

Hocking County Financial Condition

Hocking County

Single Audit

January 1, 2003 Through December 31, 2003

Fiscal Year Audited Under GAGAS: 2003

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**Auditor of State
Betty Montgomery**

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

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

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

September 13, 2004

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**Hocking County Financial Condition
Basic Financial Statements
For the Year Ended December 31, 2003**

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**Hocking County Financial Condition
Basic Financial Statements
For the Year Ended December 31, 2003**

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Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Hocking 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 financial statements of the County's discretely presented component units, Hocking Valley Industries, Inc. and the Hocking Valley Community Hospital. These financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion insofar as it relates to the amounts included for Hocking Valley Industries, Inc. and Hocking Valley Community Hospital, is based solely on the reports of the other auditors.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the County, as of December 31, 2003, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General fund, Motor Vehicle Gas Tax fund, Human Services fund, Mentally Retarded & Developmentally Disabled fund and the Emergency Medical Services fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2004, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

As described in Note 4 to the basic financial statements, the County implemented Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

Balestra, Harr & Scherer, CPAs, Inc.

Balestra, Harr & Scherer, CPAs, Inc.

August 26, 2004

**HOCKING COUNTY FINANCIAL CONDITION
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2003**

The discussion and analysis of Hocking County's financial performance provides an overall review of the County's financial activities 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 the basic financial statements and the notes to the basic financial statements to enhance their understanding of the County's financial performance.

Financial Highlights

Key financial highlights for 2003 are as follows:

Overall:

Total net assets increased \$1,004,883, virtually all in Governmental Activities.

Total revenue was \$22,479,309 in 2003.

Total program expenses were \$21,143,041 in 2003.

Long term debt and other obligations increased to \$2,513,543 in 2003 from \$2,365,009 in 2002. The increase is primarily due to the issuance of a long-term note for \$277,692, for the construction of a Juvenile Detention Facility, during 2003 which were partially offset by debt service payments during 2003.

Governmental Activities:

Liabilities decreased \$380,335 from 2002, while total assets increased by \$924,474.

Total revenue was \$22,271,180 in 2003, while program expenses were \$20,966,371.

Program expenses were primarily composed of Human Services, Health, Public Safety, Public Works, and Legislative and Executive where expenses were \$7,375,166; \$3,031,239; \$2,874,922; \$2,590,961; and \$2,354,117 respectively in 2003.

Business-Type Activities:

Program revenues were \$208,129 for Business Type Activities, while corresponding expenses were \$176,670. However, the County sold one of their wastewater treatment facilities, which resulted in a loss on the sale of facilities of \$331,385. This is the primary reason for the decrease in net assets in the business-type activities. The decrease of \$266,191 in capital assets is partially due to the sale of the facilities as well as depreciation expense of \$59,119.

Using these Basic Financial Statements

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

- The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole County, presenting both an aggregate view of the County's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term and what remains for future spending. The fund financial statements also look at the County's most significant funds with all other nonmajor funds presented in total in one column. In the case of Hocking County, the General Fund, the Motor Vehicle Gas Tax Fund, the Human Services Fund, the Mentally Retarded & Developmentally Disabled Fund, and the Emergency Medical Services Fund are the major funds for the County.

**HOCKING COUNTY FINANCIAL CONDITION
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2003**

Reporting the County as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the County to provide programs and activities, the view of the County as a whole looks at all financial transactions and asks the question, "How did we do financially during 2003?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid. These two statements report the County's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the County as a whole, the *financial position* of the County has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the County's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required or mandated programs and other factors.

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

- **Governmental Activities** – Most of the County's programs and services are reported here including general government (legislative, executive and judicial), public safety, public works, health, human services, economic development and assistance, conservation and recreation and miscellaneous.
- **Business-Type Activities** – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The County's wastewater treatment operations are reported as business type activities.

Reporting the County's Most Significant Funds

Fund Financial Statements

The analysis of the County's major funds begins on page 15. Fund financial reports provide detailed information about the County's major funds. The County uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the County's most significant funds. The County's major governmental funds are the General Fund, the Motor Vehicle Gas Tax Fund, the Human Services Fund, the Mentally Retarded & Developmentally Disabled Fund, and the Emergency Medical Services Fund.

Governmental Funds Most of the County's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual*, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the County's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance various county programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements.

Proprietary Funds Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match the information provided in statements for the County as a whole.

**HOCKING COUNTY FINANCIAL CONDITION
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2003**

The County as a Whole

Recall that the Statement of Net Assets provides the perspective of the County as a whole. Table 1 provides a summary of the County's net assets for 2003 compared to the prior year:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
<i>Assets</i>						
Current & Other Assets	\$ 16,478,165	\$ 17,318,453	\$ 69,425	\$ 109,718	\$ 16,547,590	\$ 17,428,171
Capital Assets	<u>5,075,474</u>	<u>3,310,712</u>	<u>1,666,524</u>	<u>1,932,715</u>	<u>6,741,998</u>	<u>5,243,427</u>
<i>Total Assets</i>	21,553,639	20,629,165	1,735,949	2,042,433	23,289,588	22,671,598
<i>Liabilities</i>						
Long-Term Liabilities	1,990,001	1,834,947	523,542	530,062	2,513,543	2,365,009
Other Liabilities	<u>5,085,451</u>	<u>5,620,840</u>	<u>7,625</u>	<u>7,663</u>	<u>5,093,076</u>	<u>5,628,503</u>
<i>Total Liabilities</i>	7,075,452	7,455,787	531,167	537,725	7,606,619	7,993,512
<i>Net Assets</i>						
Invested in Capital Assets						
Net of Debt	4,143,066	2,228,857	1,138,252	1,403,215	5,281,318	3,632,072
Restricted	8,678,860	9,176,691	-	-	8,678,860	9,176,691
Unrestricted (deficit)	<u>1,656,261</u>	<u>1,767,830</u>	<u>66,530</u>	<u>101,493</u>	<u>1,722,791</u>	<u>1,869,323</u>
<i>Total Net Assets</i>	<u>\$ 14,478,187</u>	<u>\$ 13,173,378</u>	<u>\$ 1,204,782</u>	<u>\$ 1,504,708</u>	<u>\$ 15,682,969</u>	<u>\$ 14,678,086</u>

Total assets increased by \$617,990. The primary reason for the total assets increase related to capital assets. Capital assets increased by \$1,498,571 from 2002 to 2003. The increase was in the Governmental Activities capital assets which increased \$1,764,762 primarily due to infrastructure improvements while the Business-Type Activities decreased primarily due to a facilities sale. These increases were offset by decreases in Cash by \$419,039 from 2002 to 2003 and Intergovernmental Receivables by \$345,561 from 2002 to 2003. Liabilities decreased by \$386,893. This decrease for 2003 was mainly the result of an increase in long-term debt of \$155,054, a decrease of accounts payable of \$340,735, and an increase of accrued wages and benefits of \$134,262. The net impact was an increase in net assets of \$1,004,883.

**HOCKING COUNTY FINANCIAL CONDITION
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2003**

Table 2 shows the changes in net assets for fiscal year 2003. Since this is the first year the County has prepared financial statements following GASB Statement 34, revenue and expense comparisons to fiscal year 2002 are not available. In future years, when prior year information is available, a comparative analysis of governmental and business-type data will be presented.

Table 2
Changes In Net Assets

<i>Revenues</i>	Governmental	Business-Type	Total
	Activities	Activities	
<i>Program Revenues:</i>			
Charges For Services and Sales	\$ 2,550,435	\$ 108,129	\$ 2,658,564
Operating Grants and Contributions	9,733,287	0	9,733,287
Capital Grants and Contributions	1,587,915	100,000	1,687,915
Total Program Revenues	<u>13,871,637</u>	<u>208,129</u>	<u>14,079,766</u>
<i>General Revenue:</i>			
Property Taxes	3,789,836	0	3,789,836
Sales Taxes	3,164,485	0	3,164,485
Grants and Entitlements	719,111	0	719,111
Investment Earnings	110,098	0	110,098
Other	616,013	0	616,013
Total General Revenues	<u>8,399,543</u>	<u>0</u>	<u>8,399,543</u>
Total Revenues	<u>22,271,180</u>	<u>208,129</u>	<u>22,479,309</u>
<i>Program Expenses</i>			
General Government:			
Legislative and Executive	2,354,117	0	2,354,117
Judicial	1,439,283	0	1,439,283
Public Safety	2,874,922	0	2,874,922
Public Works	2,590,961	0	2,590,961
Health	3,031,239	0	3,031,239
Human Services	7,375,166	0	7,375,166
Economic Development and Assistance	379,905	0	379,905
Conservation and Recreation	215,362	0	215,362
Miscellaneous	628,015	0	628,015
Interest and Fiscal Changes	77,401	0	77,401
Wastewater Treatment	0	176,670	176,670
Total Expenses	<u>20,966,371</u>	<u>176,670</u>	<u>21,143,041</u>
Increase in Net Assets Before Special Item	<u>1,304,809</u>	<u>31,459</u>	<u>1,336,268</u>
Special Item - Loss on Sale of Facilities	<u>0</u>	<u>(331,385)</u>	<u>(331,385)</u>
Increase (Decrease) in Net Assets	<u>1,304,809</u>	<u>(299,926)</u>	<u>1,004,883</u>
Net Assets - Beginning of Year	<u>13,173,378</u>	<u>1,504,708</u>	<u>14,678,086</u>
Net Assets - End of Year	<u>\$ 14,478,187</u>	<u>\$ 1,204,782</u>	<u>\$ 15,682,969</u>

**HOCKING COUNTY FINANCIAL CONDITION
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2003**

The County receives diverse types of revenues to provide for the vast number of programs provided by the County. Operating grants and contributions provide almost 44% of total revenues for governmental activities. Property taxes and sales taxes provide 17% and 14% of total revenues for governmental activities, respectively.

Human services expenses comprise 35% of total expenses for governmental activities. Health, Public Safety, Public Works, and General Government Legislative & Executive comprise 14%, 14%, 12% and 11%, respectively, of total expenses for governmental activities.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and various federal and state grants and entitlements.

Table 3
Total Cost of Program Services
Governmental Activities

	2003	
	Total Cost of Service	Net Cost of Service
General Government		
Legislative and Executive	\$ 2,354,117	\$ 1,805,562
Judicial	1,439,283	742,835
Public Safety	2,874,922	1,888,305
Public Works	2,590,961	(1,927,560)
Health	3,031,239	2,124,357
Human Services	7,375,166	1,645,902
Economic Development and Assistance	379,905	60,875
Conservation & Recreation	215,362	176,598
Miscellaneous	628,015	512,717
Interest and Fiscal Charges	77,401	65,143
Total Expenses	\$ 20,966,371	\$ 7,094,734

Over 66 percent of county governmental activities are supported through program revenues.

**HOCKING COUNTY FINANCIAL CONDITION
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2003**

Business-Type Activities

Business-type activities include wastewater treatment.

Overall net assets declined \$299,926 from 2002 to 2003. The primary reason for this decrease relates to the loss on the sale of facilities of \$331,385. Without this loss the wastewater treatment facilities would have had an increase in net assets of \$31,459.

The County's Funds

Information about the County's major funds starts on page 15. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$22,937,546 and expenditures of \$22,897,939. The net change in fund balance for the year was most significant in the General Fund, where the General Fund balance increased from \$1,615,614 in 2002 to \$1,806,780 for 2003. This change was primarily due to proceeds from a long-term note of \$277,692 for the construction of a Juvenile Detention Facility. The Human Services Fund experienced a decline in fund balance of \$120,044 primarily due to intergovernmental revenue declines. Other governmental funds provided the other significant change in fund balance in the amount of \$271,856.

Major Fund Budgeting 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 funds are the General Fund, the Motor Vehicle License Tax Fund, the Human Services Fund, the Mentally Retarded and Developmentally Disabled (MR/DD) Fund and the Emergency Medical Services Fund.

During the course of fiscal year 2003, the County amended its general fund budget numerous times, none significant.

For the General Fund, budget basis revenue was \$5,725,617, above original budget estimates of \$5,168,341. Of this \$557,276 difference, tax revenue was \$341,570 above original estimates, charges for services was \$146,102 above original estimates and various other revenue categories made up the remaining difference.

Total actual expenditures on the budget basis (cash outlays plus encumbrances) were \$5,800,856, \$75,239 above revenues.

For the Gas Tax Fund, budget basis revenue was \$2,888,287, above original budget estimates of \$2,727,636. Of this \$160,651 difference, intergovernmental was \$150,215 above original estimates, and various other revenue categories made up the difference.

Total actual expenditures on the budget basis (cash outlays plus encumbrances) were \$3,267,714, \$379,427 over revenues.

For the Human Services Fund, budget basis revenue was \$3,488,345, under original budget estimates of \$4,286,203. Of this \$797,858 difference, intergovernmental revenue was \$738,149 under original estimates, and various other revenue categories made up the difference.

