



**Auditor of State
Betty Montgomery**

FAYETTE COUNTY
TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets-Cash Basis as of December 31, 2003.....	17
Statement of Activities-Cash Basis - For the Year Ended December 31, 2003.....	18
Fund Financial Statements:	
Statement of Assets and Liabilities arising from Cash Transactions – Governmental Funds as of December 31, 2003.....	20
Statement of Cash Basis Assets and Fund Balances and Cash Receipts, Disbursements, And Changes in Cash Basis Fund Balance – Governmental Funds.....	21
Statement of Cash Basis Assets and Fund Balances and Cash Receipts, Disbursements, And Changes in Cash Basis Fund Balance – Proprietary Funds.....	22
Statement of Fiduciary Net Assets – Cash Basis.....	23
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds – Cash Basis.....	24
Budgetary Comparison Schedule – Cash Basis – General Fund.....	25
Budgetary Comparison Schedule – Cash Basis – County Board of Mental Retardation and Developmental Disabilities Fund.....	26
Budgetary Comparison Schedule – Cash Basis – Jobs and Family Services Fund.....	27
Budgetary Comparison Schedule – Cash Basis – Motor Vehicle Gas Tax Fund.....	28
Fayette County Memorial Hospital – Balance Sheet as of December 31, 2003.....	29
Fayette County Memorial Hospital – Statement of Revenues, Expenditures, and Changes in Net Assets – For the Year Ended December 31, 2003.....	30
Fayette County Memorial Hospital – Statement of Cash Flows for the Year ended December 31, 2003.....	31
Notes to the Basic Financial Statements.....	33
Schedule of Federal Awards Expenditures.....	61
Notes to Schedule of Federal Awards Expenditures.....	63
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	65
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance With OMB Circular A-133.....	67

FAYETTE COUNTY
TABLE OF CONTENTS
(Continued)

TITLE	PAGE
Schedule of Findings	69
Schedule of Prior Audit Findings	73



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Fayette County
133 S. Main Street
Washington Court House, Ohio 43160

To the Board of County Commissioners:

We have audited the accompanying cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Fayette County, Ohio (the County), as of and for the year ended December 31, 2003, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the Fayette County Memorial Hospital. Those financial statements were audited by other auditors whose report has been furnished to us and our opinion on the accompanying financial statements, insofar as it relates to the amounts included for the Fayette County Memorial 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 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.

Ohio Administrative Code Section 117-2-03 (B) requires the County to prepare its annual financial report in accordance with generally accepted accounting principles. However, as discussed in Note 1, with the exception of the Fayette County Memorial Hospital financial statements, the accompanying financial statements and notes follow the basis of cash receipts and disbursements. This is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

The Fayette County Memorial Hospital financial statements are presented as stand alone statements in accordance with generally accepted accounting principles.

The financial statements referred to above include only the primary government of Fayette County, which consists of all funds, departments, and offices that comprise the County's legal entity. The financial statements do not include financial data for the County's legally separate component unit, which accounting principles generally accepted in the United States of America, as applied to the County's cash basis of accounting, require to be reported with the financial data of the County's primary government. As a result, the primary government financial statements do not purport to, and do not present fairly the cash basis financial position of the reporting entity of the County as of December 31, 2003 and the changes in its cash basis financial position, for the year ended in conformity with the basis of accounting described in Note 1.

Corporate Centre of Blue Ash / 11117 Kenwood Rd. / Blue Ash, OH 45242
Telephone: (513) 361-8550 (800) 368-7419 Fax: (513) 361-8577
www.auditor.state.oh.us

In our opinion, based on our audit and the report of other auditors, the basic financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the primary government of Fayette County, Ohio, as of December 31, 2003, and the respective changes in cash basis financial position and the respective budgetary comparison for the General, County Board of Mental Retardation and Developmental Disabilities, Job and Family Services, and Motor Vehicle Gas Tax funds thereof for the year then ended in conformity with the basis of accounting Note 1 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2004, on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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



Betty Montgomery
Auditor of State

December 20, 2004

FAYETTE COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

As Management of Fayette County, we offer readers of Fayette County's financial statements this narrative overview and analysis of the financial activities of Fayette County for the fiscal 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 notes to the financial statements to enhance their understanding of the County's performance.

- . In total, net cash assets increased \$426,450.
- . Net cash assets of governmental activities increased \$549,485 which represents a 8.47% increase from 2002. Net cash assets of business-type activities decreased \$123,035 which represents a 16.18% decrease from 2002. Net cash assets of fiduciary funds increased \$339,570 which represents a 10.36% increase over 2002.
- . At the close of the current fiscal year, Fayette County's governmental funds reported a combined ending fund balance of \$7,034,117. Approximately 92.79%, \$6,527,027, is available for spending at the government's discretion. Business-type Funds reported a combined ending fund balance of \$637,515. Approximately 89.67%, \$571,685, is available for spending.
- . Additions to Fayette County's total long-term debt were \$625,000 during the current fiscal year. Reductions in long-term debt during 2003 amounted to \$558,000 for a net increase of \$67,000. The additions were due to the Commission On Aging addition project and the West Lancaster Road Improvement.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Fayette County's Cash financial statements. Fayette County's financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial Statements, and 3) notes to the financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of Fayette County's finances.

The *statement of net assets-cash basis* presents information on all of Fayette County's cash assets, presented as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the cash balances of Fayette County are improving or deteriorating.

The *statement of activities-cash basis* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs.

Both of the government-wide financial statements distinguishes functions of Fayette County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of Fayette County include executive/legislative, judicial, public safety, public works, health, human services, conservation and recreation, economic Development and Assistance, and Urban Redevelopment and Housing. The business-type activities of Fayette County include a Sanitary Sewer, Sanitary Waste, and Water District.

FAYETTE COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited
(Continued)

The government-wide financial statements can be found on pages 17-19 of the report.

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. Fayette 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 Fayette County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements.

Fayette County maintains many individual governmental funds. Information is presented separately in the *Governmental Fund Statement of Receipts, Disbursements and Changes in Cash Basis Fund Balances* for the general, county board of mental retardation and developmental disabilities, job and family services, and motor vehicle gas tax funds, which are considered to be major funds. Data from the other governmental funds are combined into single, aggregated presentation.

Fayette County adopts an annual appropriated budget for its general fund and the other major funds as well as all other governmental funds. A budgetary comparison statement has been provided for the general and the other major special revenue funds to demonstrate compliance with this budget.

The cash basis governmental fund financial statements can be found on pages 20-21 of this report.

Proprietary funds. Fayette County maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. Fayette County uses enterprise funds to account for its sanitary sewer, sanitary waste, and water districts.

Proprietary funds provide the same type of information as the government-wide financial statements. Of the three enterprise funds, one fund, the Sanitary Revenue Waste Fund, is considered a major fund. The other funds are combined into a single presentation.

The cash basis proprietary fund financial statements can be found on page 22 of this report.

Fiduciary fund. Fiduciary funds account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are not available to support Fayette County's own programs.

The cash basis fiduciary fund financial statements can be found on pages 23-24 of this report.

Budgetary fund financial statement. The County's budgetary process accounts for certain transactions on a cash basis. The budgetary statements for the General fund and all annually budgeted major Special Revenue funds are presented to demonstrate the County's compliance with annually adopted budgets.

FAYETTE COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited
(Continued)

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. The notes to the financial statements can be found on pages 33-60 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets-cash basis may serve over time as a useful indicator of a government's financial position. This is the first year for Fayette County in implementing a new standard. Fayette County has chosen to report on the *Other Comprehensive Basis of Accounting*. This statement requires a comparative analysis of government-wide data in the Management Discussion and Analysis (MD&A) section. Since this is the first year of implementing the new standard, comparative data is not available. In future years comparative data will be presented.

Fayette County's Net Assets-Cash Basis

	Governmental Activities	Business-type Activities	Total
Cash	\$7,034,117	\$637,515	\$7,671,632
Total Assets	7,034,117	637,515	7,671,632
Restricted for:			
Special Revenue	5,323,767		5,323,767
Capital Projects	309,339		309,339
Debt Service	678,600		678,600
Unrestricted	722,411	637,515	1,359,926
Total Net Assets	\$7,034,117	\$637,515	\$7,671,632

At the end of the current fiscal year, Fayette County is able to report positive balances in all three categories of net cash assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

FAYETTE COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited
(Continued)

FAYETTE COUNTY'S CHANGES IN NET ASSETS- CASH BASIS

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Revenues:			
Program Revenues:			
Charges for Services	\$4,309,428	\$1,280,554	\$5,589,982
Operating grants and contributions	7,119,227		7,119,227
Capital grants and contributions	1,630,866		1,630,866
General revenues:			
Property Taxes	3,027,146		3,027,146
Sales and other taxes	4,308,685		4,308,685
State Local Government	3,167,528		3,167,528
Unrestricted investment earnings	256,735		256,735
Grants and contributions not			
Restricted to specific programs	305,393		305,393
Other	249,948		249,948
Total revenues	24,374,956	1,280,554	25,655,510
Disbursements:			
General government	2,763,801		2,763,801
Judicial	1,814,793		1,814,793
Public Safety	2,675,942		2,675,942
Disbursements (Continued)			
Public Works	4,409,213		4,409,213
Health	2,958,694		2,958,694
Human Services	5,796,145		5,796,145
Conservation and Recreation	519,222		519,222
Economic Development & Assis.	52,924		52,924
Urban Redevelopment & Housing	918,953		918,953
Capital Outlay	999,933		999,933
Debt Service	937,651		937,651
Sanitary Sewer Revenue		342,815	342,815
Sanitary Revenue Waste		935,646	935,646
Water District Revenue		103,328	103,328
Total Disbursements	23,847,271	1,381,789	25,229,060
Increase/Decrease in net assets	527,685	(101,235)	426,450
Transfers	17,613	(17,613)	0
Advances	4,187	(4,187)	0
Change in net assets	549,485	(123,035)	426,450
Net assets 12-31-02	6,484,632	760,550	7,245,182
Net assets 12-31-03	<u>\$7,034,117</u>	<u>\$637,515</u>	<u>\$7,671,632</u>

The County's net cash assets increased by \$426,450 during the current fiscal year.

FAYETTE COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited
(Continued)

Governmental activities. Governmental activities increased Fayette County's net cash assets by \$549,485.

Business-type activities. Business-type activities decreased Fayette County's net cash assets by \$123,035.

Financial Analysis of the Government's Funds

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

Governmental funds. The focus of Fayette County's *governmental funds* is to provide information on cash basis inflows, outflows and balances. Such information is useful in assessing Fayette County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the County's cash basis resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, Fayette County's governmental funds reported combined ending fund cash balances of \$7,034,117, an increase of \$549,485 in comparison with the prior year. Approximately \$6,527,027 constitutes unreserved fund balance, which is available for spending at the County's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed.

Ending fund cash balances increased due to an increase in intergovernmental receipts and a decrease in capital outlay spending for the new county administrative building.

The general fund is the chief operating fund of Fayette County. At the end of the current fiscal year, unreserved fund balance of the general fund was \$645,722, with receipts of \$8,657,761 and disbursements of \$8,401,318.

Proprietary funds. Fayette County's proprietary funds provide the same type of information found in the government-wide financial statements.

At the end of the current fiscal year, Fayette County's proprietary funds reported combined ending fund cash balances of \$637,515, a decrease of \$123,035 in comparison with the prior year. Approximately \$571,685 constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed.

Ending fund cash balances decreased due to an increase in spending for materials and supplies for purchasing a permanent easement and removing contaminated soil from a county property.

FAYETTE COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited
(Continued)

General Fund Budgetary Highlights

The County's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

Differences between the original budget and final amended budget were only an increase of \$73,404. The program differences are as follows:

- . Legislative and Executive decreased by \$50,991
- . Judicial increased by \$55,126
- . Public Safety increased by \$34,036
- . Conservation and Recreation increased by \$5,243
- . Public Works increased by \$25,396
- . Human Services increased by \$4,594

All programs spent less than budget.

Economic Factors and Next Year's Budget and Rates

- . The Unemployment rate for Fayette County is currently 4.3%, compared to 4.0% a year ago.
- . The vacancy rate of the County's central business district is not tracked, however, much of the district is utilized by service entities such as government offices, banks, insurance offices, restaurants, etc. The County also has two outlet malls which have the potential to generate sales tax income for the county. Unfortunately, the past two years has seen an increase in vacancies in both malls, with one of the malls being nearly 75% vacant. The change in sales tax revenue during the past two has had a negative impact on county revenues.

Each of these factors was considered in preparing Fayette County's budget for the 2004 year.

Fayette County Memorial Hospital

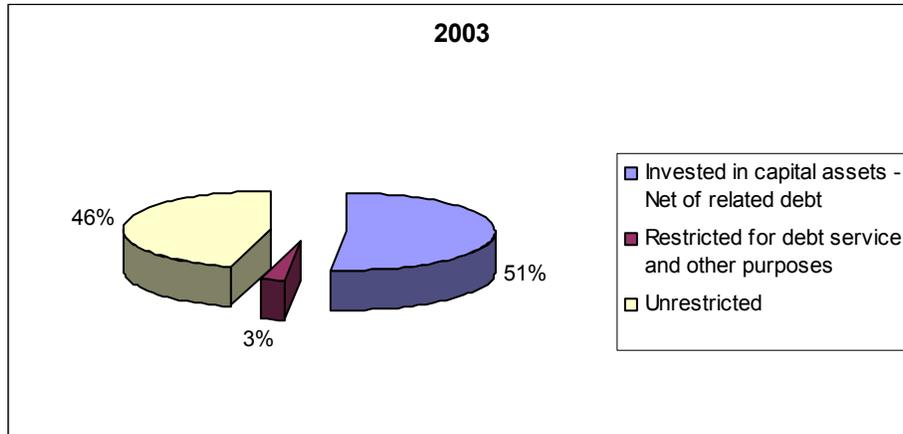
The Hospital's financial statements consist of three statements – Balance Sheet, a Statement of Revenue, Expenses, and Changes in Net Assets, and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purpose by contributors, grantors, or enabling legislation.

