of December 31, 2003, the Hospital had estimated its outstanding loss claims at \$230,937, which is reported as a current liability at year-end. Subsequent adjustment of insurance plan liabilities based on claims experience is treated as an adjustment to expense.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 19 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

All County full-time employees, other than teachers, participate in the Ohio Public Employees Retirement System of Ohio (OPERS), a cost-sharing multiple-employer public employee retirement system created by the State of Ohio. OPERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate for 2003 was 8.5 percent for employees other than law enforcement. The law enforcement classification consisted of sheriffs, deputy sheriffs, and township police with an employee contribution rate of 10.1%. Public safety division members contribute at 9%. The employer contribution rate for employees other than law enforcement and public safety division was 13.55% of covered payroll and 8.55% was the portion used to fund pension obligations for 2003. The employer contribution rate for law enforcement and public safety divisions was 16.70% of covered payroll and 11.70% was the portion used to fund pension obligations for 2003. Required employer contributions are equal to 100% of the dollar amount billed to each employer and must be extracted from the employer's records. The County's contributions to OPERS for the years ended December 31, 2003, 2002, and 2001 were \$880,995, \$823,901, and \$865,493, respectively; 89.10% has been contributed for 2003 and 100 percent for 2002 and 2001. \$96,055, representing the unpaid contribution for 2003, is recorded as a liability within the respective funds.

B. State Teachers Retirement System

Certified teachers employed by the school for the Mentally Retarded/Developmentally Disabled participate in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS Ohio provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code.

STRS Ohio issues a publicly available financial report that includes financial statements and required supplementary information for STRS Ohio. That report may be obtained by writing to the State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3% of their annual covered salary and the County is required to contribute 14%; 9.5% was the portion used to fund pension obligations. Contribution rates are established by STRS Ohio Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The County's contributions for pension obligations to STRS Ohio for the years ended December 31, 2003, 2002, and 2001 were \$16,107, \$16,107, and \$26,012, respectively; 100% has been contributed for the years 2003, 2002 and 2001.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 20 - POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

OPERS provides postretirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The OPERS law enforcement program is separated into two divisions, law enforcement and public safety, with separate employee contribution rates and benefits. The 2003 employer contribution rate for local government employers was 13.55% of covered payroll and 5.00% was the portion that was used to fund health care. For both the public safety and law enforcement divisions the 2003 employer rate was 16.70% of covered payroll and 5.00% was the portion used to fund health care.

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS. The County's contribution actually made to fund postemployment benefits was \$358,297.

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

As of December 31, 2002 (the latest information available), the actuarial value of the Retirement System's net assets available for future OPEB payments were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$18.7 billion and \$8.7 billion, respectively, at December 31, 2002 (the latest information available). The number of benefit recipients eligible for OPEB at December 31, 2002 (the latest information available) was 364,881.

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

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

In response to the adverse investment returns experienced by OPERS from 2000 through 2002 and the continued staggering rate of health care inflation, the OPERS Board, during 2003, considered extending "Choices" type cost cutting measures to all active members and benefit recipients. As of this date, the Board has not determined the exact changes that will be made to the health care plan. However, changes to the plan are expected to be approved by the summer of 2004.

MORROW COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003**

NOTE 20 - POSTEMPLOYMENT BENEFITS - (Continued)

Additional information on the OPERS, including historical trend information showing the progress in accumulating sufficient assets to pay benefits when due is available in the OPERS December 31, 2003, Comprehensive Annual Financial Report.

B. State Teachers Retirement System of Ohio

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

All benefit recipients are required to pay a portion of the health care cost in the form of a monthly premium. Benefits are funded on a pay-as-you-go basis through an allocation of employer contributions to the Health Care Stabilization Fund equal to 4.5% of covered payroll for the fiscal year ended June 30, 2003. Effective July 1, 2002, 1% of covered payroll was allocated to the Health Care Stabilization Fund. For the County, this amount equaled \$7,185 during calendar year 2003. As of June 30, 2002, the balance in the Health Care Stabilization Fund was \$3.011 billion and eligible benefit recipients totaled 105,300 for STRS Ohio as a whole. For the fiscal year ended June 30, 2002, net health care costs paid by STRS Ohio were \$354.697 million.