Total actual expenditures on the budget basis (cash outlays plus encumbrances) were \$4,314,517, \$826,172 above revenues.

For the MR/DD Fund, budget basis revenue was \$1,612,022, above original budget estimates of \$1,582,980. Of this \$29,042 difference, tax revenue was \$19,623 above original estimates, and various other revenue categories made up the difference.

**HOCKING COUNTY FINANCIAL CONDITION
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Total actual expenditures on the budget basis (cash outlays plus encumbrances) were \$1,592,676, \$19,346 under revenues.

For the Emergency Medical Services Fund, budget basis revenue was \$1,319,949, above original budget estimates of \$1,257,000. Of this \$62,949 difference, tax revenue was \$46,534 above original estimates, and various other revenue categories made up the difference.

Total actual expenditures on the budget basis (cash outlays plus encumbrances) were \$1,341,372, \$21,423 above revenues.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2003 the County had \$6,741,998 (net of accumulated depreciation) invested in land, land improvements, buildings and improvements, machinery and equipment, vehicles, infrastructure, and construction in progress, \$5,075,474 in governmental activities. Additional information regarding capital assets is shown in Note 9 to the Basic Financial Statements. Tables 4.1 and 4.2 show fiscal 2003 and 2002 balances by Governmental Activities and Business-Type Activities:

Table 4.1
Capital Assets At December 31
(Net of Depreciation)
Governmental Activities

	2003	2002
Land	\$ 350,069	\$ 350,069
Land Improvements	49,707	1,440
Buildings & Improvements	566,487	592,378
Machinery and Equipment	814,655	936,236
Vehicles	1,300,323	1,380,589
Infrastructure	1,760,735	0
Construction in Progress	233,498	50,000
Total	\$ 5,075,474	\$ 3,310,712

Table 4.2
Capital Assets At December 31
(Net of Depreciation)
Business-Type Activities

	2003	2002
Land	\$ 29,000	\$ 39,401
Wastewater Treatment Plants	200,510	175,369
Collection System	1,266,879	1,709,145
Vehicles	6,600	8,800
Construction in Progress	163,535	0
Total	\$ 1,666,524	\$ 1,932,715

**HOCKING COUNTY FINANCIAL CONDITION
MANAGEMENT'S DISCUSSION AND ANALYSIS
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For Governmental Activities the implementation of GA SB 34, which included the recognition of current year infrastructure, provided the most significant increase for the County of \$1,760,735 from 2002 to 2003. The County also retired \$25,220 in assets (net of depreciation).

For Business-type activities, the decrease in capital assets of \$266,191 is primarily due to the sale of facilities as well as depreciation expense. The County did have one outstanding construction project which involved extension of collection lines to the Chieftain Elementary School.

Debt

At December 31, 2003 the County had \$2,513,543 in long term liabilities, \$166,737 due within one year.

Tables 5 and 6 summarize bonds and notes outstanding for the past two years:

Table 5
Outstanding Debt at December 31
Governmental Activities

	2003	2002	
General Obligation Bonds	\$ 535,000	\$ 598,758	
Long Term Notes	368,075	105,072	
Special Assessment Bonds	76,190	84,190	
Total	\$ 979,265	\$ 788,020	

Table 6
Outstanding Debt at December 31
Business-Type Activities

	2003	2002	
Revenue Bonds	\$ 522,700	\$ 529,500	

During fiscal year 2003, the County received proceeds from a long-term note of \$277,692 for the construction of a Juvenile Detention Facility, which paid off an existing short-term note. All General Obligation Bonds, Long-term Notes and Special Assessment Bonds outstanding are general obligations of the County for which the full faith and credit of the County is pledged for repayment. For additional information regarding bonds and long-term notes payable please see Note 15 to the Basic Financial Statements.

**HOCKING COUNTY FINANCIAL CONDITION
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2003**

Capital Lease Obligations

During fiscal year 2003, the County entered into one capital lease agreements for two 2003 Ford Crown Victoria vehicles. The leased vehicles were for the General Fund. These lease agreements run through the fiscal year ending 2005 and are recorded as obligations under capital leases in the accompanying financial statements. The County had previous capital leases, which are being paid for out of both the General Fund (Governmental Activities) and the Motor Vehicle Gas Tax Fund (Governmental Activities). The total capital lease obligations outstanding as of December 31, 2003 were \$224,419. Of this balance \$88,768 in the Governmental Activities was due within one year.

Current Financial Related Activities

Hocking County is strong financially at the present time. However, as the preceding information shows, the County heavily depends on its property taxpayers as well as intergovernmental foundation monies. Since the property tax revenues do not grow at the same level as inflation and because state and federal mandates continue without providing the additional revenue resources needed to continue such programs, the County will be faced with significant challenges over the next several years to contain costs and ultimately consider the possibility of having to go back to the voters for an additional sales tax levy.

This scenario requires management to plan carefully and prudently to provide the resources to meet taxpayer needs over the next several years.

In addition, the County's system of budgeting and internal controls has made significant improvements over the past several years. All of the County's financial abilities will be needed to meet the challenges of the future.

Contacting the County's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kenneth R. Wilson, County Auditor at Hocking County, 1 East Main Street, Logan, Ohio 43138, phone at (740) 385-2127, or e-mail at kwilson@co.hocking.oh.us.

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Hocking County
Statement of Net Assets
As of December 31, 2003

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Hospital	Adult Activities Workshop
ASSETS					
Equity in Pooled Cash and Cash Equivalents	\$8,238,544	\$49,095	\$8,287,639	\$1,076,416	\$137,108
Investments in Segregated Accounts	0	0	0	347,761	0
Receivables					
Taxes	4,743,396	0	4,743,396	0	0
Accounts	84,190	20,330	104,520	4,769,050	0
Interest	4,147	0	4,147	0	0
Intergovernmental	3,099,597	0	3,099,597	0	0
Due from Agency Funds	111,818	0	111,818	0	0
Materials and Supplies Inventory	196,473	0	196,473	202,688	8,751
Prepaid Items	0	0	0	16,490	0
Asset whose use is limited:					
Under bond indenture agreement	0	0	0	330,000	0
Unamortized Financing Costs	0	0	0	85,429	0
Nondepreciable Capital Assets	583,567	192,535	776,102	0	0
Depreciable Capital Assets, Net	4,491,907	1,473,989	5,965,896	10,479,814	40,658
<i>Total Assets</i>	<u>21,553,639</u>	<u>1,735,949</u>	<u>23,289,588</u>	<u>17,307,648</u>	<u>186,517</u>
Liabilities					
Accounts Payable	245,319	545	245,864	878,149	3,627
Accrued Wages and Benefits	648,046	1,508	649,554	1,705,102	0
Third Party Settlements	0	0	0	57,532	0
Intergovernmental Payable	57,770	0	57,770	0	0
Due to Agency Funds	21,818	0	21,818	0	0
Accrued Interest Payable	6,416	0	6,416	0	0
Deferred Revenue	4,106,082	0	4,106,082	0	0
Retainage Payable	0	5,572	5,572	0	0
Pension Obligations	0	0	0	0	0
Long-Term Liabilities:					
Due Within One Year	166,737	7,200	173,937	831,151	0
Due In More Than One Year	1,823,264	516,342	2,339,606	4,333,492	0
<i>Total Liabilities</i>	<u>7,075,452</u>	<u>531,167</u>	<u>7,606,619</u>	<u>7,805,426</u>	<u>3,627</u>
Net Assets					
Invested in Capital Assets, Net of Related Debt	4,143,066	1,138,252	5,281,318	5,315,171	0
Restricted for:					
Debt Service	107,905	0	107,905	0	0
Capital Projects	489,602	0	489,602	0	0
Other Purposes	8,081,353	0	8,081,353	330,000	0
Unrestricted (Deficit)	1,656,261	66,530	1,722,791	3,857,051	182,890
<i>Total Net Assets</i>	<u>\$14,478,187</u>	<u>\$1,204,782</u>	<u>\$15,682,969</u>	<u>\$9,502,222</u>	<u>\$182,890</u>

See accompanying notes to the basic financial statements.

Hocking County
Statement of Activities
For the Year Ended December 31, 2003

	Program Revenues			
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General Government:				
Legislative and Executive	\$2,354,117	\$512,751	\$35,804	\$0
Judicial	1,439,283	464,710	231,738	0
Public Safety	2,874,922	283,412	703,205	0
Public Works	2,590,961	153,900	2,788,964	1,575,657
Health	3,031,239	333,775	573,107	0
Human Services	7,375,166	652,660	5,076,604	0
Economic Development and Assistance	379,905	11,547	307,483	0
Conservation and Recreation	215,362	34,642	4,122	0
Miscellaneous	628,015	103,038	12,260	0
Interest and Fiscal Charges	77,401	0	0	12,258
<i>Total Governmental Activities</i>	<u>20,966,371</u>	<u>2,550,435</u>	<u>9,733,287</u>	<u>1,587,915</u>
Business-Type Activity				
Wastewater Treatment	176,670	108,129	0	100,000
<i>Total Business-Type Activity</i>	<u>176,670</u>	<u>108,129</u>	<u>0</u>	<u>100,000</u>
<i>Total Primary Government</i>	<u>21,143,041</u>	<u>2,658,564</u>	<u>9,733,287</u>	<u>1,687,915</u>
Component Units				
Hospital	24,655,625	24,976,310	0	0
Adult Activities Workshop	942,587	684,008	240,121	0
<i>Total Component Units</i>	<u>\$25,598,212</u>	<u>\$25,660,318</u>	<u>\$240,121</u>	<u>\$0</u>

General Revenues and Special Item

General Revenues:

Property Taxes Levied for:

 General Purposes

 Other Purposes

Sales Taxes Levied for:

 General Purposes

 Other Purposes

Grants and Entitlements not Restricted to Specific Programs

Investment Earnings

Miscellaneous

Special Item - Loss on Sale of Facilities

Total General Revenues and Special Item

Change in Net Assets

Net Assets Beginning of Year (Restated- See Note 4)

Net Assets End of Year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Assets				
Primary Government			Component Units	
Governmental Activities	Business-Type Activities	Total	Hospital	Adult Activities Workshop
(\$1,805,562)	\$0	(\$1,805,562)	\$0	\$0
(742,835)	0	(742,835)	0	0
(1,888,305)	0	(1,888,305)	0	0
1,927,560	0	1,927,560	0	0
(2,124,357)	0	(2,124,357)	0	0
(1,645,902)	0	(1,645,902)	0	0
(60,875)	0	(60,875)	0	0
(176,598)	0	(176,598)	0	0
(512,717)	0	(512,717)	0	0
(65,143)	0	(65,143)	0	0
(7,094,734)	0	(7,094,734)	0	0
0	31,459	31,459	0	0
0	31,459	31,459	0	0
(7,094,734)	31,459	(7,063,275)	0	0
			320,685	0
			0	(18,458)
			320,685	(18,458)
1,309,051	0	1,309,051	0	0
2,480,785	0	2,480,785	0	0
			0	0
2,305,938	0	2,305,938	0	0
858,547	0	858,547	0	0
719,111	0	719,111	0	0
110,098	0	110,098	144,395	1,112
616,013	0	616,013	38,766	0
0	(331,385)	(331,385)	0	0
8,399,543	(331,385)	8,068,158	183,161	1,112
1,304,809	(299,926)	1,004,883	503,846	(17,346)
13,173,378	1,504,708	14,678,086	8,998,376	200,236
\$14,478,187	\$1,204,782	\$15,682,969	\$9,502,222	\$182,890

Hocking County
Balance Sheet - Governmental Funds
 December 31, 2003

	General	Motor Vehicle Gas Tax	Human Services	Mentally Retarded & Developmentally Disabled	Emergency Medical Services	Other Governmental Funds	Totals
Assets and Other Debits:							
Assets:							
Equity with County							
Treasurer	\$ 1,505,694	\$ 456,573	\$ 610,121	\$ 1,479,044	\$ 866,045	\$ 3,321,067	\$ 8,238,544
Receivables							
Taxes	1,989,416	0	0	1,315,831	1,116,011	322,138	4,743,396
Accrued Interest	4,147	0	0	0	0	0	4,147
Special Assessments	0	0	0	0	0	84,190	84,190
Due from Other Funds	46,133	2,831	0	0	27,662	153,249	229,875
Interfund Receivable	1,491	0	0	0	0	0	1,491
Due from Other Governments	356,165	1,353,621	1,109,193	96,127	51,500	132,991	3,099,597
Materials and Supplies Inventory	0	194,178	0	0	0	2,295	196,473
Total Assets and Other Debits	\$ 3,903,046	\$ 2,007,203	\$ 1,719,314	\$ 2,891,002	\$ 2,061,218	\$ 4,015,930	\$ 16,597,713
Liabilities, Fund Equity and Other Credits:							
Liabilities:							
Accounts Payable	\$ 40,281	\$ 43,763	\$ 60,248	\$ 4,976	\$ 5,124	\$ 90,927	\$ 245,319
Accrued Wages and Benefits	204,674	66,444	88,840	71,619	67,804	148,665	648,046
Due to Other Funds	0	2,100	71,345	794	0	65,636	139,875
Interfund Payable	0	0	0	0	0	1,491	1,491
Due to Other Governments	2,941	0	34,021	4,488	10,208	6,112	57,770
Deferred Revenue	1,848,370	1,002,251	688,970	1,381,331	1,167,511	300,065	6,388,498
Total Liabilities	2,096,266	1,114,558	943,424	1,463,208	1,250,647	612,896	7,480,999
Fund Equity and Other Credits							
Fund Balance:							
Reserved for Encumbrances	82,704	57,877	60,879	11,878	6,939	52,572	272,849
Unreserved:							
Undesignated - Reported In							
General Fund	1,724,076	0	0	0	0	0	1,724,076
Special Revenue Funds	0	834,768	715,011	1,415,916	803,632	2,752,955	6,522,282
Debt Service Funds	0	0	0	0	0	107,905	107,905
Capital Projects Funds	0	0	0	0	0	489,602	489,602
Total Fund Equity and Other Credits	1,806,780	892,645	775,890	1,427,794	810,571	3,403,034	9,116,714
Total Liabilities, Fund Equity and Other Credits	\$ 3,903,046	\$ 2,007,203	\$ 1,719,314	\$ 2,891,002	\$ 2,061,218	\$ 4,015,930	\$ 16,597,713

See accompanying notes to the basic financial statements.