Financial Highlights

The Hospital's financial position improved slightly during the year ended December 31, 2003. Capital assets increased \$3.1 million, while long-term debt increased \$3.2 million from the prior year. These increases were due to the construction of a second medical office building, along with the issuance of revenue notes to fund the construction. In total, the Hospital's revenues and other support exceeded expenses, creating an increase in net assets of \$433,971 (compared to a \$1,405,876 increase in the previous year). The increase in net assets resulted from a slight increase in patient revenue due largely to price increases.

FAYETTE COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited
(Continued)

The following chart provides a breakdown of net assets by category for the year ended December 31, 2003:



Balance Sheet and the Statement of Revenue, Expenses, and Changes in Net Assets

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better off or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenue, Expenses, and Changes in Net Assets report information on the Hospital as a whole and on its activities in a way that helps answer this question. When revenue and other support exceed expenses, the result is an increase in net assets. When the reverse occurs, the result is a decrease in net assets. The relationship between revenue and expenses may be thought of as the Hospital's operating results.

These two statements report the Hospital's net assets and changes in them. You can think of Hospital's net assets - the difference between assets and liabilities - as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider many other non-financial factors, such as the trend in patient days, outpatient visits, conditions of the buildings, and strength of the medical staff, to assess the overall health of the Hospital.

The statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenue and expenses are taken in to account regardless of when cash is received or paid.

FAYETTE COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited
(Continued)

Condensed Financial Information

The following is a comparative analysis of the major components of the Balance Sheet of the Hospital as of December 31, 2003:

	Year Ended December 31		Change	
	2003	2002	Amount	Percent
Current assets	\$ 7,154,954	\$ 6,690,928	\$ 464,026	6.9%
Non-current assets	4,436,473	3,996,965	439,508	11.0%
Capital assets	<u>13,020,488</u>	<u>9,899,338</u>	<u>3,121,150</u>	31.5%
Total assets	<u>\$ 24,611,915</u>	<u>\$ 20,587,231</u>	<u>\$ 4,024,684</u>	19.5%
Current liabilities	\$ 3,017,744	\$ 2,693,951	\$ 323,793	12.0%
Long-term debt	<u>3,513,680</u>	<u>246,760</u>	<u>3,266,920</u>	1323.9%
Total liabilities	<u>\$ 6,531,424</u>	<u>\$ 2,940,711</u>	<u>\$ 3,590,713</u>	122.1%
Net assets:				
Invested in capital assets, net of debt	\$ 9,373,728	\$ 9,523,158	\$ (149,430)	-1.6%
Restricted assets	458,515	214,013	244,502	114.2%
Unrestricted	<u>8,248,248</u>	<u>7,909,349</u>	<u>338,899</u>	4.3%
Total net assets	<u>\$ 18,080,491</u>	<u>\$ 17,646,520</u>	<u>\$ 433,971</u>	2.5%

The primary change in the Balance Sheet relates to the construction of the new medical office building. This change is reflected in the significant increases to capital assets (for the cost of the building) and long-term debt (for debt service on the building). Operating results were favorable and contributed to the 2.5% increase in net assets.

FAYETTE COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited
(Continued)

Operating Results for the Year

	2003	2002	Change	
			Amount	Percent
Operating Revenue				
Net patient service revenue	\$ 26,859,670	\$ 25,777,121	\$ 1,082,549	4.2%
Other	72,908	71,330	1,578	2.2%
Total operating revenue	26,932,578	25,848,451	1,084,127	4.2%
Operating Expenses				
Salaries and wages	9,634,364	9,103,201	531,163	5.8%
Benefits	3,171,652	2,814,104	357,548	12.7%
Physician fees	1,332,142	1,276,958	55,184	4.3%
Other fees	3,085,217	2,257,018	828,199	36.7%
Supplies	3,775,241	3,730,732	44,509	1.2%
Depreciation and amortization	1,236,366	1,150,729	85,637	7.4%
Provision for bad debts	2,340,310	2,453,418	(113,108)	-4.6%
Other expenses	2,262,979	1,945,017	317,962	16.3%
Total operating expenses	26,838,271	24,731,177	2,107,094	8.5%
Operating Income	94,307	1,117,274	(1,022,967)	-91.6%
Non-Operating Gains - Net	339,664	288,602	51,062	17.7%
Increase in Net Assets	433,971	1,405,876	(971,905)	-69.1%
Net Assets - Beginning of year	17,646,520	16,240,644		
Net Assets - End of year	\$ 18,080,491	\$ 17,646,520		

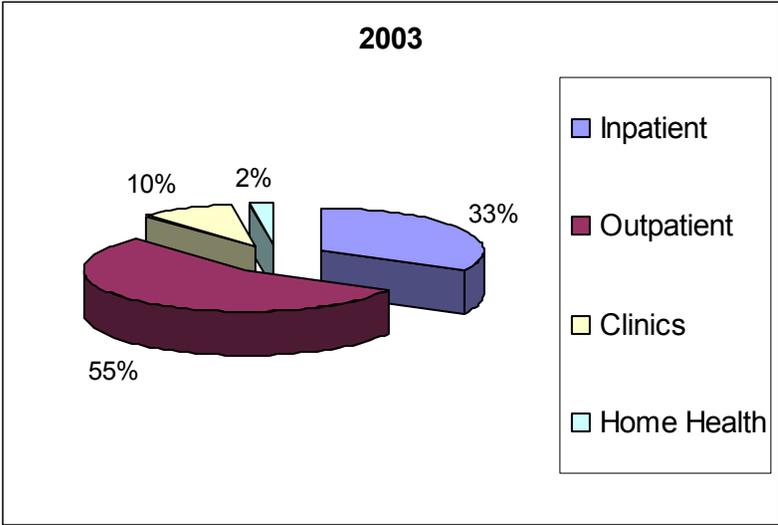
Operating Revenues

Operating revenues include all transactions that result in the sales and/or receipts from goods and services such as inpatient services, outpatient services, physician offices, and the cafeteria. In addition, certain federal, state, and private grants are considered operating if they are not for capital purposes and are considered a contract for services.

FAYETTE COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited
(Continued)

Operating revenue changes were a result of the following factors:

- Net patient service revenue increased 4.2 percent. This was attributable to a 7 percent price increase as well as a small increase in Radiology, Clinic, and Emergency Room volumes. Inpatient admissions remained constant from 2002 to 2003. Gross patient revenue is reduced by revenue deductions. These deductions are the amounts that are not paid to the Hospital under contractual arrangements primarily with Medicare, Medicaid, UHC, Medical Mutual, and various other commercial payors. These revenue deductions increased from 35.7 to 37.3 percent as a percentage of gross revenue. In addition, the Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Charges forgone (written-off) under this program increased by 57 percent in 2003.
- Other operating revenue increased slightly due to an increase in gifts to the Hospital.
- The following is a graphic illustration of operating revenues by source:

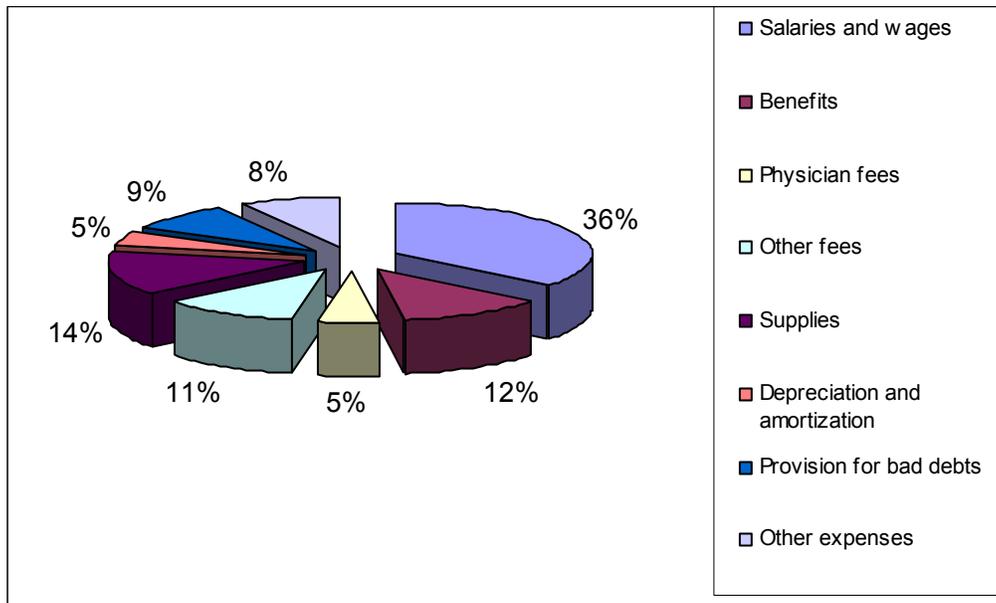


FAYETTE COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited
(Continued)

Operating Expenses

Operating expenses are all the costs necessary to perform and conduct the services and primary purposes of the Hospital. The operating expense changes were the result of the following factors:

- Salary costs increased 5.8 percent due to employee raises and a 2.6 percent increase in the number of FTE's.
- Benefit costs increased 12.7 percent due to dramatic increases in health insurance premiums paid by the Hospital for covered employees.
- Other fees increased 36.7 percent due to the need to hire contract nursing staff to cover staffing shortages and the need of a contract for CRNA coverage.
- Bad debt expense decreased 4.6 percent, but is still 5.3 percent of gross revenue.
- The following is a graphic illustration of operating expenses by type:



Non-Operating Gains

Non-operating gains and losses are all sources and uses that are primarily non-exchange in nature. They would consist primarily of income from the operation of the medical office building (rents), investment income (including realized and unrealized gains and losses), and grants and contracts that do not require any services to be performed.

There was a slight increase this year in gifts and grants, as well as income from the medical office building.

FAYETTE COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited
(Continued)

Statement of Cash Flows

Another way to assess the financial health of a Hospital is to look at the Statement of Cash Flows. Its primary purpose is to provide relevant information about the cash receipts and cash payments of an entity during a period. The Statement of Cash Flows also helps assess:

- An entity's ability to generate future net cash flows
- Its ability to meet its obligations as they come due
- Its needs for external financing

	2003	2002	Increase (Decrease)
Cash provided (used) by:			
Operating and non-operating activities	\$ 844,747	\$ 3,311,694	\$ (2,466,947)
Capital and related financing activities	(1,097,539)	(2,086,883)	989,344
Noncapital and related financing activities	201,671	156,401	45,270
Investing activities	(262,580)	(3,347,309)	3,084,729
Net increase (decrease) in cash	(313,701)	(1,966,097)	1,652,396
Cash - Beginning of the year	2,365,407	4,331,504	(1,966,097)
Cash - End of year	\$ 2,051,706	\$ 2,365,407	\$ (313,701)

The Hospital's liquidity declined slightly during the year. The following discussion amplifies the overview of cash flows presented above.

Cash provided by operating activities decreased largely due to the increase in operating expenses in 2003 of \$2.1 million.

Capital purchases increased by \$2.4 million in 2003. However, this increase was offset by the Hospital financing \$3.4 million of the new medical office building, thereby reducing the cash used by capital and related financing activities compared to 2002.

Investing activities declined significantly as cash was used to acquire capital assets versus being reinvested.

FAYETTE COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited
(Continued)

Capital Assets

At December 31, 2003, the Hospital had \$24 million invested in capital assets, net of accumulated depreciation of \$11 million. Depreciation and amortization totaled \$1.2 million for the current year compared to \$1.1 million last year. Details of these assets for the past two years are shown below.

	<u>2003</u>	<u>2002</u>	<u>Increase (Decrease)</u>
Land	\$ 519,750	\$ 519,750	\$ -
Land improvements	184,292	238,703	(54,411)
Buildings	5,037,908	5,192,681	(154,773)
Fixed equipment	711,444	717,151	(5,707)
Major movable equipment	2,596,121	2,857,108	(260,987)
Construction in progress	<u>3,970,973</u>	<u>373,945</u>	<u>3,597,028</u>
Total	<u>\$ 13,020,488</u>	<u>\$ 9,899,338</u>	<u>\$ 3,121,150</u>

Debt

At year-end, the Hospital had \$3,646,760 in debt outstanding, as compared to \$376,180 in the previous year. The table below summarizes these amounts by type of debt instrument:

	<u>2003</u>	<u>2002</u>	<u>Increase (Decrease)</u>
Notes payable	\$ 3,400,000	\$ -	3,400,000
Lease obligations	<u>246,760</u>	<u>376,180</u>	<u>(129,420)</u>
Total notes and leases	<u>\$ 3,646,760</u>	<u>\$ 376,180</u>	<u>\$ 3,270,580</u>

As part of its effort to recruit new physicians to serve the people of Fayette County, the Hospital began constructing a new medical office building. The financing of this project required the issuance of new debt in 2003. More detailed information about the Hospital's long-term liabilities is presented in the footnotes to the financial statements.

FAYETTE COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited
(Continued)

Economic Factors That Will Affect the Future

As a small rural hospital, the economic position of Fayette County Memorial Hospital is closely tied to its ability to grow revenue while attempting to hold down costs. In order to recruit and retain key patient care personnel, the Hospital has provided an increase in wages that has exceeded its growth in revenue. The upward pressure on wages is expected to continue in 2004. In an effort to grow the revenue base, the Hospital is incurring significant expenses in an effort to recruit new physicians to the community. While much of the recruitment expense will occur in 2004, the Hospital will not realize all of the benefits until future years. As a result, it is anticipated that 2004 will be a year of sacrifice as the Hospital will expend resources now in return for the expected benefits to both the Hospital and the community in the future. Reimbursement for existing patients is limited by federal and state mandate as well as contracts with third-party insurance companies. The board of trustees approved a 5% increase on charges for 2004 in an effort to maximize reimbursement under our current managed care contracts. Additionally in 2004, the Hospital will explore the benefits and drawbacks of converting to a Critical Access Hospital. This status provides for cost-based reimbursement for Medicare services. If the Hospital elects Critical Access Status, it would not be effective before 2005.

The Hospital's current financial and capital plans indicate that the expenditures for the second medical office building and on-going physician recruitment will result in the infusion of additional financial resources that will enable it to maintain its present level of service to the community.