NOTE 21 - BUDGETARY BASIS OF ACCOUNTING

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

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund and major special revenue funds are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as payables (GAAP basis).

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 21 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund and major special revenue funds are as follows:

Net Change in Fund Balances

	Governmental Fund Types				
	<u>General</u>	<u>Motor Vehicle and Gas Tax</u>	<u>Public Assistance</u>	<u>MR/DD</u>	<u>Emergency Squad</u>
Budget basis	\$ (98,998)	\$ 202,478	\$ (137,215)	\$ (987,538)	\$ -
Net adjustment for revenue accruals	236,175	188,315	99,983	303,402	31,517
Net adjustment for expenditure accruals	(8,826)	16,556	37,724	14,681	-
Net adjustment for other financing sources/(uses) accruals	21,277	-	-	20,000	-
Encumbrances (budget basis)	<u>308,148</u>	<u>277,536</u>	<u>21,170</u>	<u>137,817</u>	<u>-</u>
GAAP basis	<u>\$ 457,776</u>	<u>\$ 684,885</u>	<u>\$ 21,662</u>	<u>\$ (511,638)</u>	<u>\$ 31,517</u>

NOTE 22 - CONTINGENT LIABILITIES

A. Grants

The County receives significant assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements included herein or on the overall position of the County at December 31, 2003.

B. Morrow County Hospital

At December 31, 2003, management is aware of certain asserted and unasserted malpractice and general patient liability claims and assessments against the Hospital. These claims are in various stages of processing and their outcome is uncertain. Therefore, future liability of the Hospital related to these claims and assessments is unknown. Accordingly, no amounts have been accrued for malpractice and general patient liability claims.

MORROW COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003**

NOTE 22 - CONTINGENT LIABILITIES - (Continued)

There may be unknown incidents arising from services provided to patients. However, because the annual insurance policy only covers claims that have been asserted and incidents reported to the insurance carrier, these unknown incidents are not yet covered by insurance. Management has no basis to estimate the ultimate cost, if any, of the settlement of such potential claims and, accordingly, has not accrued for them. In addition, management intends to maintain the current occurrence basis insurance coverage to cover any unknown incidents that may be asserted.

The Hospital purchases, through a commercial carrier, professional liability insurance on an occurrence basis without co-insurance, subject to deductibles, and up to specified policy limits per medical incident and in the aggregate, plus other supplemental protection.

C. Litigation

Several claims and lawsuits are pending against the County. In the opinion of the County Prosecutor, no liability is anticipated in excess of insurance coverage.

NOTE 23 - RELATED PARTY TRANSACTION

Whetstone Industries, Inc., a discretely presented component unit of the County, received contributions from the County for certain personnel and salaries. The contributions are reflected as operating revenues in the basic financial statements. For the year ended December 31, 2003 the County's contributions totaled \$691,600.

NOTE 24 - FEDERAL TRANSACTIONS

The Morrow County Department of Human Services (Welfare Department) distributes Federal food stamps to entitled recipients within the County. The receipt and issuance of these stamps have the characteristics off federal grants. However, the Welfare department merely acts in an intermediary capacity. Therefore, the inventory value of the stamps is not reflected in the accompanying financial statements as the only economic interest related to the stamps rest with the ultimate recipient.



CPAs and Business Advisors

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

Board of County Commissioners
Morrow County, Ohio

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Morrow County, Ohio as of and for the year ended December 31, 2003, which collectively comprise Morrow County's basic financial statements and have issued our report thereon dated August 27, 2004, wherein we noted that Morrow County adopted Government Accounting Standards Board Statement No. 34. We did not audit the financial statements of the Morrow County Hospital, which represent ninety-eight percent and ninety-nine percent, respectively, of the total assets and total revenue of the business-type activities. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Morrow County Hospital, is based on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Morrow County, Ohio's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Morrow County, Ohio in a separate letter dated August 27, 2004.

 **C&P Advisors, LLC**
Ciuni & Panichi, Inc.
Joel Strom Associates LLC
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Cleveland, Ohio 44122.5683
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Board of County Commissioners
Morrow County, Ohio

This report is intended for the information and use of the Morrow County Board of County Commissioners, Audit Committee, management, the Auditor of State, 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.