Hocking County
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 As of December 31, 2003*

Total Governmental Fund Balances		\$9,116,714
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		5,075,474
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Taxes	238,392	
Intergovernmental	2,044,024	
Total		2,282,416
Long-Term Liabilities, including bonds, notes payable, capital lease obligations, long-term portion of compensated absences and the long-term portion of pension obligations, are not due and payable in the current period and therefore are not reported in the funds.		
Interest Payable	(6,416)	
Compensated Absences	(786,317)	
Long Term Notes	(368,075)	
Capital Lease Obligations	(224,419)	
Special Assessment Bonds	(76,190)	
General Obligation Bonds	(535,000)	
Total		(1,996,417)
Net Assets of Governmental Activities		\$14,478,187

See accompanying notes to the basic financial statements.

Hocking County
*Statement of Revenues, Expenditures
and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2003*

	General	Motor Vehicle Gas Tax	Human Services	Mentally Retarded & Developmentally Disabled	Emergency Medical Services	Other Governmental Funds	Totals
Revenues:							
Taxes	\$3,651,324	\$0	\$0	\$1,092,451	\$975,735	\$1,330,669	\$7,050,179
Charges for Services	985,088	151,235	310	0	242,765	809,304	2,188,702
Licenses and Permits	2,946	0	0	0	0	72,965	75,911
Fines and Forfeitures	159,513	28,514	0	0	0	97,795	285,822
Intergovernmental	802,167	2,765,169	3,445,476	456,360	112,401	5,016,990	12,598,563
Special Assessments	0	0	0	0	0	12,258	12,258
Investment Earnings	107,799	2,260	0	0	0	39	110,098
All Other Revenues	61,974	1,841	260,745	8,313	0	283,140	616,013
Total Revenues	5,770,811	2,949,019	3,706,531	1,557,124	1,330,901	7,623,160	22,937,546
Expenditures:							
Current:							
General Government:							
Legislative and Executive	1,551,301	0	0	0	0	727,356	2,278,657
Judicial	1,073,410	0	0	0	0	334,960	1,408,370
Public Safety	1,644,746	0	0	0	0	1,138,034	2,782,780
Public Works	23,177	2,821,232	0	0	0	1,351,448	4,195,857
Health	43,962	0	0	1,587,819	1,329,590	124,065	3,085,436
Human Services	182,492	0	4,090,534	0	0	3,079,996	7,353,022
Economic Development and Assistance	68,235	0	0	0	0	308,773	377,008
Conservation and Recreation	212,858	0	0	0	0	0	212,858
Miscellaneous	628,015	0	0	0	0	0	628,015
Capital Outlay	40,712	0	0	0	0	267,664	308,376
Debt Service:							
Principal Retirement	40,959	79,126	0	0	0	71,758	191,843
Interest and Fiscal Charges	2,901	22,630	0	0	0	50,186	75,717
Total Expenditures	5,512,768	2,922,988	4,090,534	1,587,819	1,329,590	7,454,240	22,897,939
Excess of Revenues Over (Under) Expenditures	258,043	26,031	(384,003)	(30,695)	1,311	168,920	39,607
Other Financing Sources (Uses):							
Proceeds from the Sale of Fixed Assets	0	0	0	10,000	0	0	10,000
Proceeds from the Sale of Notes	277,692	0	0	0	0	0	277,692
Inception of Capital Lease	40,712	0	0	0	0	0	40,712
Operating Transfers - In	165,716	18,386	338,386	0	0	478,202	1,000,690
Operating Transfers - Out	(550,997)	0	(74,427)	0	0	(375,266)	(1,000,690)
Total Other Financing Sources (Uses)	(66,877)	18,386	263,959	10,000	0	102,936	328,404
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	191,166	44,417	(120,044)	(20,695)	1,311	271,856	368,011
Fund Balances at Beginning of Year	1,615,614	848,228	895,934	1,448,489	809,260	3,131,178	8,748,703
Fund Balances at End of Year	\$1,806,780	\$892,645	\$775,890	\$1,427,794	\$810,571	\$3,403,034	\$9,116,714

See accompanying notes to the basic financial statements.

Hocking County
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2003*

Net Change in Fund Balances - Total Governmental Funds		\$368,011
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Fixed Asset Additions	2,447,483	
Current Year Depreciation	<u>(657,501)</u>	
Total		1,789,982
Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities a gain or loss is reported for each disposal. This is the amount of the gains and losses on the disposal of fixed assets.		
Proceeds from Sale of Capital Assets	(10,000)	
Loss on Disposal of Fixed Assets	<u>(15,220)</u>	
Total		(25,220)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	(95,858)	
Intergovernmental	<u>(578,736)</u>	
Total		(674,594)
Proceeds from the sale of bonds in the statement of revenues, expenditures, and changes in fund balances that are reported as other financing sources are not reported as revenues in the statement of activities.		
		(277,692)
New capital lease obligations in the statement of revenues, expenditures, and changes in fund balances that are reported as other financing sources are not reported as revenues in the statement of activities.		
		(40,712)
Repayment of bond and long term note principal is recorded as expenditures in the governmental funds, but the repayment reduces liabilities in the statement of net assets and does not result in an expense in the statement of activities.		
		86,447
Repayment of capital leases obligations are expenditures in the governmental funds, but the repayment reduces liabilities in the statement of net assets and does not result in an expense in the statement of activities.		
		105,396
In the statement of activities, interest is accrued on outstanding bonds and long-term notes payable, whereas in governmental funds, an interest expenditure is reported when due.		
		1,684
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated Absences		<u>(28,493)</u>
Net Change in Net Assets of Governmental Activities		<u><u>\$1,304,809</u></u>

See accompanying notes to the basic financial statements.

Hocking County
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget (Non-GAAP Basis) and Actual
For the Year Ended December 31, 2003

	General Fund			Variance Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues:				
Taxes	\$3,267,937	\$3,319,491	\$3,609,507	\$290,016
Charges for Services	814,919	827,775	961,021	133,246
Licenses and Permits	2,667	2,709	2,946	237
Fines and Forfeitures	156,515	158,984	172,874	13,890
Intergovernmental	736,661	748,282	810,942	62,660
Investment Income	98,099	99,647	108,353	8,706
All Other Revenues	91,543	92,987	59,974	(33,013)
Total Revenues	<u>5,168,341</u>	<u>5,249,875</u>	<u>5,725,617</u>	<u>475,742</u>
Expenditures:				
Current:				
General Government:				
Legislative and Executive	1,682,914	1,737,785	1,581,278	156,507
Judicial	1,068,176	1,124,054	1,097,040	27,014
Public Safety	1,784,422	1,708,051	1,683,556	24,495
Public Works	23,744	23,717	23,090	627
Health	48,399	51,294	46,737	4,557
Human Services	185,337	195,500	182,033	13,467
Economic Development and Assistance	72,627	73,872	68,375	5,497
Conservation and Recreation	214,340	214,340	213,040	1,300
Miscellaneous	583,376	642,276	628,015	14,261
Debt Service:				
Principal Retirement	0	0	277,692	(277,692)
Interest and Fiscal Charges	0	0	0	0
Total Expenditures	<u>5,663,335</u>	<u>5,770,889</u>	<u>5,800,856</u>	<u>(29,967)</u>
Excess of Revenues Over (Under) Expenditures	<u>(494,994)</u>	<u>(521,014)</u>	<u>(75,239)</u>	<u>445,775</u>
Other Financing Sources (Uses):				
Proceeds from the Sale of of Bonds	0	0	277,692	277,692
Advances - In	0	0	32,764	32,764
Advances - Out	0	0	(11,500)	(11,500)
Operating Transfers - In	150,034	152,401	165,716	13,315
Operating Transfer - Out	(593,880)	(593,731)	(550,997)	42,734
Total Other Financing Sources (Uses)	<u>(443,846)</u>	<u>(441,330)</u>	<u>(86,325)</u>	<u>355,005</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	(938,840)	(962,344)	(161,564)	800,780
Appropriated Prior Year Encumbrances	59,502	59,502	59,502	0
Fund Balances at Beginning of Year	<u>1,503,165</u>	<u>1,503,165</u>	<u>1,503,165</u>	<u>0</u>
Fund Balance at End of Year	<u>\$623,827</u>	<u>\$600,323</u>	<u>\$1,401,103</u>	<u>\$800,780</u>

See accompanying notes to the basic financial statements.

Motor Vehicle Gas Tax Fund				Human Services Fund			
Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
144,667	153,541	153,188	(353)	381	381	310	(71)
0	0	0	0	0	0	0	0
27,485	29,171	29,104	(67)	0	0	0	0
2,549,590	2,705,989	2,699,805	(6,184)	3,965,439	3,965,439	3,227,290	(738,149)
2,242	2,380	2,375	(5)	0	0	0	0
3,652	3,876	3,815	(61)	320,383	320,383	260,745	(59,638)
<u>2,727,636</u>	<u>2,894,957</u>	<u>2,888,287</u>	<u>(6,670)</u>	<u>4,286,203</u>	<u>4,286,203</u>	<u>3,488,345</u>	<u>(797,858)</u>
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
2,772,950	3,279,216	3,170,794	108,422	0	0	0	0
0	0	0	0	0	0	0	0
0	0	0	0	3,813,500	4,972,241	4,314,517	657,724
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
17,141	75,341	75,341	0	0	0	0	0
4,909	21,579	21,579	0	0	0	0	0
<u>2,795,000</u>	<u>3,376,136</u>	<u>3,267,714</u>	<u>108,422</u>	<u>3,813,500</u>	<u>4,972,241</u>	<u>4,314,517</u>	<u>657,724</u>
<u>(67,364)</u>	<u>(481,179)</u>	<u>(379,427)</u>	<u>101,752</u>	<u>472,703</u>	<u>(686,038)</u>	<u>(826,172)</u>	<u>(140,134)</u>
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
17,363	18,428	18,386	(42)	415,782	415,782	338,386	(77,396)
0	0	0	0	(320,000)	(152,000)	(74,427)	77,573
<u>17,363</u>	<u>18,428</u>	<u>18,386</u>	<u>(42)</u>	<u>95,782</u>	<u>263,782</u>	<u>263,959</u>	<u>177</u>
(50,001)	(462,751)	(361,041)	101,710	568,485	(422,256)	(562,213)	(139,957)
428,396	428,396	428,396	0	255,499	255,499	255,499	0
285,393	285,393	285,393	0	5,167,014	352,816	352,816	0
<u>\$663,788</u>	<u>\$251,038</u>	<u>\$352,748</u>	<u>\$101,710</u>	<u>\$5,990,998</u>	<u>\$186,059</u>	<u>\$46,102</u>	<u>(\$139,957)</u>

(Continued)

Hocking County
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget (Non-GAAP Basis) and Actual
For the Year Ended December 31, 2003
(Continued)

	<u>Mental Retardation and Developmentally Disabled (MR/DD) Fund</u>			
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
	<u>Budget</u>	<u>Budget</u>		<u>Positive</u>
				<u>(Negative)</u>
Revenues:				
Taxes	\$1,072,828	\$1,082,931	\$1,092,451	\$9,520
Charges for Services	0	0	0	0
Intergovernmental	503,715	508,458	512,770	4,312
All Other Revenues	<u>6,437</u>	<u>6,498</u>	<u>6,801</u>	<u>303</u>
Total Revenues	<u>1,582,980</u>	<u>1,597,887</u>	<u>1,612,022</u>	<u>14,135</u>
Expenditures:				
Current:				
Health	<u>1,662,999</u>	<u>1,696,522</u>	<u>1,592,676</u>	<u>103,846</u>
Total Expenditures	<u>1,662,999</u>	<u>1,696,522</u>	<u>1,592,676</u>	<u>103,846</u>
Excess of Revenues Over (Under) Expenditures	<u>(80,019)</u>	<u>(98,635)</u>	<u>19,346</u>	<u>117,981</u>
Other Financing Sources (Uses):				
Proceeds from Sale of Fixed Assets	<u>9,907</u>	<u>10,000</u>	<u>10,000</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>9,907</u>	<u>10,000</u>	<u>10,000</u>	<u>0</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	(70,112)	(88,635)	29,346	117,981
Appropriated Prior Year Encumbrances	20,889	20,889	20,889	0
Fund Balances at Beginning of Year	<u>1,407,743</u>	<u>1,407,743</u>	<u>1,407,743</u>	<u>0</u>
Fund Balance at End of Year	<u><u>\$1,358,520</u></u>	<u><u>\$1,339,997</u></u>	<u><u>\$1,457,978</u></u>	<u><u>\$117,981</u></u>

See accompanying notes to the basic financial statements.