Contacting the Hospital's Management

This financial report is intended to provide the people of Fayette County, the state and federal governments, and our debtholders with a general overview of the Hospital's finances, and to show the Hospital's accountability for the money it receives from the services it provides. If you have questions about this report or need additional information, contact the Hospital's Chief Financial Officer.

This financial report is designed to provide a general overview of Fayette County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Penny S. Johnson, Fayette County Auditor, 133 S. Main Street, Suite 303, Washington Court House, Ohio 43160.

FAYETTE COUNTY
Statement of Net Assets-Cash Basis
December 31, 2003

	Governmental Activities	Business-Type Activities
ASSETS		
Equity in Pooled Cash	\$7,034,117	\$637,515
TOTAL ASSETS	\$7,034,117	\$637,515
 NET ASSETS		
Restricted for:		
Special Revenue	\$5,323,767	
Capital Projects	309,339	
Debt Service	678,600	
Unrestricted	722,411	637,515
TOTAL NET ASSETS	\$7,034,117	\$637,515

See Notes to the Financial Statements.

FAYETTE COUNTY
Statement of Activities - Cash Basis
for the Year Ending December 31, 2003

	<u>Cash Disbursements</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants, Contributions, and Interest</u>
Governmental activities:				
Legislative and Executive	(\$2,763,801)	\$704,501	\$125,765	
Judicial	(1,814,793)	439,069	191,854	
Public Safety	(2,675,942)	682,281	120,926	
Public Works	(4,409,213)	748,557	1,944,007	665,642
Health	(2,958,694)	457,196	1,513,967	
Human Services	(5,796,145)	911,884	2,864,892	425,276
Conservation and Recreation	(519,222)	129,522	36,770	
Economic Development and Assistance	(52,924)	7,994	27,935	
Urban Redevelopment and Housing	(918,953)	180,137	293,111	
Capital Outlay	(999,933)			539,948
Debt Service	(937,651)	48,287		
Total Governmental Activities	<u><u>(\$23,847,271)</u></u>	<u><u>\$4,309,428</u></u>	<u><u>\$7,119,227</u></u>	<u><u>\$1,630,866</u></u>
Business Type Activities				
Sanitary Sewer Revenue	(\$342,815)	\$258,407		
Sanitary Revenue Waste	(935,646)	923,841		
Water District Revenue	(103,328)	98,306		
Total Business Type Activities	<u><u>(\$1,381,789)</u></u>	<u><u>\$1,280,554</u></u>		
General Receipts:				
Taxes				
Property				
Sales				
State Local Government				
Unrestricted investment earnings				
Grants and contributions				
not restricted to specific programs				
Miscellaneous				
Net Advances				
Net Transfers				
Other				
Total General Receipts and Transfers and Advances				
Increase (Decrease) in net assets				
Net assets - beginning of year				
Net assets - end of year				

See Notes to the Financial Statements.

Net (Disbursements) Receipts and Changes in Net Assets <u>Governmental Activities</u>	Net (Disbursements) Receipts and Changes in Net Assets <u>Business-type Activities</u>	<u>Total</u> (Memorandum Only)
(\$1,933,535)		(\$1,933,535)
(1,183,870)		(1,183,870)
(1,872,735)		(1,872,735)
(1,051,007)		(1,051,007)
(987,531)		(987,531)
(1,594,093)		(1,594,093)
(352,930)		(352,930)
(16,995)		(16,995)
(445,705)		(445,705)
(459,985)		(459,985)
(889,364)		(889,364)
<u>(\$10,787,750)</u>		<u>(\$10,787,750)</u>
	(\$84,408)	(\$84,408)
	(11,805)	(11,805)
	(5,022)	(5,022)
	<u>(\$101,235)</u>	<u>(\$101,235)</u>
3,027,146		3,027,146
4,308,685		4,308,685
3,167,528		3,167,528
256,735		256,735
305,393		305,393
249,948		249,948
4,187	(4,187)	-
17,613	(17,613)	-
11,337,235	(21,800)	11,315,435
<u>549,485</u>	<u>(123,035)</u>	<u>426,450</u>
6,484,632	760,550	7,245,182
<u>\$7,034,117</u>	<u>\$637,515</u>	<u>\$7,671,632</u>

FAYETTE COUNTY
Statement of Assets and Liabilities Arising From Cash Transactions - Governmental Funds
December 31, 2003

	General Fund	CVMR/DD Fund	Job & Family Svs. Fund	MVGT Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Equity in Pooled Cash	\$722,411	\$2,011,922	\$171,449	\$1,130,692	\$2,997,643	\$7,034,117
TOTAL ASSETS	<u>\$722,411</u>	<u>\$2,011,922</u>	<u>\$171,449</u>	<u>\$1,130,692</u>	<u>\$2,997,643</u>	<u>\$7,034,117</u>
FUND BALANCE						
Reserved for Encumbrances	76,689	-	-	231,614	198,787	507,090
Unreserved, Undesignated	645,722	2,011,922	171,449	899,078	2,798,856	6,527,027
TOTAL FUND BALANCE	<u>\$722,411</u>	<u>\$2,011,922</u>	<u>\$171,449</u>	<u>\$1,130,692</u>	<u>\$2,997,643</u>	<u>\$7,034,117</u>

See accompanying notes to the financial statements

FAYETTE COUNTY
Statement of Cash Basis Assets and Fund Balances and
Cash Receipts, disbursements, and Changes in Cash Basis Fund Balances - Governmental Funds
As of and For the Year Ended December 31, 2003

	General Fund	CBMR/DD Fund	Job & Family Svs. Fund	MVGT Fund	Other Governmental Funds	Total Governmental Funds
RECEIPTS:						
Taxes						
Property	\$1,259,522	\$1,490,153			\$267,607	\$3,017,282
Sales	3,988,450			320,235	0	4,308,685
Charges for Services	2,075,143	61,333	98,526	277,283	1,417,403	3,929,688
Fees					2,270	2,270
Intergovernmental	794,053	617,541	3,549,238	2,667,708	3,217,379	10,845,919
Fines and Forfeitures	144,745			34,127	119,360	298,232
Licences and Permits	3,941				48,850	52,791
Miscellaneous	175,664	59		436	185,565	361,724
Special Assessments					131,885	131,885
Interest	216,243			36,092	4,400	256,735
Donations					78,829	78,829
TOTAL RECEIPTS	8,657,761	2,169,086	3,647,764	3,335,881	5,473,548	23,284,040
DISBURSEMENTS:						
Legislative and Executive	2,525,536				238,265	2,763,801
Judicial	1,451,321				363,472	1,814,793
Public Safety	2,446,845				229,097	2,675,942
Public Works	726,236			3,567,401	115,576	4,409,213
Health	90,439	2,014,079			854,176	2,958,694
Human Services	347,735		3,662,370		1,786,040	5,796,145
Conservation and Recreation	449,560				69,662	519,222
Economic Development and Assistance					52,924	52,924
Urban Redevelopment and Housing	363,646				555,307	918,953
Capital Outlay					999,933	999,933
Debt Service						
Principal Retirement					762,714	762,714
Interest and Fiscal Charges					174,937	174,937
TOTAL DISBURSEMENTS	8,401,318	2,014,079	3,662,370	3,567,401	6,202,103	23,847,271
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	256,443	155,007	(14,606)	(231,520)	(728,555)	(563,231)
OTHER FINANCING SOURCES (USES):						
Operating Transfers - In	190,733			59,000	562,305	812,038
Proceeds of Notes					465,150	465,150
Proceeds of Bonds					625,768	625,768
Interest and Fiscal Charges						
Advances - In	20,800	52,503			87,632	160,935
Operating Transfers - Out	(620,554)				(173,871)	(794,425)
Advances - Out	(19,669)	(55,226)			(81,853)	(156,748)
TOTAL OTHER FINANCING SOURCES (USES)	(428,690)	(2,723)	0	59,000	1,485,131	1,112,718
CASH BASIS FUND BALANCE - Beginning of year	894,658	1,859,638	186,055	1,303,212	2,241,069	6,484,632
CASH BASIS FUND BALANCE - End of year	\$722,411	\$2,011,922	\$171,449	\$1,130,692	\$2,997,645	\$7,034,117
CASH BASIS FUND BALANCE - End of year						
Reserved for encumbrances	\$76,689	\$0	\$0	\$231,614	\$198,787	507,090
Unreserved:						
Undesignated	645,722	2,011,922	171,449	899,078	2,798,856	6,527,027
	<u>\$722,411</u>	<u>\$2,011,922</u>	<u>\$171,449</u>	<u>\$1,130,692</u>	<u>\$2,997,643</u>	<u>\$7,034,117</u>

FAYETTE COUNTY
Statement of Cash Basis Assets and Fund Balances and
Cash Receipts, disbursements, and Changes in Cash Basis Fund Balances - Proprietary Funds
As of and For the Year Ended December 31, 2003

	Sanitary Revenue Waste	Total Other Enterprise Funds	Total Enterprise Funds
RECEIPTS:			
Charges for Services	\$923,841	\$356,713	\$1,280,554
Other Operating Receipts		0	
TOTAL RECEIPTS	923,841	356,713	1,280,554
DISBURSEMENTS:			
Personal Services	217,540	28,087	245,627
Contract Services	585,027	209,203	794,230
Materials & Supplies	87,079	24,049	111,128
Other Operating Exp.			
Debt Service			
Principal Retirement		105,000	105,000
TOTAL DISBURSEMENTS	889,646	366,339	1,255,985
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	34,195	(9,626)	24,569
NON-OPERATING RECEIPTS AND DISBURSEMENTS:			
Interest and Fiscal Charges		(125,804)	(125,804)
Advances - Out		(4,187)	(4,187)
Transfers - In		224,697	224,697
Transfers - Out	(46,000)	(196,310)	(242,310)
TOTAL NON-OPERATING RECEIPTS AND DISBURSEMENTS	(46,000)	(101,604)	(147,604)
CASH BASIS FUND BALANCE-Beginning of Year	443,995	316,555	760,550
CASH BASIS FUND BALANCE-End of Year	432,190	205,325	637,515
CASH BASIS FUND BALANCE - End of year			
Reserved for encumbrances	62,009	3,821	65,830
Unreserved:			
Undesignated	370,181	201,504	571,685
	\$432,190	\$205,325	\$637,515

See Notes to the Financial Statements.

FAYETTE COUNTY
Statement of Fiduciary Net Assets-Cash Basis
Fiduciary Funds
December 31, 2003

	<u>Agency Funds</u>
Assets:	
Equity in Pooled Cash	\$2,957,523
Equity in Cash in Segregated Accounts	<u>658,798</u>
Total Assets	<u>\$3,616,321</u>
Net Assets:	
Total Net Assets	<u><u>\$3,616,321</u></u>

See Notes to the Financial Statements.

FAYETTE COUNTY
Statement of Changes in Fiduciary Net Assets - Cash Basis
Fiduciary Funds
For the Year Ended December 31, 2003

	<u>Agency</u>
Additions:	
Other Non-Operating	<u>\$30,530,250</u>
Total Additions	<u>30,530,250</u>
Deductions:	
Other Non-Operating	<u>30,190,680</u>
Total Deductions	<u>30,190,680</u>
Change In Net Assets	339,570
Net Assets Beginning of Year	<u>3,276,751</u>
Net Assets End of Year	<u><u>\$3,616,321</u></u>

See Notes to the Financial Statements.

FAYETTE COUNTY
General Fund
Budgetary Comparison Schedule - Cash Basis
For the Year Ended December 31, 2003

	Budgeted Amount		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance	\$894,658	\$894,658	\$894,658	-
Resources (Inflows):				
Property Tax	1,195,022	1,259,522	1,259,522	-
Sales Tax	3,945,000	3,988,450	3,988,450	-
Charges for services	1,889,383	2,016,901	2,075,143	58,242
Intergovernmental	748,979	794,053	794,053	-
Licenses	4,375	3,941	3,941	-
Fines and Forfeitures	132,500	144,745	144,745	-
Other Income	208,000	175,659	175,664	5
Interest	300,000	210,783	216,243	5,460
Other Financing Sources:				
Transfers from other funds	100,000	190,733	190,733	-
Advances from other funds	-	15,500	20,800	5,300
Amounts available for appropriation	<u>9,417,917</u>	<u>9,694,945</u>	<u>9,763,952</u>	<u>69,007</u>
Charges to Appropriations (Outflows):				
Executive/Legislative	2,809,418	2,758,427	2,525,536	232,891
Judicial	1,463,807	1,518,933	1,451,321	67,612
Public Safety	2,437,838	2,471,874	2,446,845	25,029
Public Health	101,610	101,610	90,439	11,171
Conservation and Recreation	455,959	461,202	449,560	11,642
Public Works	762,373	787,769	726,236	61,533
Human Services	386,077	390,671	347,735	42,936
Urban Redevelopment	374,775	374,775	363,646	11,129
Other Financing Uses:				
Transfers to other funds	631,481	591,481	620,554	(29,073)
Advances to other funds	-	-	19,669	(19,669)
Total Charges to Appropriations	<u>9,423,338</u>	<u>9,456,742</u>	<u>9,041,541</u>	<u>415,201</u>
Ending budgetary Fund Balance	<u>(\$5,421)</u>	<u>\$238,203</u>	<u>\$722,411</u>	<u>(\$346,194)</u>

See Notes to the Financial Statements.

FAYETTE COUNTY
County Board of Mental Retardation and Developmental Disabilities Fund
Budgetary Comparison Schedule - Cash Basis
For the Year Ended December 31, 2003

	<u>Budgeted Amount</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Beginning Budgetary Fund Balance	\$1,859,638	\$1,859,638	\$1,859,638	-
Resources (Inflows):				
Property Tax	1,511,886	1,490,153	1,490,153	-
Charges for services	40,880	61,333	61,333	-
Intergovernmental	626,566	617,541	617,541	-
Other Income	500	59	59	-
Other Financing Sources:				
Advances from other funds	-	52,503	52,503	-
Amounts available for appropriation	<u>4,039,470</u>	<u>4,081,227</u>	<u>4,081,227</u>	<u>-</u>
Charges to Appropriations (Outflows):				
Public Health	2,154,559	2,154,559	2,069,305	85,254
Total Charges to Appropriations	<u>2,154,559</u>	<u>2,154,559</u>	<u>2,069,305</u>	<u>85,254</u>
Ending budgetary Fund Balance	<u>\$1,884,911</u>	<u>\$1,926,668</u>	<u>\$2,011,922</u>	<u>(\$85,254)</u>

See Notes to the Financial Statements.