Cini & Parichi, Inc.

Cleveland, Ohio
August 27, 2004



CPAs and Business Advisors

**Report On Compliance with Requirements Applicable To Each
Major Program and Internal Control Over Compliance And
On The Schedule of Expenditures of Federal Awards In
Accordance with OMB Circular A-133**

Board of County Commissioners
Morrow County, Ohio

Compliance

We have audited the compliance of Morrow County, Ohio with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2003. Morrow County, Ohio'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 to each of its major federal programs is the responsibility of Morrow County, Ohio's management. Our responsibility is to express an opinion on Morrow County, Ohio's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Morrow County, Ohio'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 of Morrow County, Ohio's compliance with those requirements.

In our opinion, Morrow County, Ohio 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.

Board of County Commissioners
Morrow County, Ohio

Internal Control Over Compliance

The management of Morrow County, Ohio 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 Morrow County, Ohio's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Morrow County, Ohio as of and for the year ended December 31, 2003, and have issued our report thereon dated August 27, 2004, wherein we noted that Morrow County adopted Government Accounting Standards Board Statement No. 34. Our audit was performed for the purpose of forming opinions on the financial statements which collectively comprise Morrow County's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. We did not audit the financial statements of the Morrow County Hospital, which represent ninety-eight percent and ninety-nine percent, respectively, of the total assets and total revenue of the business-type activities. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Morrow County Hospital, is based on the report of the other auditors.

This report is intended for the information and use of the Morrow County Board of County Commissioners, Audit Committee, management, the Auditor of State, 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.

Cimini & Panichi, Inc.

Cleveland, Ohio
August 27, 2004

Morrow County, Ohio

Schedule Of Expenditures Of Federal Awards

For The Year Ended December 31, 2003

<u>Agency/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. Department of Agriculture Child and Adult Care Food Program	10.558	066167	\$ <u>7,530</u>
U.S. Department of Housing and Urban Development: Pass-Through Ohio Department of Development			
Home Investment Partnership Program	14.239	B-C-02-054-1	103,422
Home Investment Partnership Program	14.239	B-C-02-054-2	<u>127,782</u>
Total Home Investment Partnership Program			<u>231,204</u>
Community Development Block Grant	14.228	B-F-00-054-1	30,000
Community Development Block Grant	14.228	B-F-01-054-1	11,043
Community Development Block Grant	14.228	B-F-02-054-1	95,823
Community Development Block Grant	14.228	B-E-02-054-1	<u>500,000</u>
Total Community Development Block Grant			<u>636,866</u>
Total U.S. Department of Housing and Urban Development			<u>868,070</u>
Federal Emergency Management Agency: Pass-Through Ohio Emergency Management Agency			
Emergency Management – Performance Grant	83.552	EMC-2003-GR-7006	15,393
S/L Emergency Operations Planning	83.562	EMC-2003-GR-7026	<u>22,915</u>
Total Federal Emergency Management Agency			<u>38,308</u>
U.S. Department of Transportation: Pass-Through Department of Public Safety			
Safe Communities	20.600	1721.0	<u>10,362</u>
U.S. Department of Justice: Pass-Through Ohio Attorney General's Office			
Bullet Proof Vest Grant	16.607		2,875
Crime Victim Assistance	16.575	2003VAGENE069	26,387
Pass-Through Ohio Emergency Management Agency			
State Domestic Preparedness Program	16.007	2003-MUP-30015	118,193
State Domestic Preparedness Program	16.007	2003-TE-TX-199	<u>67,600</u>
Total State Domestic Preparedness Program			<u>185,793</u>
Total U.S. Department of Justice			<u>215,055</u>