Emergency Medical Services Fund

Original Budget	Final Budget	Actual	Variance Positive (Negative)
\$929,201	\$929,202	\$975,735	\$46,533
220,332	220,332	231,813	11,481
107,467	107,467	112,401	4,934
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>1,257,000</u>	<u>1,257,001</u>	<u>1,319,949</u>	<u>62,948</u>
<u>1,371,800</u>	<u>1,399,708</u>	<u>1,341,372</u>	<u>58,336</u>
<u>1,371,800</u>	<u>1,399,708</u>	<u>1,341,372</u>	<u>58,336</u>
<u>(114,800)</u>	<u>(142,707)</u>	<u>(21,423)</u>	<u>121,284</u>
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
(114,800)	(142,707)	(21,423)	121,284
39,478	39,478	39,478	0
<u>827,945</u>	<u>827,945</u>	<u>827,945</u>	<u>0</u>
<u><u>\$752,623</u></u>	<u><u>\$724,716</u></u>	<u><u>\$846,000</u></u>	<u><u>\$121,284</u></u>

Hocking County
Statement of Fund Net Assets - Proprietary Funds
 December 31, 2003

	<u>Enterprise</u>
<u>Assets and Other Debits:</u>	
Assets:	
Equity with County	
Treasurer	\$49,095
Receivables - (net, where applicable of allowances for uncollectibles):	
Accounts	20,330
Fixed Assets (net, where applicable of accumulated depreciation)	<u>1,666,524</u>
Total Assets and Other Debits	<u><u>\$1,735,949</u></u>
 <u>Liabilities and Net Assets</u>	
<u>Liabilities:</u>	
Current liabilities:	
Accounts Payable	\$545
Accrued Wages and Benefits	1,508
Retainage Payable	5,572
Revenue Bonds- current	<u>7,200</u>
Total current liabilities	<u>14,825</u>
Noncurrent liabilities:	
Compensated Absences	842
Revenue Bonds	<u>515,500</u>
Total noncurrent liabilities	<u>516,342</u>
Total Liabilities	<u>531,167</u>
 <u>Net Assets</u>	
Invested in Capital Assets, Net of Related Debt	1,138,252
Net Assets - Unrestricted	<u>66,530</u>
Total Net Assets - Unrestricted	<u>1,204,782</u>
Total Liabilities, Fund Equity and Other Credits	<u><u>\$1,735,949</u></u>

See accompanying notes to the basic financial statements.

Hocking County
*Statement of Revenues, Expenses and Changes in
Fund Net Assets - Proprietary Funds
For the Year Ended December 31, 2003*

	<u>Enterprise</u>
Operating Revenues:	
Charges for Services	\$93,204
Other Operating Revenues	<u>14,925</u>
Total Operating Revenues	108,129
Operating Expenses:	
Personal Services	25,232
Contractual Services	50,513
Materials and Supplies	4,314
Other	10,814
Depreciation and Amortization	<u>59,119</u>
Total Operating Expenses	<u>149,992</u>
Operating Income (Loss)	(41,863)
Nonoperating Revenues (Expenses):	
Loss on Sale of Capital Assets	(331,385)
Interest and Fiscal Charges	<u>(26,678)</u>
Total Nonoperating Revenues (Expenses)	<u>(358,063)</u>
Net Loss Before Capital Contributions	(399,926)
Capital Contributions - Intergovernmental	<u>100,000</u>
Net Loss	(299,926)
Net Assets at Beginning of the Year	<u>1,504,708</u>
Net Assets at End of Year	<u><u>\$1,204,782</u></u>

See accompanying notes to the basic financial statements.

Hocking County
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2003

	<u>Enterprise</u>
Cash Flows from Operating Activities:	
Cash Received from Customers	\$98,440
Cash Received from Other Revenues	14,925
Cash Payments to Suppliers for Goods and Services	(60,737)
Cash Payments for Employee Services and Benefits	(24,652)
Cash Payments for Other Operating Expenses	<u>(10,814)</u>
Net Cash Provided by (Used for) Operating Activities	<u>17,162</u>
Cash Flows from Capital and Related Financing Activities:	
Capital Contributions - Intergovernmental	100,000
Proceeds from the Sale of Assets	75,000
Bond and Note Principal Payments	(6,800)
Bond and Note Interest Payments	(26,678)
Capital Outlay	<u>(193,741)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(52,219)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(35,057)
Cash and Cash Equivalents at Beginning of Year	<u>84,152</u>
Cash and Cash Equivalents at End of Year	<u><u>\$49,095</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:	
Operating Income (Loss)	(\$41,863)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:	
Depreciation and Amortization	59,119
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	5,236
(Decrease) in Accounts Payable/Contracts Payable	(2,553)
(Decrease) in Due to Other Governments	(3,357)
Increase in Accrued Wages and Benefits	<u>580</u>
Total Adjustments	<u>59,025</u>
Net Cash Provided by (Used for) Operating Activities	<u><u>\$17,162</u></u>

See accompanying notes to the basic financial statements.

Hocking County
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2003

Assets	
Equity in Pooled Cash and Cash Equivalents	\$1,640,749
Cash and Cash Equivalents in Segregated Accounts	592,371
Receivables	
Taxes	16,467,999
Accounts	3,865
Intergovernmental	1,446,341
From Other Funds	<u>21,818</u>
Total Assets	<u><u>\$20,173,143</u></u>
Liabilities	
Accounts Payable	\$64,031
Accrued Wages and Benefits	84,477
Due to Other Funds	111,818
Due to Other Governments	19,416,836
Undistributed Monies	484,942
Deposits Held and Due to Others	<u>11,039</u>
Total Liabilities	<u><u>\$20,173,143</u></u>

See accompanying notes to the basic financial statements.

**HOCKING COUNTY FINANCIAL CONDITION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

NOTE 1 - REPORTING ENTITY

Hocking County, Ohio (The County), was organized on March 1, 1818. The County is governed by a board of three Commissioners elected by the voters of the County. Other officials elected by the voters of the County that manage various segments of the County's operations are the County Auditor, County Treasurer, Recorder, Clerk of Courts, Coroner, Engineer, Prosecuting Attorney, Sheriff, Municipal Court Judge, a Probate/Juvenile Judge and a Common Pleas Court Judge. Although the elected officials manage the internal operations of their respective departments, the County Commissioners authorize expenditures as well as serve as the budget and taxing authority, contracting body and the chief administrators of public services for the entire County.

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

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

Discretely Presented Component Units: The component units' columns in the basic financial statements identify the financial data of the County's component units, Hocking Valley Industries, Inc. and Hocking Valley Community Hospital. They are reported separately from the primary government to emphasize that they are legally separate from the County. Note 22 provides significant disclosures related to these component units.

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

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

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

**HOCKING COUNTY FINANCIAL CONDITION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

NOTE 1 - REPORTING ENTITY - Continued

The County is associated with certain organizations, three of which are defined as Jointly Governed Organizations, and one joint venture. These organizations are presented in Note 19 and 20 to the Basic Financial Statements. These organizations are:

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Hocking County have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The County also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or after November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the County's accounting policies.

Basis of Presentation

The County's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the County as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the County that are governmental in nature and those that are considered business-type activities.

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

**HOCKING COUNTY FINANCIAL CONDITION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Fund Financial Statements

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

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

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

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

General Fund – This fund is used to account for all financial resources of the County except those required to be accounted for in another fund. The general fund balance is available to the County for any purpose provided it is expended or transferred according to the general laws of Ohio.

Motor Vehicle Gas Tax Fund – This fund accounts for state gasoline tax and motor vehicle registration fees for maintenance and improvement of County roads.

Mentally Retarded and Developmentally Disabled (MR/DD) Fund – This fund accounts for the operation of a school and the costs of administering a workshop for the developmentally disabled. Revenue sources are a county-wide property tax levy and state and federal grants.

Human Services Fund – This fund accounts for various federal and state grants, as well as transfers from the General Fund used to provide income maintenance and social service programs as well as other services to persons in need.

Emergency Medical Services Fund – This fund accounts for monies received from a county-wide tax levy, grant monies and charges for services to operate the County Emergency Medical Services.

The other governmental funds of the County account for grants and other resources whose use is restricted for a particular purpose.

**HOCKING COUNTY FINANCIAL CONDITION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Proprietary Funds

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

Enterprise Funds – Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following is the County’s only enterprise fund:

Sewer Fund – This fund accounts for the provision of wastewater treatment services to residential and commercial users within the County.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the County under a trust agreement for individuals, private organizations, or other governments and are not available to support the County’s own programs. The County did not have any trust funds in 2003. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The County’s agency funds account for assets held by the County for political subdivisions in which the County acts as fiscal agent and for taxes, state-levied shared revenues, and fines and forfeitures collected and distributed to other political subdivisions.

Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the County are included on the statement of net assets. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reflects the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the fund financial statements for governmental funds. Like the government-wide financial statements, the proprietary funds are accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of revenues, expenses, and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows reflects how the County finances and meets the cash flow needs of its proprietary activities.

Basis of Accounting

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

**HOCKING COUNTY FINANCIAL CONDITION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Revenues – Exchange and Nonexchange Transactions

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

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

Under the modified accrual basis, the following revenue sources are considered both measurable and available at year end: sales taxes, charges for services, fines and forfeitures, state-levied locally shared taxes (including gasoline tax and motor vehicle license tax), grants, and interest. The permissive sales taxes, various State of Ohio non-reimbursable grants, local government, local government revenue assistance, gasoline tax, motor vehicle license tax, and undivided library taxes are recognized as receivables in accordance with the fiscal year of the State of Ohio that ends June 30, 2004. Therefore six months of receivables have been recorded for these revenue types.

Deferred Revenues

Deferred revenues arise when assets are recognized before the revenue recognition criteria have been satisfied. Property taxes for which there was an enforceable legal claim at December 31, 2003, but were levied to finance 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements were met have also been recorded as deferred revenue. In addition permissive sales taxes, various State of Ohio non-reimbursable grants, local government, local government revenue assistance, gasoline tax, motor vehicle license tax, and undivided library taxes received after the sixty-day availability period have been recorded as deferred revenue. On governmental fund financial statements, receivables that were not collected within the available period are recorded as deferred revenue.

Expenses/Expenditures

On the accrual basis, expenses are recognized at the time they are incurred.

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

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

**HOCKING COUNTY FINANCIAL CONDITION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

Estimated Resources: The County Budget Commission reviews estimated revenues and determines if the budget substantiates a need to levy all or part of previously authorized taxes. The Commission certifies its actions to the County by September 1. As part of this certification, the County receives the official certificate of estimated resources, which states the estimated beginning of year fund balance and projected revenue of each fund. Prior to December 31, the County must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. On or about January 1, the certificate of estimated resources is amended to include actual unencumbered balances from the preceding year. The certificate may be amended further during the year if the County Auditor determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported as the final budget on the budgetary statements reflect the amounts in the final amended official certificate of estimated resources issued during 2003.

Appropriations: A temporary appropriation resolution to control expenditures may be passed on or around January 1 of each year for the period January 1 to March 31. An annual appropriation resolution must be passed by April 1 of each year for the period January 1 to December 31. The appropriation resolution may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year only by a resolution of the Commissioners. The County Commissioners legally enacted several supplemental appropriation resolutions during the year. The budget figures reported as the final budget that 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. Appropriated funds may not be expended for purposes other than those designated in the appropriation resolution without authority from the Commissioners. Expenditures plus encumbrances may not legally exceed appropriations at the level of appropriation. Commissioners' appropriations are made to fund, department and object level (i.e., General Fund - Commissioners - personal services, fringe benefits, supplies and materials, contractual services and other expenditures).