FAYETTE COUNTY
Jobs and Family Services Fund
Budgetary Comparison Schedule - Cash Basis
For the Year Ended December 31, 2003

	Budgeted Amount		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance	\$186,055	\$186,055	\$186,055	-
Resources (Inflows):				
Charges for services	-	98,525	98,525	-
Intergovernmental	4,462,263	3,549,238	3,549,238	-
Amounts available for appropriation	<u>4,648,318</u>	<u>3,833,818</u>	<u>3,833,818</u>	<u>-</u>
Charges to Appropriations (Outflows):				
Human Services	4,461,513	3,832,664	3,662,369	170,295
Total Charges to Appropriations	<u>4,461,513</u>	<u>3,832,664</u>	<u>3,662,369</u>	<u>170,295</u>
Ending budgetary Fund Balance	<u><u>\$186,805</u></u>	<u><u>\$1,154</u></u>	<u><u>\$171,449</u></u>	<u><u>(\$170,295)</u></u>

See Notes to the Financial Statements.

FAYETTE COUNTY
Motor Vehicle Gas Tax Fund
Budgetary Comparison Schedule
For the Year Ended December 31, 2003

	Budgeted Amount		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance	\$1,303,212	\$1,303,212	\$1,303,212	-
Resources (Inflows):				
Sales Tax	320,000	320,235	320,235	-
Charges for services	220,000	277,283	277,283	-
Intergovernmental	2,485,000	2,667,708	2,667,708	-
Fines and Forfeitures	30,000	34,127	34,127	-
Other Income	5,000	436	436	-
Interest	-	36,092	36,092	-
Other Financing Sources:				
Transfers from other funds	59,000	59,000	59,000	-
Amounts available for appropriation	<u>4,422,212</u>	<u>4,698,093</u>	<u>4,698,093</u>	<u>-</u>
Charges to Appropriations (Outflows):				
Public Works	3,580,841	3,885,841	3,567,401	318,440
Total Charges to Appropriations	<u>3,580,841</u>	<u>3,885,841</u>	<u>3,567,401</u>	<u>318,440</u>
Ending budgetary Fund Balance	<u><u>\$841,371</u></u>	<u><u>\$812,252</u></u>	<u><u>\$1,130,692</u></u>	<u><u>\$318,440</u></u>

See Notes to the Financial Statements.

**FAYETTE COUNTY
FAYETTE COUNTY MEMORIAL HOSPITAL
Balance Sheet
December 31, 2003**

Assets

Current Assets	
Cash and cash equivalents	\$1,593,191
Patient account receivable	4,756,336
Current portion of notes receivable	280,520
Inventories	285,374
Prepaid expenses and other current assets	234,351
Third-party settlements	<u>5,182</u>
Total current assets	7,154,954
Notes Receivable	782,068
Investments	3,195,890
Assets Limited as to Use	458,515
Capital Assets	<u>13,020,488</u>
Total Assets	<u><u>\$24,611,915</u></u>

Liabilities and Net Assets

Current Liabilities:	
Current portion of long term debt	\$133,080
Account payable	1,800,774
Accrued payroll and related benefits	<u>1,083,890</u>
Total Current Liabilities	3,017,744
Long-Term Debt	3,513,680
Net Assets	
Invested in capital assets - net of related debt	9,373,728
Restricted	
Expendable for debt service and other purposes	458,515
Unrestricted	<u>8,248,248</u>
Total Net Assets	\$18,080,491
Total Liabilities and Net Assets	<u><u>\$24,611,915</u></u>

See Notes to the Financial Statements.

FAYETTE COUNTY
FAYETTE COUNTY MEMORIAL HOSPITAL
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended December 31, 2003

Operating Revenue	
Net Patient Service Revenue	\$26,859,670
Other operating revenue	72,908
	26,932,578
Total Revenue	26,932,578
Operating Expenses	
Salaries and Wages	9,634,364
Benefits	3,171,652
Physican Fees	1,332,142
Other Fees	3,085,217
Supplies	3,775,241
Utilities	499,257
Maintenance and Repairs	697,008
Leases and Rentals	120,945
Insurance	265,640
Interest Expense	18,436
Depreciation and Amortization	1,236,366
Provision for Bad Debts	2,340,310
Other Expenses	661,693
	26,838,271
Total Operating Expenses	26,838,271
Income from Operations	94,307
Non-Operating Gains	339,664
Increase in Net Assets	433,971
Net Assets - Beginning of Year	17,646,520
Net Assets - End of Year	\$18,080,491

See Notes to the Financial Statements.

FAYETTE COUNTY
FAYETTE COUNTY MEMORIAL HOSPITAL
Statement of Cash Flows
For the Year Ended December 31, 2003

Cash Flows from Operating and Non-Operating Activities	
Cash Received from Patients and Third-Party Payors	\$23,784,052
Cash Payments to Supplies for Services and Goods	(10,114,808)
Cash Payments to Employees for Services	(12,889,572)
Other Operating Revenue Received	83,511
Interest Paid	(18,436)
	844,747
 Cash Flows from Non-Capital and Related Financing Activities	
Donations and Other	201,671
 Cash Flows from Capital and Related Financing Activities	
Acquisition and Construction of Capital Assets	(4,368,119)
Proceeds from Issuance of Long-Term Debt	3,400,000
Principal Payments on Long-Term Debt	(129,420)
	(1,097,539)
 Cash Flows from Investing Activities	
Proceeds from Physician Loan Repayments	21,395
Proceeds from Sale of Investments	1,233,916
Interest Received on Investments	137,993
Purchases of Investments	(1,326,350)
Advances to Physicians	(329,534)
	(262,580)
Net Cash Used in Investing Activities	(262,580)
Net Decrease in Cash and Cash Equivalents	(313,701)
Cash and Cash Equivalents - Beginning of Year	2,365,407
Cash and Cash Equivalents - End of Year	2,051,706
 Balance Sheet Classification of Cash and Cash Equivalents	
Current Assets	1,593,191
Assets Limited as to Use	458,515
	2,051,706
Total Cash and Cash Equivalents	2,051,706

See Notes to the Financial Statements.

(Continued)

**FAYETTE COUNTY
FAYETTE COUNTY MEMORIAL HOSPITAL
Statement of Cash Flows
For the Year Ended December 31, 2003**

(Continued)

A reconciliation of income from operations to net cash from operating and non-operating activities is as follows:

Income From Operations	\$94,307
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating and Non-Operating Activities:	
Bad Debt Expense	2,340,310
Depreciation and Amortization	1,236,366
Loss of Disposal of Equipment	10,603
(Increase) Decrease in Assets:	
Patient Accounts Receivable	(3,080,974)
Inventories	(21,364)
Prepaid Expenses and Other Current Assets	(59,990)
Third Party Settlements	5,356
Increase (Decrease) in Liabilities:	
Accounts Payable	403,689
Accrued Payroll and Related Benefits	<u>(83,556)</u>
 Net Cash Provided by Operating and Non-Operating Activities	 <u><u>\$844,747</u></u>

See Notes to the Financial Statements.

FAYETTE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 1 - REPORTING ENTITY AND BASIS OF PRESENTATION

Fayette County, Ohio (the County), is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The county operates under the direction of a three-member Board of County Commissioners. The County Auditor is responsible for the fiscal controls of the resources of the County which are maintained in the funds described herein. The County Treasurer is the custodian of funds and the investment officer. The voters of the County elect all of these officials. Other elected officials of the County that manage various segments of county operations are the Recorder, Clerk of Courts, Coroner, Engineer, Prosecutor, Sheriff, a Common Pleas Court Judge, and a Probate/Juvenile Judge. Services provided by the County include general government, public safety, health, public works, human services, conservation-recreation services, maintenance of highways and roads, economic development, and urban redevelopment and housing.

Although elected officials manage the internal operations of their respective departments, the County Commissioners authorize expenditures as well as serve as the budget and taxing authority, contracting body and the chief administrators of public services for the entire County.

REPORTING ENTITY

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the County consists of all funds, departments, boards and agencies that are not legally separate from the County. For Fayette County, this includes the Fayette County Board of Mental Retardation and Developmental Disabilities, Fayette County Department of Jobs and Family Services, Fayette County Children Services Board, Fayette County Veterans' Services, Fayette County Commission On Aging, Fayette County Senior Nutrition, Fayette County Memorial Hospital, and all departments and activities that are directly operated by the elected County officials.

Fayette County provides services and/or subsidies are the District Board of Health, and Soil and Water Conservation District. These are separate reporting entities. The County Auditor is the fiscal agent for the District Board of Health and the Soil and Water Conservation District, and the receipts and disbursements of these entities are accounted for in the Agency Funds of the County.

Component units are legally separate organizations for which the County is financially accountable. The County is financially accountable for an organization if the County appoints a voting majority of the organization's governing board and (1) the County is able to significantly influence the programs or services performed or provided by the organization; or (2) the County is legally entitled to or can otherwise access the organization's resources; the County is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to the organization; or the County is obligated for the debt of the organization. Component units also include organizations that are fiscally dependent of the County in that the County approved the organization's budget, the issuance of its debt of the levying of its taxes.

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

The Fayette County Board of MR/DD provided the workshop with staff salaries, transportation, equipment, staff to administer and supervise training programs and other funds necessary for the operation of the workshop. Based on the significant services and resources provided by the County to the workshop and the workshop's sole purpose of providing assistance to the mentally and/or physically handicapped adults of Fayette County, the workshop is considered a component unit of Fayette County, however, Fayette Progressive Industries is not presented as a component unit in these financial statements. Separately issued financial statements can be obtained from Fayette Progressive Industries, Inc., 1330 Robinson Road SE, Washington C.H., Ohio 43160.

FAYETTE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 1 - REPORTING ENTITY AND BASIS OF PRESENTATION (Continued)

The County is associated with certain organizations which are defined as jointly governed organizations, joint ventures, or Risk Sharing Pools. These organizations are:

Paint Valley Board of Alcohol, Drug Addiction and Mental Health Services (ADAMHS)
South Central Regional Juvenile Detention Center
Fayette County Emergency Management Agency
RPHF Joint Solid Waste District
Fayette-Clinton-Fairfield-Ross-Pickaway Job Training Partnership Act (JTPA)
Travel and Tourism Bureau
West Central Ohio Port Authority
County Risk Sharing Authority, Inc.
County Commissioners' Association of Ohio Workers' Compensation Group Rating Program

Paint Valley ADAMHS – The Paint Valley Board of Alcohol, Drug Addiction and Mental Health Services (ADAMHS) of Pike, Fayette, Highland, Pickaway and Ross Counties is a jointly governed organization that is responsible for developing, coordinating, modernizing, funding, monitoring and evaluating a community-based mental health and substance abuse program. The Board consists of eighteen members. Four members are appointed by the Director of the Ohio Department of Mental Health and four members are appointed by Director of the Ohio Department of Alcohol and Drug Addiction Services. The remaining members are appointed by the County Commissioners of Pike, Fayette, Highland, Pickaway and Ross Counties in the same proportion as each County's population bears to the total population of the five counties combined. The Board received revenue from the participating counties and received federal and state funding through grant monies which are applied for and received by the Board of Trustees. Fayette County contributed \$294,416 to Paint Valley ADAMHS in 2003.

Fayette County cannot significantly influence operations of the Board, who has sole budgetary authority and controls surpluses and deficits. Fayette County has no ongoing financial interest or responsibility. Complete financial statements can be obtained from the Paint Valley ADAMHS Board, June Frey who serves as Finance Director, 1394 Chestnut Street, Chillicothe, Ohio 45601.

South Central Regional Juvenile Detention Center – The South Central Regional Juvenile Detention Center is a jointly governed organization. It was created as a holding place for juvenile offenders waiting for disposition by the respective Juvenile Courts of the member counties. The current members include Fayette, Pike, Pickaway, Ross, Jackson, Hocking, Athens, Vinton and Highland Counties. The Center's Board consists of one member from each participating county that is appointed by the Juvenile Court Judge or a County Commissioner from each county. The joint Board selects the superintendent as the Center's administrator.

The Center's revenue is from per diem charges for inmates to the respective counties and a percent of the county tax base to the total base. Ross County is the fiscal officer of the Center. Fayette County does not have any financial interest or responsibility. During 2003, Fayette County contributed \$115,976 to the Center.

Fayette County Emergency Management Agency – Fayette County Emergency Management Agency (EMA) is a joint venture between the County, Townships and Villages. The executive committee consists of a county commissioner, seven chief executives from municipalities and ten townships, with money provided by the members which is reimbursed by the State. The degree of control is limited to the individual representation on the board.

FAYETTE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 1 - REPORTING ENTITY AND BASIS OF PRESENTATION (Continued)

RPHF Joint Solid Waste District – The RPHF Joint Solid Waste District is a jointly governed organization among Pickaway, Ross, Highland and Fayette Counties. Each of these governments supports the District. The County made no contribution during 2003. The degree of control exercised by any participating County is limited to its representation on the Board. The Board of Directors consists of twelve members, the three County Commissioners of each of the four counties. The District does not have any outstanding debt. The District is self-sufficient, operating entirely on collected fees.

Fayette-Clinton-Fairfield-Ross-Pickaway Job Training Partnership Act (JTPA) – JTPA is a jointly governed organization among five counties in Ohio. The consortium conducts an employment and training administration program under the provisions of JTPA of 1982 and the Job Training Reform Amendments of 1992. The three County Commissioners from each of the four counties comprise the Consortium Board of Governors. The consortium has no outstanding debt. No contributions were made by the County in 2003.

Travel and Tourism Bureau – The Travel and Tourism Bureau (The Bureau) is a jointly governed organization among the County, two townships and two villages and one city. The Board is made up of six trustees, one from each of the following entities: Fayette County, Village of Jeffersonville, Jefferson Township, City of Washington Court House, Union Township and Octa Village. Trustees are elected on a self-nomination basis. Revenues to operate the Bureau are derived solely from the hotel/motel tax. There is currently no outstanding debt.