The accompanying notes are an integral part of this schedule

Morrow County, Ohio

Schedule Of Expenditures Of Federal Awards

For The Year Ended December 31, 2003

<u>Agency/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. Department of Health and Human Services:			
Pass-Through Ohio Department of Human Services			
Title IV-B	93.645		45,219
Pass-Through Ohio Department of Job and Family Services			
Social Services Block Grant – Title XX	93.667		40,502
Medicaid Assistance Program – Title XIX	93.778		715,802
Child Care and Development Block Grant	93.575		6,930
Temporary Assistance for Needy Families	93.558		<u>198,090</u>
Total U. S. Department of Health and Human Services			<u>1,006,543</u>
U.S. Department of Labor:			
Pass-Through the Ohio Department of Jobs and Family Services:			
Workforce Investment Act – Youth Activities	17.259		93,156
Workforce Investment Act – Youth Activities Administration			<u>8,199</u>
			<u>101,355</u>
Workforce Investment Act – Adult Activities	17.258		64,288
Workforce Investment Act – Adult Activities Administration			<u>8,198</u>
			<u>72,486</u>
Workforce Investment Act – Dislocated Worker	17.260		12,839
Workforce Investment Act – Dislocated Worker Administration			<u>8,198</u>
			<u>21,037</u>
Workforce Investment Act - Rapid Response	17.260		<u>42,973</u>
Total U.S. Department of Labor and WIA Cluster			<u>237,851</u>
Total Federal Assistance			\$ <u><u>2,383,719</u></u>

The accompanying notes are an integral part of this schedule

Morrow County, Ohio

Notes To The Schedule Of Expenditures Of Federal Awards

For The Year Ended December 31, 2003

Note 1: Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Morrow County, Ohio and is presented using the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

Note 2: Loans Outstanding

The County administers two loan programs with funds provided by the U.S. Department of Housing and Urban Development, through the Ohio Department of Development under Community Development Block Grant. As of December 31, 2003, the amount of the loans outstanding was \$559,362 for the Economic Development Revolving Loan Program and \$95,597 for the Water and Sewer Revolving Loan Program.

Morrow County, Ohio

Schedule Of Findings (Continued) OMB Circular A-133 Section .505

December 31, 2003

1. Summary of Auditor's Results

(d)(I)(i)	Type of Financial Statement Opinion	Unqualified
(d)(I)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(I)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(I)(iii)	Was there any material reported noncompliance at the financial statement level (GAGAS)?	No
(d)(I)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(I)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(I)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(I)(vi)	Are there any reportable findings under Section .510?	No
(d)(I)(vii)	Major Programs	Workforce Investment Act Cluster, CFDA No. 17.258, 17.259, 17.260; Medicaid Assistance Program – Title XIX, CFDA No. 93.778
(d)(I)(viii)	Dollar Threshold: Type A/B Programs	Type A:>\$300,000 Type B:>All Others
(d)(I)(ix)	Low Risk Auditee?	Yes

2. Findings Related To The Financial Statements Required To Be Reported In Accordance With GAGAS

None.

3. Findings For Federal Awards

None.

Morrow County, Ohio

Schedule Of Prior Audit Findings OMB Circular A-133 Section .505

December 31, 2003

Finding No.	Finding Summary	Fully Corrected?	Explanation
02-2	<p>Cash Management – Home Investment Partnerships Program – CFDA No. 14.239 – U.S. Department of Housing and Urban Development – Pass-Through Ohio Department of Development.</p> <p>The OHCP Financial Management Rules and Regulations Handbook states that grantees receiving federal funds must develop a cash management system to ensure compliance with the Fifteen Day Rule relating to prompt disbursement of funds. Federal Regulations 24 CFR 92 and 502 (c)(2) require that Non-Federal entities must expend funds which they receive from HUD within fifteen days of receipt of the funds. There were several instances throughout 2002 when the balance of funds was greater than \$5,000 after fifteen days of receipt of funds.</p> <p>The County’s Economic Development Office should review the amounts of incoming funds and the related projects, so that amounts are expended to the correct parties within the required time limit.</p>	No	This program was not deemed a major program in the current year, however, the County had noncompliance in this area again in 2003.

Morrow County, Ohio
48 East High Street
Mt. Gilead, Ohio 43338
(419) 946-8055

**Response To Findings Associated With Audit Conducted
In Accordance With *Government Auditing Standards*
For The Year Ended December 31, 2003**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
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Not Applicable.



**Auditor of State
Betty Montgomery**

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

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

FINANCIAL CONDITION

MORROW COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 18, 2004**