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

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

Cash and Cash Equivalents: The County has adopted GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools; however, the County did not have any investments during 2003, so there was no impact on the financial statements. Cash balances of the County's funds, except cash held by a trustee or fiscal agent and in segregated accounts, are pooled and invested in interest bearing accounts and short-term certificates of deposit in order to provide improved cash management. Each fund type's share of the pool is presented on the balance sheet in the account "Equity with County Treasurer." For purposes of the statement of cash flows and for presentation on the statement of net assets, funds included within the Treasurer's cash management pool and investments with original maturities of three months or less are considered to be cash and cash equivalents. Cash and cash equivalents that are held separately within departments of the County and not held with the County Treasurer are recorded on the balance sheet as "Cash and Cash Equivalents in Segregated Accounts." Interest is distributed to the General Fund, the Motor Vehicle Gas Tax Fund, and the Sheriff LEBG Fund and the interest earned during 2003 amounted to \$107,799, \$2,260 and \$39 respectively. Nonparticipating investment contracts such as certificates of deposit are reported at cost.

**HOCKING COUNTY FINANCIAL CONDITION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Inventory of Supplies: Inventories of governmental funds are stated at cost while inventories of enterprise funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental fund types when used.

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

Capital Assets: General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in governmental funds. General capital assets are reported in the governmental activities column on the government-wide statement of net assets but are not reported on the fund financial statements. Capital assets used by the proprietary funds are reported in both the business-type activities column on the government-wide statement of net assets and in the respective funds. In the case of land, buildings, and certain Enterprise Fund assets, the capital asset values initially were determined at December 31, 1995, assigning original acquisition costs when such information was available. In cases where information supporting original costs was not available, estimated historical costs were developed. Donated capital assets are capitalized at estimated fair value on the date donated. For all other assets, capital assets were recorded at original cost. The County has implemented a comprehensive inventory management system over the past several years to monitor and track capital assets and related depreciation. The County has established a capitalization policy of \$1,000 as the threshold for which capital assets are to be reported with the exception of infrastructure, for which the capitalization threshold is \$50,000. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements that extend the useful life or increase the capacity or operating efficiency of the asset are capitalized at cost.

Public domain (infrastructure) general capital assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems have been capitalized for acquisitions during fiscal year 2003.

Depreciation has been provided on a straight-line basis over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings	40-60
Land improvements	15-25
Machinery and equipment	5-20
Vehicles	5
Sewer treatment plants	25
Sewer lines and related assets	40-50
Infrastructure	10-40

Compensated Absences: The County uses the provisions of GASB Statement No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and by those employees for whom it is probable will become eligible to receive payment in the future. The amount is based on accumulated sick leave and employees' wage rates at year-end.

County employees earn vacation and sick leave at varying rates depending on length of service and departmental policy. All accumulated, unused vacation time is paid upon separation if the employee has at least one year of service. Accumulated, unused sick leave is paid up to a maximum of 240 hours depending on the length of service. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the County has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee wage rates at year end taking into consideration any limits specified in the County's union contracts. The entire compensated absences liability is reported on the government-wide financial statements.

**HOCKING COUNTY FINANCIAL CONDITION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

On governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported. For the proprietary funds, the entire amount of compensated absences is reported as a fund liability.

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

Interfund Receivables/Payables: On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "Interfund Receivables/Payables." Interfund balances are eliminated on the statement of net assets, except for any net residual amounts due between governmental and business-type activities. These amounts are presented as "Internal Balances."

Accrued Liabilities and Long-Term Obligations: All payables, accrued liabilities, and long-term obligations are reported on the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from the proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, compensated absences and contractually required pension contributions that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current year. General obligation bonds and special assessment bonds are recognized as liabilities on the fund financial statements when due.

Net Assets: Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation adopted or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Other purposes restricted net assets include activities of the Engineer, Developmental Disabilities, Sheriff, Job and Family Services, Children Services, and Courts. The County's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Capital Contributions: Capital contributions on the proprietary fund financial statements arise from outside contributions of capital assets, from grants, or from outside contributions of resources restricted to capital acquisition and construction.

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

Interfund Transactions: Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general revenues. Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**HOCKING COUNTY FINANCIAL CONDITION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

Special Items: Special items are significant items, subject to management’s control which are either unusual in nature or infrequent in occurrence. During 2003, the County sold one of its wastewater treatment facilities, which resulted in a loss on the sale of facilities. This amount is recorded as a special item.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Legal Compliance: The following funds had expenditures plus encumbrances in excess of appropriations at December 31, 2003:

<i>General Fund</i>	
County	
Debt Service: Payment on Principal	\$277,692
<i>Special Revenue Funds</i>	
Marriage License	
Health	11,772
<i>Capital Projects Fund</i>	
OPWC	
Capital Outlay	1,351,448

NOTE 4 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND EQUITY

Changes in Accounting Principles

For 2003, the County has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, “*Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*”; GASB Statement No. 37, “*Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus*”; GASB Statement No. 38, “*Certain Financial Statement Note Disclosures*”; and GASB Interpretation No. 6, “*Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.*”

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

The government-wide financial statements split the County’s programs between governmental activities and business-type activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at December 31, 2002, caused by the conversion to the full accrual basis of accounting. The beginning net asset amount for the business-type activities equals total fund equity of the enterprise funds from the prior fiscal year.

GASB Statement No. 37 makes certain clarifications regarding escheat property and modifies several provisions of GASB Statement No. 34, including Management’s Discussion and Analysis. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

**HOCKING COUNTY FINANCIAL CONDITION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

NOTE 4 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND EQUITY - Continued

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

Restatement of Fund Equity

The restatement due to the implementation of the above statements and interpretation had the following effects on fund equity of the major and nonmajor funds of the County as they were previously reported.

Restatement of Fund Equity

	General	Motor Vehicle Gas Tax	Human Services	Mentally Retarded and Developmentally Disabled	Emergency Medical Services	Other Governmental	Total Governmental Activities
Fund Balance							
December 31, 2002	\$ 1,615,614	\$ 848,228	\$ 895,934	\$ 1,448,489	\$ 809,260	\$ 3,131,178	\$ 8,748,703
GASB Statement No. 34 Adjustments:							
Long-Term (Deferred) Assets							339,110
Capital Assets							3,310,712
Deferred Revenue							2,614,532
Accrued Interest Payable							(4,732)
Long Term Notes Payable							(105,072)
General Obligation Bonds Payable							(598,758)
Special Assessment Bonds Payable							(84,190)
Compensated Absences Payable							(757,824)
Capital Leases Payable							<u>(289,103)</u>
Governmental Activities Net Assets at December 31, 2002							<u>\$ 13,173,378</u>

**HOCKING COUNTY FINANCIAL CONDITION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

NOTE 5 - CONVERSION OF OPERATIONS FROM BUDGET BASIS TO GAAP BASIS

While reporting financial position, results of operations, and changes in fund balance on the basis of accounting principles generally accepted in the United States of America (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual - All Governmental Fund Types and the Combined Statement of Revenues, Expenses, and Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual - Proprietary Fund Type are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Outstanding year-end encumbrances are treated as expenditures/expenses (budget basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis). Material encumbrances are disclosed in the notes for the enterprise funds (GAAP basis).

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

**Excess of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses
Major Governmental Funds**

	<u>General</u>	<u>Motor Vehicle Gas Tax</u>	<u>Human Services</u>	<u>Mentally Retarded And Developmentally Disabled</u>	<u>Emergency Medical Services</u>
GAAP Basis	\$ 191,166	\$ 44,417	\$ (120,044)	\$ (20,695)	\$ 1,311
Increases (Decreases) Due To:					
Revenue Accruals	(45,194)	(60,732)	(218,186)	54,898	(10,952)
Expenditure Accruals	(185,435)	(240,986)	878	16,208	8,261
Advances In	32,764	-	-	-	-
Advances Out	(11,500)	-	-	-	-
Inception of Capital Lease	(40,712)	-	-	-	-
Encumbrances	(102,653)	(103,740)	(224,861)	(21,065)	(20,043)
Budget Basis	<u>\$ (161,564)</u>	<u>\$ (361,041)</u>	<u>\$ (562,213)</u>	<u>\$ 29,346</u>	<u>\$ (21,423)</u>

**HOCKING COUNTY FINANCIAL CONDITION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

NOTE 6 - DEPOSITS AND INVESTMENTS

Policies and Procedures: The County has adopted GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. However, at December 31, 2003, the County did not hold any investments. State Statute classifies moneys held by the County into two categories. Active moneys means an amount of public moneys determined to be necessary to meet current demand upon the County treasury. Active moneys must be maintained either as cash in the County treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

1. Bonds, notes, or other obligations of, or guaranteed by, the United States, or those for which the faith of the United States is pledged for the payment of principal and interest;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality;
3. Written repurchase and reverse repurchase agreements in the securities listed above;
4. Bond and other obligations of the State of Ohio, its political subdivision, or other units or agencies of this State or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
7. The State Treasurer's investment pool (STAR Ohio).
8. Securities lending agreements in which the County lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed 5 percent of the County's total average portfolio; and
10. Bankers acceptances for a period not to exceed two hundred seventy days and in an amount not to exceed 10 percent of the County's total average portfolio.

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

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.

**HOCKING COUNTY FINANCIAL CONDITION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

NOTE 6 - DEPOSITS AND INVESTMENTS – Continued

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

Deposits. At year-end, the carrying amount of the County's deposits was \$10,520,759. The County had \$193,034 of cash on hand at year-end and the bank balance was \$10,681,823. Of the bank balance, \$515,216 was covered by federal depository insurance. The remaining amounts were considered uninsured and uncollateralized. Although all Ohio statutory requirements for the collateralization of deposits had been followed, non-compliance with federal requirements could potentially prevent the County from exercising a successful claim as a secured creditor against the FDIC and render them a general creditor for the uncollateralized amount.

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

GASB Statement No. 3 "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" requires that local governments disclose the carrying amounts and fair value of investments classified by risk. Category 1 includes investments that are insured or registered for which the County holds the securities. Category 2 includes uninsured and unregistered investments for which the securities are held in the counter party's trust department or agent in the County's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter party or by its trust department but not in the County's name. The County held no investments as of December 31, 2003.

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

NOTE 7 - PROPERTY TAXES

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

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

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

**HOCKING COUNTY FINANCIAL CONDITION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

NOTE 7 - PROPERTY TAXES - Continued

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

Accrued property taxes receivables represent delinquent taxes outstanding and real, tangible personal, and public utility taxes that were measurable and unpaid as of December 31, 2003. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31 and are not intended to finance 2003 operations. The receivable is therefore offset by a credit to deferred revenue. On the modified accrual basis, the entire receivable is deferred.

The full tax rate for all County operations for the year ended December 31, 2003, was \$11.20 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2003 property tax receipts were based are as follows:

Category	Assessed Value
Real Estate	
Residential/Agricultural	\$ 306,322,020
Commercial/Industrial	39,879,200
Public Utilities	101,510
Minerals	1,261,530
Tangible Personal Property	
General	32,814,348
Public Utility	<u>49,376,830</u>
Total Property Taxes	<u>\$ 429,755,438</u>

NOTE 8 - PERMISSIVE SALES TAX

In prior years, the County Commissioners, by resolution, imposed a one percent tax on certain retail sales, made in the County. Vendor collections of the tax are paid to the State Treasurer by the twenty-third day of the month following collection. The State Tax Commissioner certifies to the State Auditor the amount of the tax to be returned to the County. The Tax Commissioner's certification must be made within forty-five days after the end of each month. The State Auditor then has five days in which to draw the warrant payable to the County. Proceeds of the tax are credited entirely to the general fund. Amounts that have been collected by the State and are to be received within the available period are accrued as revenue. Sales and use tax revenue for 2003 amounted to \$2,215,136.

In 1998, a 911 Sales Tax in the amount of one quarter of one percent on certain retail sales made in the County was imposed. The proceeds from this tax are credited to the Hocking County 911 Fund and are used for 911 purposes. Amounts that have been collected by the State and are to be received within the available period are accrued as revenue. The 911 sales and use tax revenue for 2003 amounted to \$524,890.