West Central Ohio Port Authority – The West Central Ohio Port Authority is a jointly governed organization. It was established under Section 4582.21 of the Ohio Revised Code. Under the Revised Code, the Port Authority is a legally separate entity. The Board of the authority is comprised of seven members: two members from Champaign County, three from Clark County, and two from Fayette County. The members are appointed by the County Commissioners of each respective county. Fayette County does not approve its budget, nor is it responsible for the Authority's debt. During 2003, the County did not contribute any money to the Authority.

County Risk Sharing Authority, Inc. – The County Risk Sharing Authority, Inc., is a shared risk pool among fifty-seven 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 of 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 official's errors and omissions liability insurance.

Each member county has one vote on all matters requiring a vote, to be cast by a designated representative. The affairs of 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 of Trustees. 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.

CORSA has issued certificates of participation in order to provide adequate cash reserves. The certificates are secured by the member counties' obligations to make coverage payments to CORSA. The participating counties have no responsibility for the payment of the certificates. The Certificates were retired on May 1, 1997. The County has no equity interest in CORSA. The County's payment for insurance to CORSA in 2003 was \$138,925. Financial statements may be obtained by contacting the County Commissioners Association of Ohio in Columbus, Ohio.

County Commissioners' Association of Workers' Compensation Group Rating Program – The County is participating in the County Commissioners' Association of Ohio Workers' Compensation Group Rating Program as established under Section 4123.29 of the Ohio Revised Code. The County Commissioners' Association of Ohio (CCAO) is a group purchasing pool. A group executive committee is responsible for calculating annual rate contributions and rebates; approving the selection of a third party administrator; reviewing and approving proposed third party fees; fees for risk management services, and general management fees; determining ongoing responsibility of each participant; and performing any other acts and functions which may be delegated to it by the participating employers. The group executive committee consists of seven members. Two members are the president and the treasurer of the CCAOSC; the remaining five members are elected for ensuing year by the participants at a meeting held in the month of December each year.

FAYETTE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 1 - REPORTING ENTITY AND BASIS OF PRESENTATION (Continued)

No participant can have more than one member on the group executive committee in any year, and each elected member shall be a county commissioner.

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

Basis of Accounting - Although required by Ohio Administrative Code, Section 117-2-03 (B) to prepare its annual financial report in accordance with generally accepted accounting principles, the County chooses to prepare its financial statements and notes on the basis of cash receipts and disbursements. The cash receipts and disbursements basis is a comprehensive basis of accounting other than generally accepted accounting principles (GAAP). Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting - The County uses funds to maintain its financial records during the year. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts. The County classifies each fund as either governmental, proprietary, or fiduciary.

Governmental: The County classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants) and other non-exchange transactions as governmental funds. The following are the County's major governmental funds:

General Fund – The General Fund accounts for all financial resources except for restricted resources requiring a separate accounting. The general fund balance is available for any purposes provided it is expended or transferred according to Ohio law.

County Board of Mental Retardation and Developmental Disabilities Fund – This fund accounts for various federal and state grants used to provide assistance and training to mentally retarded and developmentally disabled individuals.

Jobs and Family Services Fund – This fund accounts for various federal and state grants as well as transfers from the General Fund used to provide public assistance to general relief recipients, pay their providers of medical assistance, and for certain public social services.

Motor Vehicle Gas Tax Fund – This fund accounts for monies received from state gasoline tax and motor vehicle registration fees designated for maintenance and repair of roads and bridges.

Proprietary: Certain County funds operate similar to business enterprises, where user charges (i.e. charges for services) provide significant resources for the activity. The County classifies these as enterprise funds. The following is the County's major enterprise fund:

Sanitary Revenue Waste Fund – This fund accounts for the user charges and expenses of maintaining the sanitary waste facilities of the County.

FAYETTE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary Funds: Fiduciary funds account for cash and investments where the County is acting as trustee or fiscal agent for other entities. The following is the County's significant fiduciary fund:

Agency Funds – Agency funds are used to account for assets held by a governmental unit as an agent for individuals, other governmental units, and/or other funds.

Basis of Presentation – The County's financial statements consist of a government-wide statement of activities and fund financial statements providing more detailed financial information.

Government-wide Financial Statement of Activities: This statement displays information about the County as a whole, except for fiduciary funds. The statement of activities eliminates internal service fund activity to avoid reporting those transactions twice.

The government-wide statement of activities compares disbursements with program receipts for each function or program of the County's governmental activities. These disbursements are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on the cash basis or draws from the County's general receipts.

Proprietary fund statements distinguish operating transactions from nonoperating transactions. Operating Receipts generally result from exchange transactions directly relating to the funds' principal services, such as charges for services. Operating disbursements include costs of sales and services and administrative costs. The fund statements report all other receipts and disbursements as nonoperating.

Fund Financial Statements: Fund financial statements report detailed information about the County. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Equity in Pooled Cash - Cash balances of the County's funds, except cash held by an escrow or fiscal agent and cash in segregated accounts, are pooled in order to provide improved cash management.

Various departments and officials of the County have monies held separate from the County treasury.

Interest is distributed to the General Fund and Special Revenue Funds based upon the Ohio Revised Code.

Restricted Assets – Cash and investments are reported as restricted when limitations on their use change the nature or normal understanding of their use. Creditors, contributors, grantors, laws of other governments or enabling legislation is the source of the restrictions.

Inventory and Prepaid Items – On the cash-basis of accounting, inventories of supplies are reported as disbursements when purchased.

Capital Assets - Acquisitions of property, plant and equipment are recorded as disbursements when paid. The financial statements do not report these assets.

Compensated Absences - In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the County's cash basis of accounting.

FAYETTE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-term Obligations - Bonds and other long-term obligations are not recognized as a liability in the financial statements under the cash-basis of accounting. These statements report proceeds of debt when cash is received, and debt service disbursements for debt principal payments.

Fund Balance Designations and Reserves - The County reserves those portions of fund equity which are legally segregated for a specific future use or which are not available for appropriation or expenditure. Fund equity reserves have been established for encumbrances.

Net Assets - Net assets are reported as restricted when enabling legislation or creditors, grantors or laws or regulations of other governments have imposed limitations on its use.

The County first applies restricted resources when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

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

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchasing funds. Nonexchange flows of cash from one fund to another are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating receipts/disbursements in proprietary funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented on the financial statements.

Budgetary Process - The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an estimated timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation ordinance 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 legally required to be budgeted and appropriated. The legal level of budgetary control is at the object level within each department. Budgetary modifications may only be made by resolution of the County Commissioners.

Advances-in and Advances-out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

Budgetary information for the Fayette Memorial Hospital and Fayette Progressive Industries, Inc. (component units) are not reported because they are not included in the entity for which the "appropriated budget" is adopted and they do not maintain separate budgetary records.

Budget - A budget of estimated cash receipts and disbursements is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 15 of each year, for the period January 1 to December 31 of the following year.

Estimated Resources - The County Budget Commission certifies its actions to the County by September 1. As part of this certification, the County receives the official certificate of estimated resources which states the projected receipts of each fund. On or about January 1, the certificate is amended to include any unencumbered balances from the preceding year. Prior to December 31, the County must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. On or about January 1, the certificate of estimated

FAYETTE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

resources is amended to include actual unencumbered balances from the preceding year. The certificate may be amended further during the year if the County Auditor determines, and the Budget commission agrees, that an estimate needs to be either increased or decreased. The amounts set forth in the financial statements represent estimates from the amended certificate in force at the time final appropriations were passed by the commissioners.

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

The allocation of appropriations among departments and objects within a fund may be modified during the year only by a resolution of the Commissioners. Several supplemental appropriation resolutions were legally enacted by the County Commissioners during the year. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

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

Encumbrances - The County is required to use the encumbrance method of accounts by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation.

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.

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

NOTE 3 - EQUITY IN POOLED CASH

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

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:

- A.** United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States.
- B.** Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, governments national

FAYETTE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 3 - EQUITY IN POOLED CASH (Continued)

mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities.

- C.** Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days.
- D.** Bond and other obligations of the State of Ohio or its political subdivision, provided that such political subdivisions are located wholly or partly within the County.
- E.** Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts.
- F.** No load money market mutual funds consisting exclusively of obligations described in division (A) or (B) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
- G.** The State Treasurer's investment pool (STAROhio).
- H.** Securities lending agreements in which the County lends securities and the eligible institution agrees to exchange either securities described in division (A) or (B) or cash or both securities and cash, equal value for equal value.
- I.** High grade commercial paper in an amount not to exceed five percent of the County's total average portfolio.
- J.** Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the County's total average portfolio.

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

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

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

Deposits

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

- A.** Insured or collateralized with securities held by the entity or by its agent in the entity's name.
- B.** Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.

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

NOTE 3 - EQUITY IN POOLED CASH (Continued)

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

At December 31, 2003, the carrying amount of the County's deposits was \$11,287,953. The bank balance, not including deposits related to the Hospital, of \$11,953,610 for deposits is classified by risk as follows:

- A. \$515,557 was insured by the Federal Depository Insurance Corporation.
- B. \$11,438,053 was uninsured, but was collateralized by pooled securities.

NOTE 4 - LONG-TERM DEBT

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

Governmental Activities General Obligation Bonds:

<u>Issue</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Balance 12/31/2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/2003</u>
Water Systems Bonds YUSA	7.70%	2009	\$85,000	\$ 0	\$10,000	\$75,000
McArthur Road	4.50%	2003	85,000	0	85,000	0
Co. Administration	5.45%	2019	280,000	0	12,000	268,000
SR 41/Carr Road	5.48%	2007	220,000	0	40,000	180,000
Co. Building Impr.	4.10%	2021	1,885,000	0	65,000	1,820,000
Commission on Aging	4.54%	2023	0	225,000	0	225,000
W. Lancaster Road	4.54%	2023	0	400,000	0	400,000
Total G.O. Bonds			<u>2,555,000</u>	<u>625,000</u>	<u>212,000</u>	<u>2,968,000</u>

Governmental Activities Special Assessment Bonds:

<u>Issue</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Balance 12/31/2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/2003</u>
Route 35/I 71 Water	5.90%	2013	\$220,000	\$0	\$20,000	\$200,000
Clinton Ave. Phase I	5.60%	2016	124,000	0	6,000	118,000
Clinton Ave. Phase II	5.57%	2019	65,000	0	3,000	62,000
Total Special Assmts.			<u>409,000</u>	<u>0</u>	<u>29,000</u>	<u>380,000</u>
Total General Long Term Obligations			<u>\$2,964,000</u>	<u>\$625,000</u>	<u>\$241,000</u>	<u>\$3,348,000</u>

Enterprise Bonds

<u>Issue</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Balance 12/31/2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/2003</u>
Rattlesnake Treatment Plant Sewer District	7.50%	2009	\$120,000	\$0	\$15,000	\$105,000
R.S. Sewer WWTP	5.59%	2024	2,025,000	0	50,000	1,975,000
Landfill Improvement	4.80%	2005	120,000	0	40,000	80,000
Total Enterprise			<u>\$2,265,000</u>	<u>0</u>	<u>\$105,000</u>	<u>\$2,160,000</u>

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

NOTE 4 – LONG-TERM DEBT (Continued)

The annual requirements to amortize all long term debt outstanding as of December 31, 2003, including interest payments of \$1,317,691 are as follows:

<u>Year Ending December 31</u>	<u>General Obligation Bonds</u>	<u>Special Assessment Bonds</u>	<u>Totals (Memorandum Only)</u>
2004	\$299,894	\$50,741	\$350,635
2005	297,072	49,087	346,159
2006	29,388	48,429	77,817
2007	296,260	46,711	342,971
2008	242,974	44,991	287,965
2009-2013	950,604	213,696	1,164,300
2014-2018	1,133,195	69,993	1,203,188
2019-2023	886,318	6,338	892,656
Total Requirement	<u>4,135,705</u>	<u>529,986</u>	<u>4,665,691</u>
Less Interest	1,167,705	149,986	1,317,691
Total Principal	<u>\$2,968,000</u>	<u>\$ 380,000</u>	<u>\$3,348,000</u>

<u>Enterprise Fund Obligations</u>	<u>General Obligation Bonds</u>
2004	\$230,456
2005	224,764
2006	183,949
2007	184,683
2008	185,163
2009-2013	835,580
2014-2018	816,469
2019-2023	903,998
2024	<u>163,917</u>
Total Principal and Interest	3,728,979
Less Interest	<u>1,568,979</u>
Total Principal	<u>\$2,160,000</u>

Note Transactions

A summary of the note transactions for the year ended December 31, 2003, follows:

	<u>Interest Rate</u>	<u>Outstanding 12-31-02</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding 12-31-03</u>
<u>Special Revenue Fund:</u>	6.00%	\$97,065	\$ 0	\$38,230	\$58,835
<u>Capital Project Funds:</u>	6% - 6.5%	297,120	0	13,887	283,233

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

NOTE 4 – LONG-TERM DEBT (Continued)

Three of the Capital Project notes are eight year notes with sixteen level, semi-annual payments. The other three Capital Project notes are notes that are being extended until the project is completed. The issued portion is interest which is added to the outstanding principal as renewal dates occur. The note being paid from the Special Revenue Fund is a five year note with ten level, semi-annual payments. All of the notes are backed by the full faith and credit of Fayette County.

NOTE 5 – SHORT-TERM NOTES

During the year ended December 31, 2003, the following activity occurred in short-term bond anticipation notes.

	Balance Beginning of Year	Issued	Retired	Balance End of Year
Bond Anticipation Notes	\$ 0	\$465,150	\$465,150	\$ 0

NOTE 6 – CAPITAL LEASES

During the year, and in prior years, the County has entered into capitalized leases for photocopiers and emergency medical services equipment. Each lease meets the criteria of a capital lease as defined by *Statement of Financial Accounting Standards No. 13 "Accounting for Leases,"* which defines a capital lease as one which transfers benefits and risks of ownership to the lessee.

As of December 31, 2003 the County has outstanding capital lease payments of \$62,926.