**HOCKING COUNTY FINANCIAL CONDITION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

NOTE 9 - CAPITAL ASSETS

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

	Restated Balance January 1, 2003	Additions	Reductions	Balance December 31, 2003
Governmental Activities:				
Nondepreciable Capital Assets				
Land	\$ 350,069	\$ -	\$ -	\$ 350,069
Construction in Progress	<u>50,000</u>	<u>233,498</u>	<u>(50,000)</u>	<u>233,498</u>
Total Nondepreciable Capital Assets	<u>400,069</u>	<u>233,498</u>	<u>(50,000)</u>	<u>583,567</u>
Depreciable Capital Assets				
Land Improvements	1,675	50,000	-	51,675
Buildings	1,195,865	1,575	-	1,197,440
Infrastructure	-	1,853,406	-	1,853,406
Vehicles	3,077,238	243,871	(114,285)	3,206,824
Machinery and Equipment	2,622,146	115,133	(73,599)	2,663,680
Total Depreciable Capital Assets	<u>6,896,924</u>	<u>2,263,985</u>	<u>(187,884)</u>	<u>8,973,025</u>
Less Accumulated Depreciation for				
Land Improvements	(235)	(1,733)	-	(1,968)
Buildings	(603,487)	(27,466)	-	(630,953)
Infrastructure	-	(92,671)	-	(92,671)
Vehicles	(1,696,649)	(306,551)	96,699	(1,906,501)
Machinery and Equipment	<u>(1,685,910)</u>	<u>(229,080)</u>	<u>65,965</u>	<u>(1,849,025)</u>
Total Accumulated Depreciation	<u>(3,986,281)</u>	<u>(657,501)</u>	<u>162,664</u>	<u>(4,481,118)</u>
Total Depreciable Capital Assets, Net	<u>2,910,643</u>	<u>1,606,484</u>	<u>(25,220)</u>	<u>4,491,907</u>
Governmental Activities Capital Assets, Net	<u>\$ 3,310,712</u>	<u>\$ 1,839,982</u>	<u>\$ (75,220)</u>	<u>\$ 5,075,474</u>
	Balance January 1, 2003	Additions	Reductions	Balance December 31, 2003
Business Type Activities:				
Nondepreciable Capital Assets				
Land	\$ 39,401	\$ -	\$ (10,401)	\$ 29,000
Construction in Progress	<u>-</u>	<u>163,535</u>	<u>-</u>	<u>163,535</u>
Total Nondepreciable Capital Assets	39,401	163,535	(10,401)	192,535
Depreciable Capital Assets				
Wastewater Treatment Plant	305,301	35,778	-	341,079
Vehicle	11,000	-	-	11,000
Collection System	2,479,028	-	(879,957)	1,599,071
Total Depreciable Capital Assets	<u>2,795,329</u>	<u>35,778</u>	<u>(879,957)</u>	<u>1,951,150</u>
Less Accumulated Depreciation for				
Wastewater Treatment Plant	(129,932)	(10,637)	-	(140,569)
Vehicle	(2,200)	(2,200)	-	(4,400)
Collection System	(769,883)	(46,282)	483,973	(332,192)
Total Accumulated Depreciation	<u>(902,015)</u>	<u>(59,119)</u>	<u>483,973</u>	<u>(477,161)</u>
Total Depreciable Capital Assets, Net	1,893,314	(23,341)	(395,984)	1,473,989
Business-Type Activities Capital Assets, Net	<u>\$ 1,932,715</u>	<u>\$ 140,194</u>	<u>\$ (406,385)</u>	<u>\$ 1,666,524</u>

**HOCKING COUNTY FINANCIAL CONDITION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

NOTE 9 - CAPITAL ASSETS - Continued

Depreciation expense was charged to governmental functions as follows:

Governmental Activities		
General Government		
Legislative and Executive	\$	86,698
Judicial		38,673
Public Safety		145,263
Public Works		303,198
Health		34,562
Human Services		47,202
Economic Development and Assistance		691
Conservation and Recreation		1,214
Total Depreciation Expense - Governmental Activities	\$	<u>657,501</u>

**HOCKING COUNTY FINANCIAL CONDITION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

NOTE 10 - INTERGOVERNMENTAL RECEIVABLES (DUE FROM OTHER GOVERNMENTS)

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

<u>Fund / Type</u>	<u>Amount</u>
Major Funds	
<i>General Fund</i>	
Grants	\$ 8,635
Local Government & Local Government	
Revenue Assistance	260,190
Homestead Rollback	87,000
Other	<u>340</u>
<i>Total General Fund</i>	356,165
<i>Motor Vehicle Gas Tax</i>	
License, Gasoline & Permissive Taxes	1,337,499
Grants and Entitlements	<u>16,122</u>
<i>Total Motor Vehicle Gas Tax</i>	1,353,621
<i>Human Services</i>	
Grants and Entitlements	1,109,193
<i>Mentally Retarded & Developmentally Disabled</i>	
Grants and Entitlements	30,627
Homestead Rollback	<u>65,500</u>
<i>Total Mentally Retarded & Developmentally Disabled</i>	96,127
<i>Emergency Medical Services</i>	
Homestead Rollback	51,500
Total Major Funds	2,966,606
<i>Other Governmental Funds</i>	
Grants and Entitlements	122,632
Homestead Rollback	10,250
Other	<u>109</u>
<i>Total Other Governmental Funds</i>	132,991
<i>Agency Funds</i>	
License, Gasoline, and Permissive Taxes	434,001
Undivided Library Tax	497,714
Local Government & Local Government	
Revenue Assistance	510,178
Other	<u>4,448</u>
<i>Total Agency Funds</i>	1,446,341
Total All Funds	<u>\$ 4,545,938</u>

**HOCKING COUNTY FINANCIAL CONDITION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

NOTE 11 - RISK MANAGEMENT

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

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

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

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

In the event of the termination of the Council, current members shall be paid in an amount they have contributed to the Council as of the last month of the Council's existence. Current calculation of this potential residual interest is, therefore, not possible. During 2003, Hocking County paid \$74,098 to the Council for insurance coverage. This jointly governed organization is a cost-sharing pool.

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

**HOCKING COUNTY FINANCIAL CONDITION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

NOTE 12 - DEFINED BENEFIT RETIREMENT PLAN

Public Employees Retirement System: All Hocking County full-time employees, other than certified teachers with the Board of Mental Retardation and Developmental Disabilities (MR/DD), participate in the Public Employees Retirement System of Ohio (the "System"), a cost-sharing multiple-employer public employee retirement system created by the State of Ohio. PERS 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. PERS provides retirement, disability, survivor and post-retirement health care benefits to qualifying members of both the Traditional and the Combined Plans; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. In order to qualify for post-retirement health care coverage, age and service retirees must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the Retirement System is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. The Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The 2003 employer contribution rate was 13.55% of covered payroll for employees other than law enforcement. The law enforcement employer rate was 16.70% of covered payroll. The employee contribution rates are 8.5% for employees other than law enforcement. In January 2001, House Bill 416 divided the PERS law enforcement program into two separate divisions with separate employee contribution rates and benefits. The law enforcement classification consisted of sheriffs, deputy sheriffs, and township police with an employee contribution rate of 10.1%. All other members of the PERS law enforcement program were placed in a newly named public safety division and continued to contribute at 9%. Hocking County's contributions to PERS for the years ended December 31, 2003, 2002, and 2001 were \$2,037,297, \$1,967,645, and \$1,638,347, respectively; 95.5% has been contributed for 2003 and 100% for years 2002 and 2001. Of the 2003 amount, \$92,050 was unpaid at December 31, 2003 and is recorded as a liability within the respective funds.

Effective July 1, 1991, all employees not otherwise covered by the Public Employees Retirement System have an option to choose social security or the Public Employees Retirement System/State Teachers Retirement System. As of December 31, 2003, none of the elected officials had elected social security.

NOTE 13 - POSTEMPLOYMENT BENEFITS

Public Employees Retirement System: The Public Employees Retirement System of Ohio (the "System") provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post Employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the System is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The employer rate for employees other than law enforcement personnel was 13.55% of covered payroll; 5.0% was the portion that was used to fund health care for 2003. The law enforcement employer rate was 16.70% and 5.0% was used to fund health care for the year. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS.

**HOCKING COUNTY FINANCIAL CONDITION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

NOTE 13 - POSTEMPLOYMENT BENEFITS - Continued

The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2002. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 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 assumed to range from 0.50% to 6.30%. Health care costs were assumed to increase 4.00% annually.

OPEBs are advance-funded on an actuarially determined basis. The number of active contributing participants was 364,881. The County contributions actually made to fund postemployment benefits during fiscal year 2003 were \$472,665. \$10.0 billion represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 2002 (the most recent data available). 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.

In December 2001, the Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of Health Care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan. The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

NOTE 14 - OTHER EMPLOYEE BENEFITS

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

**HOCKING COUNTY FINANCIAL CONDITION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

NOTE 15 - LONG-TERM DEBT

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

<u>Types/Issues</u>	<u>Outstanding 12/31/02</u>	<u>Increases</u>	<u>Decreases</u>	<u>Outstanding 12/31/03</u>	<u>Due In One Year</u>
<i>General Long-Term Obligations</i>					
General Obligation Bonds:					
1998 - 3.8 - 5.35% (Original Issue \$750,000)					
Consolidated County Building Bonds	\$ 580,000	\$ -	\$ 45,000	\$ 535,000	\$45,000
1995 - 8.5% (Original Issue \$150,000)					
County Annex Bonds	<u>18,758</u>	<u>-</u>	<u>18,758</u>	<u>-</u>	<u>-</u>
Total General Obligation Bonds	598,758	-	63,758	535,000	45,000
<i>Long-Term Notes</i>					
2001 - 7.0% (Original Issue \$118,800)					
Land Mortgage Note	105,072	-	14,689	90,383	15,717
2003 - 4.15% (Original Issue \$277,692)					
Juvenile Detention Facility Note	<u>-</u>	<u>277,692</u>	<u>-</u>	<u>277,692</u>	<u>9,152</u>
Total Long-Term Notes	105,072	277,692	14,689	368,075	24,869
<i>Special Assessment Bonds:</i>					
1996 - 5.5% (Original Issue \$53,500)					
Rockbridge Sewer Special Assessment Bonds	44,200	-	2,200	42,000	2,200
1991 - 5.875% (Original Issue \$51,834)					
Haydenville FmHA Special Assessment Bonds	30,700	-	2,700	28,000	2,800
1985 - 5.0% (Original Issue \$61,290)					
West Logan Water FmHA Special Assessment Bonds	<u>9,290</u>	<u>-</u>	<u>3,100</u>	<u>6,190</u>	<u>3,100</u>
Total Special Assessment Bonds	84,190	-	8,000	76,190	8,100
Obligations Under Capital Leases	289,103	40,712	105,396	224,419	88,768
Compensated Absences	<u>757,824</u>	<u>28,493</u>	<u>-</u>	<u>786,317</u>	<u>-</u>
Total General Long-Term Obligations	<u>\$ 1,834,947</u>	<u>\$ 346,897</u>	<u>\$ 191,843</u>	<u>\$ 1,990,001</u>	<u>\$ 166,737</u>
<i>Enterprise Fund</i>					
1996 - 4.5% (Original Issue \$333,000)					
Rockbridge Sanitary Sewer Revenue Bonds	\$322,100	\$0	\$3,900	\$318,200	\$4,100
1991 - 5.875% (Original Issue \$227,000)					
Haydenville Sewer FmHA Revenue Bonds	<u>207,400</u>	<u>-</u>	<u>2,900</u>	<u>204,500</u>	<u>3,100</u>
Total Revenue Bonds	529,500	0	6,800	522,700	7,200
Compensated Absences	<u>562</u>	<u>280</u>	<u>0</u>	<u>842</u>	<u>0</u>
Total Enterprise Fund	<u>\$ 530,062</u>	<u>\$ 280</u>	<u>\$ 6,800</u>	<u>\$ 523,542</u>	<u>\$ 7,200</u>

The County issued a \$277,692 Juvenile Detention Facility Note at an interest rate of 4.15% to pay off short-term notes of \$277,692 which were originally issued in 2002 to finance the County's share of the Multi-County Juvenile Detention Center.

**HOCKING COUNTY FINANCIAL CONDITION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

NOTE 15 - LONG-TERM DEBT - Continued

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

The capital lease obligations will be repaid from the General Fund and the Motor Vehicle License Tax Fund as described in Note 17. Hocking Valley Community Hospital is responsible for the debt service on the 1993 Hospital Refunding and Improvement Bonds and the 1997 County Hospital Improvement Bond Anticipation Note. The County is not reporting this debt as part of the County's Primary Government. The Hospital is responsible for paying off this debt; therefore, the debt is being reported within the Hocking Valley Community Hospital, a discretely presented component unit of the County. In the event that the Hospital would fail to pay the debt, the County would be responsible for making payment.

The following is a summary of the County's future principal and interest requirements for long-term debt obligations, including \$738,282 of interest:

	Consolidated Services Building Bonds	Special Assessment Bonds	Sanitary Sewer Revenue Bonds	Total
2004	\$ 72,358	\$ 11,945	\$ 33,533	\$ 117,836
2005	70,242	11,816	33,567	115,625
2006	73,082	8,592	33,481	115,155
2007	70,632	8,696	33,479	112,807
2008	68,132	8,579	33,456	110,167
2009-2013	229,012	33,956	167,689	430,657
2014-2018	139,795	16,497	167,517	323,809
2019-2023	-	-	167,460	167,460
2024-2028	-	-	167,491	167,491
2029-2033	-	-	137,355	137,355
2034-2037	-	-	73,809	73,809
Totals	<u>\$ 723,253</u>	<u>\$ 100,081</u>	<u>\$ 1,048,837</u>	<u>\$ 1,872,171</u>

**HOCKING COUNTY FINANCIAL CONDITION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

NOTE 15 - LONG-TERM DEBT - Continued

The long-term notes (including interest of \$156,409) are payable as follows:

	Land Mortgage Notes	Juvenile Detention Facility Notes	Total
2004	\$ 22,044	\$ 20,708	\$ 42,752
2005	22,044	20,708	42,752
2006	22,044	20,708	42,752
2007	22,044	20,708	42,752
2008	22,042	20,708	42,750
2009-2013	-	103,538	103,538
2014-2018	-	103,538	103,538
2019-2023	-	103,650	103,650
Totals	\$ 110,218	\$ 414,266	\$ 524,484

NOTE 16 – NOTES PAYABLE

The County had a note payable in the amount of \$277,692 at an interest rate of 2.5% as of December 31, 2002. This note was used to provide funds to pay the County's share of the cost of building a Multi-County Juvenile Detention Center. During fiscal year 2003, the County paid off this note through the issuance of a Juvenile Detention Facility Note as more fully described in Note 15.