	Governmental Activities Capital Lease Obligations
2004	\$20,124
2005	18,157
2006	15,854
2007	<u>8,791</u>
Total Principal and Interest	62,926
Less: Amount Representing Interest	<u>(7,195)</u>
Total Principal	<u>\$55,731</u>

NOTE 7 - PROPERTY TAX

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

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

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

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

NOTE 7 - PROPERTY TAX (Continued)

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

Real Property – 2003 Valuation	
Residential/Agricultural	\$417,163,040
Commercial/Industrial	
Public Utilities	30,187,070
Tangible Personal Property – 2003 Valuation	
General	<u>59,431,864</u>
Total Valuation	\$506,781,974

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

NOTE 8 - RISK MANAGEMENT

The County is exposed to various risks of loss related to torts; theft, damage to, or destruction of assets; errors or omissions; injuries to employees; and natural disasters. By participating in the County Risk Sharing Authority (CORSA), a risk sharing pool for liability, property, auto, and crime insurance, the County has addressed these various types of risk.

CORSA, a non-profit corporation sponsored by the County Commissioners Association of Ohio, was created to provide affordable liability, property, casualty and crime insurance coverage for its members. CORSA was established May 12, 1987, and has grown to fifty-seven members.

Under the CORSA program for general liability, auto liability, error and omission for public officials, and law enforcement liability, the County has \$5,000,000 of total liability coverage. The limit applies to any one occurrence of loss, with no annual aggregate except for the Error and Omissions for Public Officials and General Liability on Products and Completed Operations Limit, which both have the same per occurrence and annual aggregate limit. For the General Liability (coverage other than products and completed operations limit), Law Enforcement and Auto Liability, there is no annual aggregate. Property damage is on a replacement cost basis.

Settled claims have not exceeded this commercial coverage in any of the last three years. There have been no significant reductions in coverage from last year.

Employee dishonesty, money and securities inside and out, money orders and counterfeit, and depositor's forgery are covered in the amount of \$1,000,000 aggregate.

Worker's Compensation benefits are provided through the Ohio Bureau of Workers' Compensation. In 2003, the County participated in the County Commissioner's Association of Ohio Workers' Compensation Group Rating Program (CCAO). A workers' compensation group purchasing pool (See Note 1). The intent of the the CCAO is to achieve lower workers' compensation rates while establishing safe working conditions and environments for the participants. The workers' compensation experience of the participating counties is calculated as one experience and a common premium rate is applied to all counties in the CCAO. Each participant pays its workers' compensation premium to the State based on the rate for the CCAO rather than its individual rate.

In order to allocate the savings derived by formation of the CCAO and to maximize the number of participants in the CCAO, annually the CCAO's executive committee calculates the total savings which accrued to the CCAO through its formation. This savings is then compared to the overall savings percentage of the CCAO. The CCAO's executive committee then collects rate contributions from, or pays equalization rebates to the various participants. Participation in the CCAO is limited to counties that can meet the CCAO's selection criteria. The firm of CompManagement Inc. provides

FAYETTE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 8 - RISK MANAGEMENT (Continued)

administrative cost control and actuarial services to the CCAO. Each year, the County pays an enrollment fee to the CCAO to cover the cost of administering the CCAO.

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

NOTE 9 - DEFINED BENEFIT RETIREMENT PLANS

Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6705.

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

The County's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2003, 2002, and 2001 were \$1,310,081, \$829,644, and \$974,870 respectively. The full amount has been contributed for 2003, 2002, and 2001.

State Teachers Retirement System

Certified teachers, employed by the school for Mental Retardation and Developmental Disabilities, participate in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined

FAYETTE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 9 – DEFINED BENEFIT RETIREMENT PLANS (Continued)

Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the year ended December 31, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The County was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The County's required contributions for pension obligations to the DB Plan for the fiscal years ended December 31, 2003, 2002, and 2001 were \$26,220, \$22,211, and \$13,171 respectively. 100 percent has been contributed for 2003, 2002, and 2001.

NOTE 10– POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

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

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

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

The number of active contributing participants in the traditional and combined plans was 364,881. Actual employer contributions for 2003 which were used to fund postemployment benefits were \$65,504. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2002, (the latest information available) were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

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

FAYETTE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 10 – POSTEMPLOYMENT BENEFITS

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.

State Teachers Retirement System

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the year ended December 31, 2003, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the County, this amount equaled \$329,164 for 2003.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2003, (the latest information available) the balance in the Fund was \$3.011 billion. For the year ended June 30, 2003, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients.

NOTE 11 - COUNTY SALES TAX

The County Commissioners, by resolution, imposed a one percent tax on all retail sales, except sales of motor vehicles, made in the County, and on the storage, use, or consumption in the County of tangible personal property, including automobiles, 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 each month. The State Auditor then has five days in which to draw the warrant payable to the County.

Proceeds of the tax are credited to the General Fund and the Motor Vehicle and Gas Tax Special Revenue Fund. Permissive Sales and Use tax revenue for 2003 amounted to \$4,308,685.

NOTE 12 - CONTINGENT LIABILITIES

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

NOTE 13 - ACCUMULATED UNPAID VACATION, PERSONAL, COMPENSATORY TIME AND SICK LEAVE

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

NOTE 14 - LANDFILL CLOSURE AND POST CLOSURE CARE

During 1993, the County stopped receiving refuse in its public landfill. State and federal laws and regulations require the County to perform certain maintenance and monitoring functions at the site for thirty years after closure. The Ohio Environmental Protection Agency officially certified the closure of the landfill in 1993. Any remaining costs associated with the closure of the landfill were paid during 1995.

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

NOTE 14 - LANDFILL CLOSURE AND POST CLOSURE CARE (Continued)

State and Federal laws and regulations require the County to provide financial assurance for the landfill closure and post closure care costs. The County has complied with requirement by issuing a \$400,000 Landfill Improvement bond in May of 1996 to construct certain landfill improvements associated with postclosure activity. These proceeds have been receipted into the Sanitary Revenue Waste Enterprise Fund.

Currently, the County contracts with a private collection service to handle the solid waste collection and disposal activities for the County at another landfill site.

NOTE 15 – INTERFUND TRANSFERS

Interfund cash transfers for the year ended December 31, 2003, were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
MAJOR FUNDS:		
General	\$ 190,733	\$ 620,552
MVGT	59,000	-
Sanitary Revenue Waste	-	46,000
NONMAJOR FUNDS:		
Special Revenue	320,210	171,379
Debt Service	223,786	148
Capital Projects	18,306	2,343
Enterprise	<u>224,696</u>	<u>196,309</u>
Total	<u>\$1,036,731</u>	<u>\$1,036,731</u>

NOTE 16 - RESTATEMENT OF FUND BALANCES

For Fiscal Year 2003, the County ceased to report on the basis of Generally Accepted Accounting Principles. The implementation of this change had the following effects of fund balances of the major and non-major funds of the County as they were previously reported.

Governmental Funds:

	General	CBMRDD	PA	MVGT	Nonmajor
Fund Balances, December 31, 2002	\$1,285,426	\$1,801,694	\$133,268	\$1,623,809	\$2,078,381
Asset Accruals	(2,326,219)	(1,717,833)	(273,808)	(1,791,941)	(2,351,510)
Liability Accruals	2,047,147	1,775,777	326,595	1,471,344	2,512,198
Fund Reclassifications	(111,696)	0	0	0	2,000
Adjusted Fund Balances, December 31, 2002	\$ 894,658	\$1,859,638	\$186,055	\$1,303,212	\$2,241,069

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

NOTE 16 - RESTATEMENT OF FUND BALANCES (Continued)

Enterprise Funds:

	Sanitary Revenue Waste	Nonmajor
Fund Balances, December 31, 2002	(\$ 422,361)	\$17,725,320
Asset Accruals	(431,458)	(2,436,887)
Liability Accruals	1,297,814	2,252,297
Hospital Amounts	0	(17,224,175)
Adjusted Fund Balances, December 31, 2002	\$ 443,995	\$ 316,555

NOTE 17 – FAYETTE COUNTY MEMORIAL HOSPITAL

Fayette Memorial Hospital, located in Fayette County, Ohio is a County owned, tax exempt, Ohio not-for-profit corporation which operates an acute care facility operated by a Board of Directors. As the Hospital is not legally separate from the County, it is included along with the financial statements of the County as stand alone statements. Separately issued financial statements can be obtained from the Fayette Memorial Hospital, 1430 Columbus, Avenue, Washington Court House, Ohio 43160.

Members of the Board of Directors are appointed by the County Commissioners, the Probate Court Judge, and the Common Pleas Judge. Mount Carmel Health System, under a contract expiring in July 2005, manages the Hospital. The agreement provides that Mount Carmel Health System will provide a management team to oversee the operations of the Hospital.

A SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by Governmental Accounting Standards Board (GASB) in Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, issued June 1999. The Hospital now follows the “business-type” activities reporting requirements of GASB Statement No. 34 that provides a comprehensive one-line look at the Hospital’s financial activities. There was no impact to the net assets of the Hospital in adopting GASB No. 34. No component units are required to be reported in the Hospital’s financial statements. The Hospital also applies the Financial Accounting Standard Board Statements and Interpretations to the extent that they do not conflict with or contradict GASB pronouncements.

Accrual Basis – The financial statements have been prepared on the accrual basis of accounting, whereby revenue is recognized when earned and expenditures are recognized when the related liabilities are incurred and certain measurement and matching criteria are met.

Cash and Cash Equivalents - Cash and cash equivalents include cash and investments in highly liquid investments purchased with a maturity of three months or less.

Inventories - Inventories, consisting of medical and office supplies and pharmaceutical products, are stated at cost, determined by the first-in, first-out method.

Investments - Investments are carried at amortized cost.

Assets Limited as to Use - Assets limited as to use include funds held for debt repayments and assets temporarily restricted by donor.

FAYETTE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 17 – FAYETTE COUNTY MEMORIAL HOSPITAL (Continued)

Capital Assets - Capital assets are recorded at cost. Depreciation is computed principally on the straight-line basis over the estimated useful lives of the assets. Equipment under capital leases is amortized on the straight-line method over the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Costs of maintenance and repairs are charged to expense when incurred.

Compensated Absences – Paid time off is charged to operations when earned. The unused and earned benefits are recorded as a current liability in the financial statements. Employees accumulate vacation days at varying rates depending on years of service, and may carry over to the next year up to 2 times the number of hours eligible to be earned during the year, or up to 120 hours for part-time employees. Employees also earn sick leave benefits at a Hospital-determined rate for all employees. Employees are not paid for accumulated sick leave if they leave before retirement. However, employees who retire from the Hospital may convert accumulated sick leave to termination payments equal to one-third of the accumulated balance calculated at the employee's base pay rate as of the retirement date. There is no limit on the number of sick leave hours that an employee may accumulate, however, employees are only eligible to receive termination payments on one-third of the accumulated sick leave balance up to a maximum of 400 hours. Employees accumulate holidays at a Hospital determined rate for all employees. Employees may carry over a maximum of five holidays to the next year.

Restricted Resources – When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

Classification of Net Assets – Net assets of the Hospital are classified in four components. Net assets invested in capital assets-net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are non-capital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue note indentures. Restricted nonexpendable net assets equal the principal portion of permanent endowments. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Net Patient Service Revenue - The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others. Retroactive adjustments to these estimated amounts are recorded in future periods as final settlements are determined.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations. Final determination of compliance with such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Contributions - Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value. Contributions with donor imposed time or purpose restrictions are reported as restricted support. All other contributions are reported as unrestricted support.

Income from Operations - For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as operating revenue and expenses. Peripheral or incidental transactions are reported as non-operating gains and losses.

Income Taxes – The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

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

NOTE 17 – FAYETTE COUNTY MEMORIAL HOSPITAL (Continued)

Charity Care - The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue.

Pension Plan - Substantially all of the Hospital's employees are eligible to participate in a defined benefit pension plan sponsored by the Ohio Public Employees Retirement System (OPERS). The Hospital funds pension costs accrued, based on contribution rates determined by OPERS.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Reclassification – Certain prior period balances were reclassified for consistency with current year presentation.

B. DEPOSITS AND INVESTMENTS

The Hospital's deposits and investments at December 31, 2003 are composed of the following:

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>	<u>Assets Limited as to Use</u>
Deposits	\$1,593,191	\$ 17,196	\$ 458,515
Federal Bonds	-	3,178,694	-
Total	<u>\$1,593,191</u>	<u>\$3,195,890</u>	<u>\$ 458,515</u>

Deposits

Amount of deposits reflected on the accounts of the bank (without recognition of checks written but not yet cleared, or of deposits in transit)	\$2,358,662
Amount of deposits covered by federal depository insurance	<u>375,131</u>
Amount of deposits uninsured	<u>\$1,983,531</u>

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

NOTE 17 – FAYETTE COUNTY MEMORIAL HOSPITAL (Continued)

The Hospital's investments are categorized below to give an indication of the level of risk assumed by the entity. Risk Category 1 includes those investments that meet any one of the following criteria:

- a. Insured
- b. Registered
- c. Held by the Hospital or its agent

Risk Categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the Hospital's name. Category 3 includes investments held by:

- a. The counter-party
- b. The counter-party's trust department (or agent) but not in the Hospital's name.

	Category			Carrying Amount
	1	2	3	
Federal bonds	\$ -	\$ 3,178,694	\$ -	\$ 3,178,694

Assets limited as to use are designated or restricted as follows:

By Board for bond repayments	\$244,502
By donor – for specific purposes	<u>214,013</u>
Total assets limited as to use	<u>\$458,515</u>

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

NOTE 17 – FAYETTE COUNTY MEMORIAL HOSPITAL (Continued)

C. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable for the year ended December 31, 2003 are set forth below:

Total Patient Accounts Receivable	\$ 8,361,336
Less Allowance for:	
Uncollectible Accounts	(1,150,000)
Contractual Adjustments	<u>(2,455,000)</u>
Net Patient Accounts Receivable	<u>\$4,756,336</u>

D. NOTES RECEIVABLE

Notes receivable represent loans to physicians under various cash flow support and loan arrangements. These loans are to be repaid in varying monthly installments including interest at rates ranging from 0 percent to 6.5 percent, and are unsecured. A portion of the physician notes receivable are forgiven over time under the terms of the physician loan agreement. A summary of these amounts outstanding at December 31, 2003 is as follows:

Net Notes Receivable	\$1,062,588
Less Current Portion	<u>280,520</u>
Long Term Portion	<u>\$ 782,068</u>

E. COST REPORT SETTLEMENTS

Approximately 56 percent of the Hospital's revenues from patient services are received from the Medicare and Medicaid programs. The Hospital has agreements with these payors that provide for reimbursement to the Hospital at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with these third-party payors follows.

Medicare - Inpatient, acute-care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Some outpatient services and defined capital costs related to Medicare beneficiaries are paid based upon a cost reimbursement method. Other outpatient services, including ambulatory surgery, radiology, and laboratory services, are reimbursed on an established fee-for-service methodology. Beginning August 1, 2000, reimbursement for all outpatient services are based on the prospectively determined ambulatory payment classification system. However, the Hospital is held harmless until July 31, 2003, under this new outpatient payment system, should it result in less reimbursement than the payment system in place before August 1, 2000. The Medicare Modernization Act of 2003 extended these provisions until January 1, 2006.

Medicaid - Inpatient, acute-care services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge. Capital costs relating to Medicaid inpatients are paid on a cost-reimbursement method. The Hospital is reimbursed for outpatient services on an established fee-for-service methodology.

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

NOTE 17 – FAYETTE COUNTY MEMORIAL HOSPITAL (Continued)

The Medicaid payment system in Ohio is a prospective one, whereby rates for the following state fiscal year beginning July 1 are based upon filed cost reports for the preceding calendar year. The continuity of this system is subject to the uncertainty of the fiscal health of the State of Ohio, which can directly impact future rates and the methodology currently in place. Any significant change in rates, or the payment system itself, could have a material impact on the future Medicaid funding to providers.

Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs and are subject to audit by fiscal intermediaries. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying financial statements.

F. PROPERTY AND EQUIPMENT

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

	<u>2002</u>	<u>Additions</u>	<u>Retirements</u>	<u>2003</u>	<u>Depreciable Life - Years</u>
Land	\$ 519,750	\$ -	\$ -	\$ 519,750	
Land improvements	618,690	-	-	618,690	10-20
Buildings	9,092,824	190,171	-	9,282,995	15-50
Fixed equipment	1,549,506	69,306	-	1,618,812	5-20
Major movable equipment	7,564,716	505,707	(92,932)	7,977,491	5-25
Construction in progress	373,945	3,602,935	(5,907)	3,970,973	
Total	<u>19,719,431</u>	<u>4,368,119</u>	<u>(98,839)</u>	<u>23,988,711</u>	
Less accumulated depreciation					
Land improvements	379,987	54,411	-	434,398	
Buildings	3,900,143	344,944	-	4,245,087	
Fixed equipment	832,355	75,013	-	907,368	
Major movable equipment	4,707,608	761,998	(88,236)	5,381,370	
Total	<u>9,820,093</u>	<u>1,236,366</u>	<u>(88,236)</u>	<u>10,968,223</u>	
Net carrying amount	<u>\$ 9,899,338</u>			<u>\$ 13,020,488</u>	

Depreciation expense aggregated \$1,236,366 for the year ended December 31, 2003.

Construction in progress at December 31, 2003, consists of a new medical office building and miscellaneous hospital renovations.

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

NOTE 17 – FAYETTE COUNTY MEMORIAL HOSPITAL (Continued)

G. ACCRUED LIABILITIES

The details of accrued liabilities for the year ended December 31, 2003 are as follows:

Payroll and Related Amounts	\$ 304,343
Compensated Absences	580,351
Other	<u>199,196</u>
Total Accrued Liabilities	<u>\$ 1,083,890</u>

Compensated absences represent the estimated liability to be paid to employees under the Hospital's vacation and holiday policies. Under the Hospital's policies, employees earn vacation time based on length of service to the hospital and holiday time at an equal rate for all employees.

H. LONG-TERM DEBT

Long-term debt activity for the year ended December 31, 2003 was as follows:

	Beginning Balance	Current Year Additions	Current Year Reductions	Ending Balance	Current Portion
Leases and notes payable:					
Lease obligations	\$ 376,180	\$ -	\$ (129,420)	\$ 246,760	\$ 133,080
Notes payable - 2003 series	<u>-</u>	<u>3,400,000</u>	<u>-</u>	<u>3,400,000</u>	<u>-</u>
Total leases and notes payable	<u>\$ 376,180</u>	<u>\$ 3,400,000</u>	<u>\$ (129,420)</u>	<u>\$ 3,646,760</u>	<u>\$ 133,080</u>

The County of Fayette, Ohio, acting by and through the Fayette County Memorial Hospital Board of Directors, issued Variable Rate Taxable Demand Revenue Notes, Series 2003 (the notes) to finance the acquisition and construction of a medical office building, along with the financing costs associated therewith and with related transactions (the project).

The Hospital is bound by the terms of the Trust Indenture and Reimbursement Agreement to various operational and financial covenants. These covenants include maintaining a minimum debt service ratio of 1.25 to 1.00, and minimum days cash on hand of 70.

The notes shall be issued in an amount not to exceed \$4,400,000, and shall be available to the Hospital to be drawn upon as principal as needed. The notes will be sold in series as funds are needed for the project. The initial series was issued and drawn in July 2003, in the amount of \$2,400,000. The second series was issued and drawn in October 2003, in the amount of \$1,000,000. The Hospital expects to request one additional series of notes during the next fiscal year. The series of notes are payable semi-annually with principal payments ranging from \$110,000 to \$270,000, in aggregate, maturing on August 1, 2023. The interest rate on the variable rate notes was 1.18 percent at December 31, 2003. The notes are secured by an irrevocable letter-of-credit with the Trustee bank.

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

NOTE 17 – FAYETTE COUNTY MEMORIAL HOSPITAL (Continued)

The notes are remarketed on a weekly basis. Should the remarketing agent be unable to remarket the notes based on its best efforts, these notes would be “put” back to the Trustee, who would draw down on the letter-of-credit to pay down the notes. However, Hospital management has assessed any unsuccessful remarketing of the notes to be unlikely. Under the Reimbursement Agreement between the Trustee and the Hospital, the Hospital is obliged to reimburse the Trustee for any draws made on the letter-of-credit. Interest is applied to letter-of-credit draws at a variable rate based on the current market interest rates. The letter-of-credit expires upon the earliest of June 16, 2008, unless extended, or receipt by the Trustee of payment in full of principal and interest on the notes. In the event of the expiration of the letter-of-credit, all outstanding notes would be subject to mandatory purchase by the Hospital. Additionally, there is a commitment fee with respect to the issuance and maintenance of the letter-of-credit. The Hospital’s obligation to the Trustee for draws on the letter-of-credit is secured by a pledge of its gross receipts pursuant to an Assignment and Security Agreement, and a lien on any leases pursuant to an Assignment of Rents and Leases.

As a means to lower its borrowing costs, when compared against fixed-rate notes at the time of issuance in July 2003, the hospital entered into an interest rate swap in connection with its notes. The intention of the swap was to effectively change the hospital’s variable interest rate on the notes to a synthetic fixed rate of 5.24 percent on \$2.4 million of the proceeds.

Under the swap, the hospital pays the counterparty a fixed payment of 5.24 percent and receives a variable payment computed at 100 percent of the London Interbank Offered Rate (LIBOR). The swap has a notational amount of \$2.4 million and the associated variable-rate notes that were swapped have a \$2.4 million principal amount. The swap was entered into at the same time the notes were issued (July 2003). Starting in fiscal year 2005, the notational value of the swap and the principal amount of the associated debt decline by a set maturity schedule. The notes’ variable rate is based on the counterparty’s published variable rate. The swap agreement is in place for five years and then is renewable upon determination of the hospital’s creditworthiness. If at any time the hospital elects to withdraw from the swap agreement they would pay the notes at the variable rate until their maturity on August 1, 2023. As of December 31, 2003 rates were as follows:

	Terms	Rates
Interest rate swap:		
Fixed payment to counterparty	Fixed	5.24%
Less variable payment from counterparty	100% of LIBOR	<u>1.18%</u>
Net interest rate swap payments		4.06%
Variable-rate note payments	Counterparty published rate	<u>1.18%</u>
Synthetic interest rate on notes		<u>5.24%</u>

As of December 31, 2003, the swap had a negative fair value of \$147,590. The negative fair value of the swap may be countered by reductions in total interest payments required under the variable-rate notes, creating lower than synthetic rates. Because the coupons on the government’s variable-rate notes adjust to changing interest rates, the notes do not have a corresponding fair value increase.

As of December 31, 2003, the Hospital was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the Hospital would be exposed to credit risk in the amount of the derivative’s fair value.

As noted above, the swap exposes the Hospital to basis risk should the relationship between LIBOR and the counterparty’s published rate converge, changing the synthetic rate on the notes. If a change occurs that results in the rates’ moving to convergence, the expected cost savings may not be realized.

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

NOTE 17 – FAYETTE COUNTY MEMORIAL HOSPITAL (Continued)

The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Hospital or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable-rate notes would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the Hospital, would be liable to the counterparty for a payment equal to the swap's fair value.

As of December 31, 2003, debt service requirements of the variable-rate debt and net swap payments for their term, assuming interest rates remain the same, and payments on capital lease obligations for their term were as follows. As rates vary, variable rate note interest payments and net swap payments will vary.

Year Ending December 31	Variable-Rate Notes			Interest Rate Swaps, Net	Leases Payable
	Principal	Interest - Unswapped	Interest - Swapped		
2004	\$ -	\$ 11,800	\$ 28,320	\$ 97,440 *	\$ 143,786
2005	110,000	11,594	27,769	94,192	101,047
2006	115,000	11,240	26,776	90,741	16,841
2007	125,000	10,836	25,842	87,290	-
2008	130,000	10,374	24,751	83,636	-
2009-2013	745,000	44,417	106,200	356,265	-
2014-2018	955,000	29,461	70,830	232,232	-
2019-2023	<u>1,220,000</u>	<u>10,767</u>	<u>25,528</u>	<u>73,283</u>	-
Total payments	<u>\$3,400,000</u>	<u>\$ 140,489</u>	<u>\$ 336,016</u>	<u>\$1,115,079</u>	261,674
Less amount representing interest					<u>14,914</u>
Net present value					<u>\$246,760</u>

*Computed: (5.24% - 1.18%) x \$2,400,000

Note: The Swap is only on \$2,400,000 of the total proceeds of the notes, therefore, the \$2,400,000 is reduce annually for principal payments on this portion of the notes for purposes of the computation.

FAYETTE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 17 – FAYETTE COUNTY MEMORIAL HOSPITAL (Continued)

Capital leases are due in monthly installments totaling approximately \$12,306 at December 31, 2003, including imputed interest at rates ranging from 5.32 percent to 5.86 percent. They expire at various times through 2006, and are collateralized by the equipment leased.

Cost of equipment under capital lease	\$ 641,328
Less accumulated amortization	<u>366,913</u>
Net Carrying Amount	<u>\$ 274,415</u>

J. NET PATIENT SERVICE REVENUE

Net patient service revenue for the year ended December 31, 2003 consists of the following:

Revenue:

In Patient Services

Routine Services	\$ 5,536,429
Ancillary Services	8,950,705
Outpatient Ancillary Services	<u>29,780,270</u>
Total Patient Revenue	44,267,404

Revenue Deductions:

Provision for Contractual Allowances	16,517,744
Provision for Charity Care	755,093
Other Allowances	<u>134,897</u>
Total Revenue Deductions	<u>17,407,734</u>
Total Net Patient Service Revenue	<u>\$ 26,859,670</u>

FAYETTE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 17 – FAYETTE COUNTY MEMORIAL HOSPITAL (Continued)

Non-operating gains for the year ended December 31, 2003, consist of the following:

Donations, Gifts and Grants	\$ 58,523
Investment Income	137,993
Other Gains	<u>143,148</u>
Non-Operating Gains – Net	<u>\$ 339,664</u>

L. DEFINED BENEFIT PENSION PLAN

Plan Description - The Hospital contributes to the Ohio Public Employees Retirement System of Ohio (OPERS). OPERS administers three separate pension plans: The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement, disability, survivor and death benefits, annual cost of living adjustments, and post-retirement healthcare benefits to qualifying members of both the Traditional and the Combined Plans; however, healthcare benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. Chapter 145 of the Ohio Revised Code assigns authority to establish and amend benefit provisions to the OPERS Board of Trustees. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling 614-222-6705 or 1-800-222-PERS (7377).

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions. For 2003, member and employer contribution rates were consistent across all three plans (TP, MD, and CO), and are actuarially determined. The 2003 member contribution rate for members of local government units was 8.50 percent of their annual covered salary. The 2003 employer contribution rate for local government units was 13.55% percent of covered payroll. The Hospital's contributions to OPERS for the years ended 2003, 2002, and 2001, were \$1,283,472, \$1,192,732, and \$1,101,383, respectively. Required employer contributions for all plans are equal to 100% of employer charges and must be extracted from the employer's records.

Post-Retirement Benefits – In order to qualify for post-retirement health care coverage, age and service retirees must have ten 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 Post-Employment Benefit (OPEB), as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2003 and 2002 employer contribution rate for local government employer units was 13.55 percent of covered payroll. Of this amount, 5.0 percent was the portion that was used to fund health care during 2003 and 2002, respectively. The portion of the employer's contribution used to fund post-employment benefits for 2003 and 2002 was \$473,601 and \$440,818, respectively.

The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS.

An entry-age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually. The investment return assumption rate for 2002 was 8.00%. An annual increase of 4.00 compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base increase, were

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

NOTE 17 – FAYETTE COUNTY MEMORIAL HOSPITAL (Continued)

assumed to range from 0.50% to 6.30%. Health care costs were assumed to increase 4.00% annually. These assumptions and calculations are based on the System's latest Actuarial Review performed as of December 31, 2002.

The number of active contributing participants in the Traditional and Combined Plans during 2003 was 364,881. As of December 31, 2002, the actuarial value of the Retirement System's net assets available for OPEB was \$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.