**HOCKING COUNTY FINANCIAL CONDITION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

NOTE 17 - CAPITAL LEASE OBLIGATIONS

The County entered into an agreement to lease two vehicles during fiscal year 2003. The terms of the agreements provide options to purchase the vehicles at the end of the leases. The leases meet the criteria of capital leases as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases," which defines a capital lease generally as one that transfers benefits and risks of ownership to the lessee. The vehicles were for the General Fund. The County has capital leases for which they are making principal and interest payments from previous years. For these leases and the new leases, principal and interest payments made during fiscal year 2003 were \$105,396 and \$18,176, respectively. For the leased assets acquired above, capital assets acquired by leases have been capitalized in the governmental activities capital assets in an amount equal to the present value of the future minimum lease payments at the time of acquisition. A corresponding liability was recorded. The County's future minimum lease payments under capital lease obligations as of December 31, 2003 are as follows:

<u>Fiscal Year</u>	<u>Capital Leases</u>
2004	\$ 101,434
2005	94,233
2006	25,915
2007	<u>25,915</u>
Total minimum lease payments	\$ 247,497
Less: amount representing interest	<u>23,078</u>
Present value of minimum lease payments	<u>\$ 224,419</u>

NOTE 18 - INTERFUND TRANSACTIONS

Interfund balances at December 31, 2003, consist of the following individual fund receivables and payables:

<u>Fund Type/Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Major Funds		
General Fund	\$ 46,133	\$ -
Motor Vehicle Gas Tax Fund	2,831	2,100
Human Services Fund	-	71,345
Mentally Retarded and Developmentally Disabled Fund	-	794
Emergency Medical Services Fund	<u>27,662</u>	<u>-</u>
Total Major Funds	76,626	74,239
<i>Other Governmental Funds</i>		
<i>Non-Major Special Revenue Funds</i>		
Hocking County DHS/CSEA Fund	8,300	468
Marriage License - Special Fund	671	-
Drug Law Enforcement	16	-
Indigent Guardianship	240	-
Drug Law Enforcement - Sheriff	24	-
<i>Subtotal Non-Major Special Revenue Funds</i>	<u>9,251</u>	<u>468</u>

**HOCKING COUNTY FINANCIAL CONDITION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

NOTE 18 - INTERFUND TRANSACTIONS - Continued

Fund Type/Fund	Due From Other Funds	Due To Other Funds
Felony Delinquent Care and Custody Fund	-	6,239
Senior Citizens Fund	-	345
Indigent Drivers Alcohol Treatment Fund	75	-
Enforcement & Education Fund	93	-
Computerized Legal Research Fund	132	-
Municipal Court Legal Research Fund	837	-
Municipal Clerk's Computer Fund	3,059	-
Children's Services Fund	59,552	13,325
Certificate of Title Administrative	8,222	-
Recorder's Equipment Fund	2,308	-
Juvenile Court Computer Fund	480	-
Probate Court Computer Fund	240	-
Common Pleas Clerk Computer	930	-
Lodging Tax Fund	-	4,870
Family & Children First Fund	68,070	24,597
Ohio Early Start Fund	-	15,792
<i>Total Non-Major Special Revenue Funds</i>	<u>153,249</u>	<u>65,636</u>
<i>Total Other Governmental Funds</i>	<u>153,249</u>	<u>65,636</u>
<i>Agency Funds</i>		
Soil & Water Conservation	-	69
Child Support Enforcement	-	8,300
Recorder	-	34,287
Probate Court Fund	-	2,485
Housing Trust	17,169	-
Sheriff	1,942	2,879
Clerk of Court	-	16,764
Juvenile Court	2,707	2,242
Emergency Medical Service	-	27,662
Municipal Court	-	17,130
<i>Total Agency Funds</i>	<u>21,818</u>	<u>111,818</u>
Total All Funds	\$ 251,693	\$ 251,693
<u>Fund Type/Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
<i>General Fund</i>	\$ 1,491	\$ -
<i>Other Governmental Funds</i>		
<i>Special Revenue Fund</i>		
Hocking County Integrated Intervention/CCA	-	1,491
Total Other Governmental Funds	-	1,491
Total All Funds	\$ 1,491	\$ 1,491

**HOCKING COUNTY FINANCIAL CONDITION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

NOTE 18 - INTERFUND TRANSACTIONS - Continued

Transfers In and Out

<u>Fund Type/Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
Major Funds		
General Fund	\$ 165,716	\$ 550,997
Motor Vehicle Gas Tax Fund	18,386	-
Human Services Fund	338,386	74,427
Total Major Funds	<u>522,488</u>	<u>625,424</u>
Other Governmental Funds		
<i>Non-Major Special Revenue Funds</i>		
Hocking County DHS/CSEA Fund	-	231,345
Municipal Clerk's Computer Fund	-	3,000
Children's Services Fund	300,000	-
Certificate of Title Administrative Fund	-	100,000
Recorder's Equipment Fund	-	22,115
VOCA Grant 96 Fund	12,891	-
Hocking Co. Emergency Management Fund	24,580	-
LEPC Grant Fund	-	420
State Planning Grant	34,350	-
FEMA 1453 DR-073-OC4A2 Fund	-	18,386
<i>Total Non-Major Special Revenue Funds</i>	<u>371,821</u>	<u>375,266</u>
<i>Non-Major Debt Service Funds</i>		
Juvenile Detention Facility Debt Fund	13,742	-
West Logan Water Assess. Bond Fund	1	-
Courthouse Annex Debt Retirement Fund	18,212	-
Human Services Building Bond Retirement	74,426	-
<i>Total Non-Major Debt Service Funds</i>	<u>106,381</u>	<u>-</u>
Total Other Governmental Funds	478,202	375,266
Total All Funds	<u><u>\$ 1,000,690</u></u>	<u><u>\$ 1,000,690</u></u>

**HOCKING COUNTY FINANCIAL CONDITION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

NOTE 19 - JOINTLY GOVERNED ORGANIZATIONS

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

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

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

Athens/Hocking Joint Solid Waste Management District

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

Buckeye Joint-County Self Insurance Council

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

NOTE 20 – JOINT VENTURE

Corrections Commission of Southeastern Ohio

The County is a participant with Athens, Morgan and Perry counties in the Corrections Commission of Southeastern Ohio (the Commission) which is a joint venture of the participating counties. The purpose of the Commission is to augment the county jail programs and facilities. The operation of the Commission allows for the humane and constitutional detention of persons who cannot be released to less restrictive alternatives. The participating Boards of County Commissioners established the Commission. The Commission is directed by the Sheriff of each participating county, the presiding Judge of the Court of Common Pleas of each participating county, and the current president of each participating Board of County Commissioners. Each county is obligated to provide financial support to this entity through per diem charges and assessments that are based on the number of beds contractually assigned to each county in proportion to the total number of beds of all participating counties. The County has an ongoing financial responsibility for this entity and, during 2003, contributed \$637,206 toward the operating and capital costs of this facility. However the County has no explicit equity interest in the Commission. Complete financial statements of the joint venture can be obtained from the Corrections Commission of Southeastern Ohio, 16678 Wolfe Bennett Road, Nelsonville, Ohio 45764.

**HOCKING COUNTY FINANCIAL CONDITION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

NOTE 21 – CONTINGENT LIABILITIES

The County has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designee. These audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Based on prior experience, the County Commissioners believe such disallowances, if any, will be immaterial.

The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the County's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the County.

NOTE 22 – COMPONENT UNITS

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Changes in Accounting Principles- Effective January 1, 2004, the Hospital adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis –for State and Local Governments*"; GASB Statement No. 37, "*Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*" and GASB Statement No. 38, "*Certain Financial Statement Note Disclosures*". GASB 34 established financial reporting standards for all state and local governments and related entities. The impact of this accounting change related to the format of the financial statements, presentation of net assets, the inclusion of managements discussion and analysis, additional disclosures for capital assets and debt, and the preparation of the cash flow statement on the direct method.

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

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

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

Charity Care - The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Attached to the grants are certain restrictions requiring the Hospital to provide an annual amount of uncompensated care to indigent patients. The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies, and equivalent service statistics. The amount of charity care not recorded as revenue was approximately \$530,271 in 2003.

**HOCKING COUNTY FINANCIAL CONDITION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

NOTE 22 - COMPONENT UNIT DISCLOSURES - HOCKING VALLEY COMMUNITY HOSPITAL - Continued

Net Patient Service Revenue and Patient Accounts Receivable - Normal billing rates for patient services less contractual adjustments are included in patient service revenue. Patient accounts receivable is adjusted for contractual allowances which are reported on the basis of preliminary estimates of the amounts to be received from third party payors. Final adjustments are recorded in the period such amounts are finally determined. In 2003, approximately 44%, of the Hospital's total patient revenue was derived from Medicare payments while 16% was derived from Medicaid. The remaining revenue was derived primarily from commercial insurance payments and individual self-payments.

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

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

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

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

Deferred Financing Costs - Deferred financing costs consist primarily of underwriter fees and other costs related to the issuance of the bonds and are being amortized over the life of the bonds based on the straight-line method. Accumulated amortization as of December 31, 2003 was \$29,083.

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

Compensated Absences- Compensated absences are accrued when incurred utilizing the termination method.

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

2. NET PATIENT SERVICE REVENUE

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

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

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

**HOCKING COUNTY FINANCIAL CONDITION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

NOTE 22 - COMPONENT UNIT DISCLOSURES - HOCKING VALLEY COMMUNITY HOSPITAL - Continued

2. NET PATIENT SERVICE REVENUE (Continued)

Gross patient service revenue and the allowances to reconcile to net patient service revenue for the year ended December 31, 2003 is as follows:

	2003
Gross patient service revenues	\$40,786,183
Less third-party allowances	15,924,536
Net patient service revenue	\$24,861,647

3. DEPOSITS AND INVESTMENTS

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

	December 31, 2003		
	Cash and Cash Equivalents	Assets Whose Use is Limited	Investments
Financial statements	\$1,076,416	\$330,000	\$347,761
Star Ohio	(75,199)	-	75,199
Merrill Lynch cash management account	(157,146)	-	157,146
Advest money market account	(294,853)	-	294,853
Cash on hand	(750)	-	-
GASB Statement No. 3 deposits	\$548,468	\$330,000	\$874,959

Deposits - At December 31, 2003, the carrying amount of the Hospital’s bank deposits for all funds is \$878,468 as compared to a bank balance of \$1,514,286. The difference in carrying amounts and bank balances are caused by outstanding checks and deposits in-transit. Of the bank balances, at December 31, 2003 \$210,000 is covered by Federal insurance programs and \$1,304,286, is collateralized with securities held by the financial institution or by its trust department or agent but not in the Hospital’s name.

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

Risk categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty’s trust department (or agent) in the Hospital’s name. Category 3 includes investments held by a) the counterparty, or b) the counterparty’s trust department (or agent), but not in the Hospital’s name. The Hospital’s investments in Star Ohio, cash management account and money market account are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

**HOCKING COUNTY FINANCIAL CONDITION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

NOTE 22 - COMPONENT UNIT DISCLOSURES - HOCKING VALLEY COMMUNITY HOSPITAL - Continued

	December 31, 2003			Carrying Amount
	Category			
	1	2	3	
Government securities	\$ -	\$ -	\$ 201,941	\$ 201,941
Star Ohio	-	-	-	75,199
Cash Management Account	-	-	-	157,146
Money Market Account	-	-	-	294,853
Mutual funds and equities	-	-	145,820	145,820
Total	\$ -	\$ -	\$ 347,761	\$ 874,959

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	12/31/2002	Additions	Retirements/ Transfers	12/31/2003
Land improvements	\$ 263,008	\$ 15,487		\$ 278,495
Buildings and improvements	11,664,647	419,940		12,084,587
Equipment	10,273,577	1,092,901		11,366,478
Total capital assets	22,201,232	1,528,328	-	23,729,560
Less accumulated depreciation:				
Land improvements	(176,042)	(18,441)		(194,483)
Buildings and improvements	(3,665,339)	(323,852)		(3,989,191)
Equipment	(8,380,743)	(685,329)		(9,066,072)
Total accumulated depreciation	(12,222,124)	(1,027,622)	-	(13,249,746)
Capital assets, net	\$ 9,979,108	\$ 500,706	\$ -	\$ 10,479,814

5. MEDICARE AND MEDICAID THIRD-PARTY SETTLEMENTS

Reimbursement for Medicare and Medicaid patients is subject to audit and final settlements by the respective intermediaries. Final settlements have been reached with Medicare through 2000 and with Medicaid through 1998. The amounts reported in the financial statements represent the estimated settlements outstanding at December 31, 2003, which Hospital management believes will approximate final settlements after audit by the respective agencies.