Health Care Plan – In December 2002, the Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of health care. The Choice Plan will be offered to all persons newly hired in an OPERS covered position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a broader range of health care options. The plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff eligibility standard for the present plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The plan will also offer a spending account feature, enabling the benefit recipient to apply his or her 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 December 31, 2003, 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.

M. RISK MANAGEMENT

The Hospital is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Hospital has purchased commercial insurance for malpractice, general liability, employee medical and workers' compensation claims.

The Hospital is insured against medical malpractice claims under an occurrence-based policy. The policy covers claims resulting from incidents that occurred during the policy terms, regardless of when the claims are reported to the insurance carrier. Under the terms of the policy, the Hospital bears the risk of the ultimate costs of any individual claim exceeding \$1,000,000 or aggregate claims exceeding \$3,000,000 for claims asserted in the policy year. In addition, the Hospital has an umbrella policy with an additional \$5,000,000 of coverage.

While there is pending litigation against the Hospital, management is not aware of any such medical malpractice claims, either asserted or unasserted, that would exceed the policy limits. The cost of this insurance policy represents the Hospital's cost for such claims for the year, and it has been charged to operations as a current expense. There have been no claims settled in the last five years that have exceeded insured limits.

N. COMMITMENT AND SUBSEQUENT EVENT

The Hospital has entered into contracts for construction of its medical office building. The third and final series of Variable Rate Taxable Demand Revenue Notes, issued and drawn in January 2004 in the amount of \$1,000,000. The proceeds from this issuance are to be used to fund the remaining commitment for construction of the medical office building.

FAYETTE COUNTY

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

<u>Federal Grantor/Pass Through Grantor Program Title:</u>	<u>Federal CFDA Number</u>	<u>Program Number</u>	<u>Expenditures</u>	<u>Support Documentation X-ref.</u>	<u>Adjustments Required from County Prepared from Federal Schedule</u>
U.S. Department of Agriculture					
<i>Passed through Ohio Department of Education:</i>					
Nutrition Cluster:					
Food Distribution Program	10.550	n/a	32,317	300.1D	None
U.S. Department of Housing and Urban Development					
<i>Passed Through Ohio Department of Development</i>					
Community Development Block Grant					
Small Cities Emergency Shelter	14.228	BL-03-023-1	0	300.1H	New program number
Small Cities Emergency Shelter	14.228	BL-02-023-1	69,700	300.1H	New program number
Small Cities Program Grant (Formula)	14.228	BF-02-023-1	59,778	300.1H	New program number
Small Cities Program Grant (Discretionary)	14.228	BX-01-023-1	238,446	300.1H	None
Small Cities Community Development Block Grant - CHIP	14.228	BC-02-023-1	80,982	300.1H	None
Small Cities Community Development Block Grant - CHIP-HOME	14.239	BC-02-023-2	64,175	300.1H	None
Total U.S. Department of Housing and Urban Development			513,081		
U.S. Department of Justice					
<i>Passed Through Ohio Office of Criminal Justice Services</i>					
Truancy Prevention Through Mediation					
	16.540	2001-JJ-D11-0063	2,077	300.1I	New program number
Byrne Formula Grant Program					
	16.579	2002-DG-D2-7360	18,305	300.1E	New program number; deduct \$50 due to rebate. Add, this was not on County's schedule
Byrne Formula Grant Program - Sheriff's Interlink Field Reporting					
Victim -Witness/VOCA '03-'04	16.588	2003VAGENE240T	7,685	300.1E	New program number
Victim -Witness/VOCA Expansion '03-'04	16.588	2003VAGENE547T	0	300.1E	New program number
Victim -Witness/VOCA '02-'03	16.588	2003VAGENE240	30,663	300.1E	New program number
Victim -Witness/VOCA Expansion '02-'03	16.588	2003VAGENE547	24,036	300.1E	New program number
Victim -Witness/VAWA '03	16.588	2002-WF-VA5-8411	12,454	300.1E	New program number
Victim -Witness/VAWA '02-'03	16.588	2001-WF-VA5-8411	15,655	300.1E	None
Total U.S. Department of Justice			138,695		
U.S. Department of Labor					
<i>Passed Through Ohio Department of Jobs and Family Services</i>					
Workforce Investment Act Cluster:					
Workforce Investment Act - Adult					
			79,676	300.1L / 301H-1	None
Workforce Investment Act - Adult Administrative					
			4,635	301H-1	Change due to allocating Admin.
Workforce Investment Act - Adult Total	17.258	n/a	84,311		
Workforce Investment Act - Youth					
			112,529	300.1L / 301H-1	None
Workforce Investment Act - Youth Administrative					
			6,546	301H-1	Change due to allocating Admin.
Workforce Investment Act - Youth Total	17.259	n/a	119,075		
Workforce Investment Act - Dislocated Workers					
			38,545	300.1L / 301H-1	None
Workforce Investment Act - Rapid Response					
			19,913	300.1L	Not included on County's Schedule
Workforce Investment Act - Dislocated Workers Administrative					
			3,400	301H-1	Change due to allocating Admin.
Workforce Investment Act - Dislocated Workers Total	17.260	n/a	61,858		
Total Workforce Investment Act Cluster			265,244		
Total U. S. Department of Labor			265,244		

(Continued)

FAYETTE COUNTY

SCHEDULE OF FEDERAL AWARD EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

Federal Highway Administration

*Passed Through Ohio Department of Transportation
Highway Planning and Construction Cluster*

Highway Planning and Construction	20.205	n/a	174,256	300.1C	\$111,137 deducted due to 2002 amounts shown on county's schedule
Total Federal Highway Administration			<u>174,256</u>		

U.S. Department of Federal Emergency Management Agency

*Passed Through Ohio Adjutant General's Emergency
Management Agency*

Emergency Management Assistance Performance Grants	97.042	n/a	6,042	300.1K	Change CFDA number and title
		S03-FE03-24-0270	14,091	300.1K	Change CFDA number and title
Public Assistance Grant Program/Severe Winter	97.036	1453-DR-047-UFTDI	30,341	300.1J	Change CFDA number Change CFDA number and title
State Domestic Preparedness Equipment Support Program	97.004	S03-HE03-24-0435	34,415	300.1K	Change CFDA number and title
		S03-JE99-24-0405	1,568	300.1K	Change CFDA number and title
		n/a	20,473	300.1K	Change CFDA number and title
State and Local All Hazards Emergency Operations Planning	97.051	n/a	3,871	300.1K	Change CFDA number and title
Total U. S. Department of Federal Emergency Management			<u>110,801</u>		

U.S. Department of Education

Passed Through Ohio Department of Education

Special Education - Grants to States-Title VI B - 03	84.027	71100-6B-SF-2003	8,540	300.1A	New program number
Special Education - Grants to States-Title VI B - 04	84.027	71100-6B-SF-2004	5,047	300.1A	New program number
Special Education - Preschool Grant - 03	84.173	71100-PG-S1-2003	4,263	300.1A	New program number
Special Education - Preschool Grant - 04	84.173	71100-PG-S1-2004	0	300.1A	New program number
Total Special Education Cluster			<u>17,850</u>		
Total U. S. Department of Education			<u>17,850</u>		

U.S. Department of Health and Human Services

Passed Through Ohio Department of Aging

Special Programs for the Aging - Nutrition - Title III-B	93.044	n/a	40,169	300.1D	None
Special Programs for the Aging - Nutrition - Title III-C	93.045	n/a	72,381	300.1D	None
Total Aging Cluster			<u>112,550</u>		

Low-Income Home Energy Assistance Program (LIHEAP) - '02-03	93.568	n/a	1,900	300.1D	None
---	--------	-----	-------	--------	------

*Passed Through Ohio Public Safety - Emergency Medical
Services Division*

Rural AED Grant	93.259	n/a	9,200	300.1G	Add correct pass-through agency
-----------------	--------	-----	-------	--------	------------------------------------

*Passed Through Ohio Department of Mental Retardation and Developmental
Disabilities*

Medical Assistance Program (CAFS) - Title XIX	93.778	n/a	199,311	300.1B	Add \$84,913 to county's schedule
Social Service Block Grant - Title XX	93.667	n/a	25,874	300.1B	Add \$1,000 to County's schedule
Total U.S. Department of Health and Human Services			<u>348,835</u>		

Total Federal Financial Award Expenditures \$1,601,079

The Notes to the Schedule of Federal Award Expenditures are an integral part of this schedule.

FAYETTE COUNTY

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

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – MATCHING REQUIREMENTS

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

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

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

<u>Previous Federal Agency</u>	<u>CFDA No. Used In 2002</u>	<u>Homeland Security CFDA No. used for 2003</u>
U.S. Department of Justice	16.007	97.004
U.S. Department of Federal Emergency Management Agency	83.552	97.042

This page intentionally left blank.



Auditor of State Betty Montgomery

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

Fayette County
133 S. Main Street
Washington Court House, Ohio 43160

To the Board of County Commissioners:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Fayette County, Ohio (the County) as of and for the year ended December 31, 2003, which collectively comprise the Government's basic financial statements and have issued our report thereon dated December 20, 2004, wherein we noted the County prepares its financial statements on a basis of accounting other than accounting principles generally accepted in the United States of America and wherein we issued an adverse opinion because the County's financial statements did not include financial data related to the County's legally separate component unit. We also noted that the financial statements of the Fayette County Memorial Hospital were audited by other auditors. The report of the other auditors has been furnished to us. Our report on compliance, insofar as it relates to the Fayette County Memorial Hospital, is based on the compliance report of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-001 and 2003-002. We also noted certain immaterial instances of noncompliance that we have reported to management of the County in a separate letter dated December 20, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2003-001 and 2003-003.

Corporate Centre of Blue Ash / 11117 Kenwood Rd. / Blue Ash, OH 45242
Telephone: (513) 361-8550 (800) 368-7419 Fax: (513) 361-8577
www.auditor.state.oh.us

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the County in a separate letter dated December 20, 2004.

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



Betty Montgomery
Auditor of State

December 20, 2004



Auditor of State Betty Montgomery

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

Fayette County
133 S. Main Street
Washington Court House, Ohio 43160

To the Board of County Commissioners:

Compliance

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

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

In our opinion, the County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2003. However, we noted a certain immaterial instance of noncompliance that we have reported to the County's management in a separate letter dated December 20, 2004.

Internal Control Over Compliance

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

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

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

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

Betty Montgomery
Auditor of State

December 20, 2004

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

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	CDBG – Small Cities Formula Grants CFDA#14.228 WIA – Workforce Investment Act CFDA #17.258, 17.259, 17.260 Medical Assistance Program (CAFS) CFDA#93.778
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2003-001

NonCompliance Citation/Reportable Condition

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

This section also provides two "exceptions" to the above requirements:

- A. Then and Now Certificate - If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the order or contract and at the time of the certificate, appropriated and free of any previous encumbrances, the Commissioners may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate.
- B. If the amount involved is less than one hundred dollars, the fiscal officer may authorize it to be paid without the affirmation of Commissioners, if such expenditure is otherwise valid.

Thirty-eight percent (38%) of the purchases tested were initiated without obtaining the prior certification of the County Auditor and were not subsequently approved by the County Commissioners within the aforementioned 30 day time period.

The County should use the encumbrance method of accounting by certifying funds on purchase orders. During our search for unrecorded liabilities, we found that the County had not always obtained purchase orders and encumbered for services provided at the end of the year audited. Failure to properly encumber could result in overspending funds and negative cash fund balances. The County should obtain purchase orders, which contain the Auditor's certification that the amount required to meet the obligation has been lawfully appropriated and authorized, prior to making a commitment.

FINDING NUMBER 2003-002

NonCompliance Citation

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

The Fayette County Memorial Hospital financial statements are presented as stand alone statements in accordance with Generally Accepted Accounting Principles.

FINDING NUMBER 2003-003

Reportable Condition

Fayette County operates a Senior Citizen Center for the benefit of citizens of the County over the age of 55. The Senior Citizen Center is housed in a County-owned building, and is operated by County employees. The Fayette County Commissioners are named as the “grantee” on all grant funds received by the Senior Citizen Center. During 2003, the County received \$261,165 in grants used exclusively for the Senior Citizen Center. For 2003, the County recorded a portion of the financial activity of the Senior Citizen Center activity in two separate special revenue funds, and the remainder of the financial activity in separate checking and savings accounts that were reported on the County financial statements as agency funds (see description of accounts in the following paragraph).

The Fayette County Commission on Aging (Commission) was incorporated as a not-for-profit corporation on December 30, 1976. The County Commission on Aging is structured as follows:

- Commissioner board members are self appointed.
- The Commission operates out of the Senior Citizen Center.
- As the Commission does not have any of its own employees, all Commission functions are carried out by County employees.
- A portion of the Commission’s Senior Citizen Center financial activity is accounted for through a savings account, a checking account, a “foundation account”, a “van fund”, a “trip account”, and a “senior nutrition” checking account. These accounts are separate checking accounts and are not subject to the budgetary and control procedures of County funds. The account balances are reported as agency funds in the County financial report.

Because the Commission operates as a department of the County through the Senior Citizen Center, certain financial resources of the Commission related to the Senior Citizen Center should be accounted for through the County financial and budgetary systems.

We recommend that the County Commissioners, the Commission on Aging, and the County’s legal counsel review the financial activity in each account related to the Senior Citizen Center activity to determine which entity is responsible for the activity and financially responsible for the related funds. All public funds should be accounted for by the County. We also recommend that each entity’s responsibilities be documented in written agreements. Special attention should be placed on the administration of the Passport Services Grants. If it is determined that the Commission on Aging is to administer the grants, we recommend that the County execute a written contract with the Commission.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

This page intentionally left blank.

FAYETTE COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
FISCAL YEAR END DECEMBER 31, 2003

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2002-001	Failure to certify the availability of funds.	No	Repeated as finding 2003-001.
2002-002	Failure to credit remaining policing revolving fund moneys to the general fund.	Yes	
2002-003	Failure to post Issue II moneys.	No	Partially corrected, moved to management letter.
2002-004	Failure to prepare Schedule of Federal Awards Expenditures.	No	Partially corrected, moved to management letter.



**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

FAYETTE 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
FEBRUARY 24, 2005**