**HOCKING COUNTY FINANCIAL CONDITION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

NOTE 22 - COMPONENT UNIT DISCLOSURES - HOCKING VALLEY COMMUNITY HOSPITAL - Continued

6. LONG-TERM DEBT AND LEASES

The Hospital has the following debt outstanding at December 31, 2003:

- 1993 County Hospital Refunding and Improvement Bonds, Serial Bonds, rates ranging from 3.95% to 4.8%, principal each December 1 through 2003, ranging from \$150,000 to \$185,000 with interest due each June 1 and December 1.
- 1993 County Hospital Refunding and Improvement Bonds, Term Bonds, 5.35% due December 1, 2008, mandatory annual redemption beginning December 1, 2004, in installments ranging from \$195,000 to \$235,000 plus interest.
- 1993 County Hospital Refunding and Improvement Bonds, Term Bonds, 5.45% due December 1, 2013, mandatory annual redemption beginning December 1, 2009, in installments ranging from \$50,000 to \$65,000 plus interest.
- 1999 County Hospital Improvement Bonds, Serial Bonds, rates ranging from 3.3% to 4.65%, principal due each December 1 through 2013, ranging from \$90,000 to \$145,000 with interest due each June 1 and December 1.
- 1999 County Hospital Improvement Bonds, Term Bonds, 4.75% due December 1, 2019, mandatory annual redemption beginning December 1, 2014, in installments ranging from \$150,000 to \$185,000 plus interest.
- Note payable, bi-annual payments of \$14,250 due and payable each June and December through 2009. Collateralized by related building.

	<u>12/31/2002</u>	<u>Additions</u>	<u>Payments</u>	<u>12/31/2003</u>	<u>Amount due within 1 year</u>
1993 bonds, issued July 1, 1993	\$ 1,550,000	\$ -	\$ 185,000	\$ 1,365,000	\$ 195,000
1999 bonds, issued March 1, 1999	2,335,000	-	95,000	2,240,000	100,000
Bond discount	(65,145)	-	(3,257)	(61,888)	-
Note payable, December 2003	-	285,000	28,500	256,500	28,500
Capital Leases	977,618	887,267	499,854	1,365,031	507,651
	<u>\$ 4,797,473</u>	<u>\$ 1,172,267</u>	<u>\$ 805,097</u>	<u>\$ 5,164,643</u>	<u>\$ 831,151</u>

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

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

	<u>December 31, 2003</u>
Cost of equipment under capital lease	\$ 3,445,560
Accumulated amortization	<u>1,943,432</u>
Net carrying amount	<u>\$ 1,502,128</u>

**HOCKING COUNTY FINANCIAL CONDITION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

NOTE 22 - COMPONENT UNIT DISCLOSURES - HOCKING VALLEY COMMUNITY HOSPITAL – Continued

6. LONG-TERM DEBT AND LEASES (Continued)

Minimum payments on these obligations to maturity as of December 31, 2003 follows:

<u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 831,151	\$ 206,684	\$ 1,037,835
2005	719,235	184,189	903,424
2006	576,369	160,575	736,944
2007	563,100	135,605	698,705
2008	437,775	112,195	549,970
2009-2013	1,012,013	386,738	1,398,751
2014-2018	835,000	168,150	1,003,150
2019-2023	190,000	9,026	199,026
	<u>\$ 5,164,643</u>	<u>\$ 1,363,162</u>	<u>\$ 6,527,805</u>

7. PENSION PLAN

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

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

<u>Year</u>	<u>Contribution</u>
2003	\$1,186,566
2002	1,106,423
2001	1,043,601

PERS also provides post-retirement healthcare coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Healthcare coverage for disability recipients and primary survivor recipients is available. The healthcare coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB). A portion of each employer's contribution to PERS is set aside for the funding of post-retirement healthcare. The Ohio Revised Code provides statutory authority for employer contributions. The portion of the 2003 employer contribution rates of 13.55% used to fund healthcare was 5.0%. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement healthcare through their contributions to PERS.

OPEB are financed through employer contributions and investment earnings thereon. The contributions allocated to retiree healthcare, along with investment income on allocated assets and periodic adjustments in healthcare provisions are expected to be sufficient to sustain the program indefinitely.

8. PROFESSIONAL LIABILITY INSURANCE

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

**HOCKING COUNTY FINANCIAL CONDITION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

NOTE 22 - COMPONENT UNIT DISCLOSURES - HOCKING VALLEY COMMUNITY HOSPITAL - Continued

9. DEFERRED COMPENSATION

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

10. RELATED PARTIES

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

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

Hocking Valley Medical Group, Inc. (HVMG) was organized as a separate not-for-profit stock professional corporation. The purpose of HVMG is to engage in the practice, and to render the professional services, of medicine and to further the charitable purposes of the Foundation and the Hospital. At December 31, 2002 the sole shareholder of HVMG has entered an agreement with the Foundation and HVMG that states the shares of HVMG will be voted as directed by the Foundation. The accompanying financial statements do not include the assets, obligations, revenues or expenses of HVMG. During 2003, the Hospital transferred \$493,020 to HVMG. These transfers are reflected in the changes in fund balance.

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

2004	\$ 75,075
2005	75,075
2006	75,075
2007	75,075
2008	75,075
Thereafter	<u>56,306</u>
Total minimum lease payments	<u>\$ 431,681</u>

**HOCKING COUNTY FINANCIAL CONDITION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

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

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

1. ORGANIZATION AND OPERATIONS

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

2. ACCOUNTING POLICIES

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

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

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

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

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

Advertising costs - Advertising costs are expensed as incurred. Advertising expense for the years then ended December 31, 2003 was \$551.

3. TAX STATUS

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

4. LEASES

The Agency is leasing its premises from Hocking County Board of Mental Retardation and Developmental Disabilities (169 Board). Effective for the three-year period July 1, 1999 through June 30, 2002, these payments were to be \$850 per month. During 2001, the lease was renegotiated and for the period of August 1, 2001 through December 2001 no rent was required. In 2002, rent payments were resumed, and are stipulated (subject to renegotiation) at the rate of \$850 per month for the contract period of July 1, 2002 through June 30, 2005. Lease expense (rent) for the year ended December 31, 2003 was \$10,200.

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

2004	\$ 10,200
2005	<u>5,100</u>
Total lease payments	<u>\$ 15,300</u>

5. IN-KIND CONTRIBUTIONS

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

**HOCKING COUNTY FINANCIAL CONDITION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

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Hocking County Financial Condition
Hocking County

Schedule of Federal Awards Expenditures
For the Year Ended December 31, 2003

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U. S. Department of Housing & Urban Development			
<i>Passed through the Ohio Department of Development</i>			
Community Development Block Grants		14.228	
Water/Sewer Grant	G21008		\$123,434
Formula Grant	G10635		145
Formula Grant	G20436		48,569
Formula Grant	G30615		147,500
Community Housing Improvement Program	G20526		86,791
Total Community Development Block Grants			<u>406,439</u>
HOME Investment Partnership Program	G20525	14.239	<u>7,474</u>
Total U. S. Department of Housing & Urban Development			<u>413,913</u>
U. S. Department of Justice			
<i>Direct from the Federal Government</i>			
Drug Court Discretionary Grant Program	N	16.585	176,514
<i>Passed through the Ohio Office of Attorney General</i>			
Crime Victim Assistance Grant	VAGENE220	16.575	40,673
<i>Passed through the Ohio Department of Criminal Justice Services</i>			
Byrne Formula Grant Program	DG-F01-7336	16.579	30,473
Local Law Enforcement Block Grants Program	LE-LEB-3544	16.592	<u>42,086</u>
Total U. S. Department of Justice			<u>289,746</u>
U.S. Department of Labor			
<i>Passed through the State Department of Job & Family Services</i>			
Workforce Initiative Allocation Cluster:			
WIA Adult Program	N/A	17.258	204,637
WIA Youth Activities	N/A	17.259	266,574
WIA Dislocated Workers	N/A	17.260	69,821
Total Workforce Initiative Allocation Cluster			<u>541,032</u>
Total U. S. Department of Labor			541,032

Hocking County Financial Condition
Hocking County

Schedule of Federal Awards Expenditures
For the Year Ended December 31, 2003
(Continued)

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U. S. Department of Transportation			
<i>Passed through the Ohio Department of Transportation</i>			
Highway Planning and Construction	N/A	20.205	653,621
Emergency Planning and Community Right to Know	N/A	20.703	<u>11,429</u>
Total U. S. Department of Transportation			665,050
U.S. Department of Homeland Security			
<i>Passed through the Ohio Department of Public Safety - Emergency Management Agency</i>			
Public Assistance Grant	N/A	97.036	18,386
Supplemental Planning Grant	N/A	97.051	22,915
Citizens Corps	N/A	97.053	2,000
Homeland Security Grant	N/A	97.004	60,000
CERT Grant	N/A	97.052	12,500
Emergency Management Performance Grants	N/A	97.042	<u>21,727</u>
			137,528
<i>Passed through the Ohio Department of Public Safety - Emergency Management Agency</i>			
State Domestic Preparedness Equipment Support Program	N/A	97.004	<u>102,477</u>
Total U.S. Department of Homeland Security			240,005
U.S. Department of Health & Human Services			
<i>Passed through the State Department of MRDD</i>			
Social Services Block Grant - Title XX	N/A	93.667	34,928
Medical Assistance Program	N/A	93.778	<u>163,327</u>
Total U. S. Department of Health & Human Services			198,255
Total Federal Financial Assistance			<u><u>\$2,348,001</u></u>

N - Direct Award

N/A - Pass through entity number not available

See Accompanying Notes to the Schedule of Federal Awards Expenditures

**HOCKING COUNTY FINANCIAL CONDITION
HOCKING COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003**

NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FEDERAL FUNDS NOT REPORTED

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

NOTE C - MATCHING FUNDS

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

NOTE D - COMMUNITY DEVELOPMENT GRANT PROGRAM

Hocking County administers a loan program with funds provided by the U.S. Department of Housing and Urban Development, through the Ohio Department of Development, under the Community Development Block CHIP Grant Program. The purpose of this program is to provide loans to low and moderate income families for building improvements. The loans are provided as declining mortgage loans with the intent that they do not have to repay the loans unless they leave the residence before ten years. As of December 31, 2003, the total amount of loans outstanding was \$103,002.

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Ohio Society of Certified Public Accountants

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

To the Offices, Boards and
Commissioners of Hocking County
1 East Main Street
Logan, Ohio 43138

We have audited the financial statements of Hocking County, Ohio, (the County) as of and for the year ended December 31, 2003, and have issued our report thereon dated August 26, 2004, in which we indicated the County implemented GASB Statements No. 34, 37, 38, and Interpretation 6. 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 Hocking 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 and opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain other instances of non-compliance that we have reported to the management of the County in a separate letter dated August 26, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hocking County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the County in a separate letter dated August 26, 2004.

Board of County Commissioners

Hocking County

Logan, Ohio

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

Page 2

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

Balestra, Harr & Scherer, CPAs, Inc.

Balestra, Harr & Scherer, CPAs, Inc.

August 26, 2004

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

To the Offices, Boards and
Commissioners of Hocking County
1 East Main Street
Logan, Ohio 43138

Compliance

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

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

In our opinion, Hocking County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2003.

Internal Control Over Compliance

The management of Hocking 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 Hocking 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.

Board of County Commissioners
Hocking County
Logan, Ohio 43138

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

Page 2

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

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

Balestra, Harr & Scherer, CPAs, Inc.

Balestra, Harr & Scherer, CPAs, Inc.

August 26, 2004

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

**HOCKING COUNTY FINANCIAL CONDITION
HOCKING COUNTY
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)?	No
(d)(1)(iii)	Was there any reported noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(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 section .510?	No
(d)(1)(vii)	Major Programs (list):	Highway Planning and Construction Grant, CFDA #20.205
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

**HOCKING COUNTY FINANCIAL CONDITION
HOCKING COUNTY
DECEMBER 31, 2003**

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

Finding Number	None
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3. FINDINGS FOR FEDERAL AWARDS

Finding Number	None
CFDA Title and Number	
Federal Award Number/Year	
Federal Agency	
Pass-Through Agency	

SCHEDULE OF PRIOR AUDIT FINDINGS

**HOCKING COUNTY FINANCIAL CONDITION
HOCKING COUNTY
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	Monitoring of CDBG cash balances.	Yes	



**Auditor of State
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

FINANCIAL CONDITION

HOCKING COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 28, 2004**