



**Auditor of State
Betty Montgomery**

**FINANCIAL CONDITION
ALLEN COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
General-Purpose Financial Statements:	
Combined Balance Sheet - All Fund Types, Account Groups, and Discretely Presented Component Units As of December 31, 2002	4
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances All Governmental Fund Types and Expendable Trust Funds For the Year Ended December 31, 2002	8
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances Budget (Non-GAAP Budgetary Basis) and Actual - All Governmental Fund Types And Expendable Trust Funds For the Year Ended December 31, 2002	10
Combined Statement of Revenues, Expenses, and Changes in Fund Equity All Proprietary Fund Types and Non-Expendable Trust Fund - Primary Government For the Year Ended December 31, 2002	12
Combined Statement of Income, Expenses, and Changes in Fund Balances Discretely Presented Component Units For the Year Ended December 31, 2002.....	13
Combined Statement of Revenues, Expenses, and Changes in Fund Balances Budget (Non-GAAP Budgetary Basis) and Actual - All Proprietary Fund Types and Non-Expendable Trust Fund - Primary Government For the Year Ended December 31, 2002	14
Combined Statement of Cash Flows - All Proprietary Fund Types and Non-Expendable Trust Fund - Primary Government For the Year Ended December 31, 2002	16
Combined Statement of Cash Flows - Discretely Presented Component Units For the Year Ended December 31, 2002	17
Statement of Changes in Net Assets - Fiduciary Fund Type For the Year Ended December 31, 2002	18
Notes to the General-Purpose Financial Statements	19
Schedule of Federal Awards Expenditures.....	58
Notes to the Schedule of Federal Awards Expenditures	61
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	63
Independent Accountants' Report on Compliance With Requirements Applicable to Major Federal Programs and Internal Control Over Compliance in Accordance With OMB Circular A-133	65
Schedule of Findings.....	67
Schedule of Prior Audit Findings.....	70

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Allen County
301 North Main Street
Lima, Ohio 45801

To the Board of Commissioners:

We have audited the accompanying general-purpose financial statements of Allen County, (the County) as of and for the year ended December 31, 2002. These general-purpose financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit. We did not audit the financial statements of Marimor Industries, Inc. and LODDI, Inc., which represent 100 percent of the assets and revenues of the component unit column. Those 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 Marimor Industries, Inc. and LODDI, Inc. is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Marimor Industries, Inc. and LODDI, Inc. were audited by other auditors in accordance with auditing standards generally accepted in the United States of America and not in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of Allen County, as of December 31, 2002, and the results of its operations and cash flows of its proprietary fund types and the nonexpendable trust fund, and the statement of changes in net assets 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 20, 2003, on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

Betty Montgomery
Auditor of State

August 20, 2003

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**FINANCIAL CONDITION
ALLEN COUNTY**

**COMBINED BALANCE SHEET
ALL FUND TYPES, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNITS
AS OF DECEMBER 31, 2002**

	Governmental Fund Types			Proprietary Fund Types		
	General Fund	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
Assets and Other Debits						
Assets						
Equity in Pooled Cash and Cash Equivalents	\$5,534,136	\$16,079,942	\$2,430,486	\$8,163,822	\$1,640,530	\$1,392,260
Cash and Cash Equivalents in Segregated Accounts	20,766	534,039				8,638
Investments in Segregated Accounts						
Receivables						
Taxes Receivable	4,543,467	6,957,659	118,000	492,577		
Accounts	93,734	37,614			1,274,553	
Special Assessments		239,709	11,336,290	1,228,612		
Accrued Interest	220,035					
Due from Other Funds	10,889	64,873				
Due from Other Governments	159,938	3,557,832		1,213,428		
Materials and Supplies						
Inventory	291,885	350,991			54,939	
Prepaid Items	410,017	88,504			18,895	
Unamortized Bond Issue Costs					130,000	
Unamortized Bond Refunding Costs					302,221	
Loans Receivable	270,000	568,435				
Restricted Assets:						
Equity in Pooled Cash and Cash Equivalents					2,068,046	
Cash and Cash Equivalents with Trustees					638,754	
Advances to Other Funds	566,756	2,347,538		1,005,500	517,932	
Fixed Assets (Net, Where Applicable, of Accumulated Depreciation)					25,279,944	
Other Debits						
Amount Available in Debt Service Fund for Retirement of General Obligation Bonds						
Amount Available in Debt Service Fund for Retirement of Special Assessment Bonds						
Amount to be Provided from General Government Resources						
Amount to be Provided from Special Assessments						
Total Assets and Other Debits	\$12,121,623	\$30,827,136	\$13,884,776	\$12,103,939	\$31,925,814	\$1,400,898

Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)		Totals (Memorandum Only)
	Trust and Agency	General Fixed Assets	General Long-Term Obligations	Primary Government	Component Units
\$12,243,282			\$47,484,458		\$47,484,458
1,330,853			1,894,296	196,581 448,481	2,090,877 448,481
80,808,282			92,919,985		92,919,985
9,197,768			10,603,669	50,110	10,653,779
4,925,981			17,730,592		17,730,592
			220,035		220,035
			75,762		75,762
797,936			5,729,134		5,729,134
			697,815	3,951	701,766
			517,416	18,810	536,226
			130,000		130,000
			302,221		302,221
25,737			864,172		864,172
			2,068,046		2,068,046
			638,754		638,754
			4,437,726		4,437,726
	60,670,698		85,950,642	805,961	86,756,603
		1,050,604	1,050,604		1,050,604
		1,489,594	1,489,594		1,489,594
		22,723,187	22,723,187		22,723,187
		9,883,729	9,883,729		9,883,729
<u>\$109,329,839</u>	<u>\$60,670,698</u>	<u>\$35,147,114</u>	<u>\$307,411,837</u>	<u>\$1,523,894</u>	<u>\$308,935,731</u>

(Continued)

**FINANCIAL CONDITION
ALLEN COUNTY**

**COMBINED BALANCE SHEET
ALL FUND TYPES, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNITS
AS OF DECEMBER 31, 2002
(Continued)**

	Governmental Fund Types				Proprietary Fund Types	
	General Fund	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
Liabilities, Fund Equity and Other Credits						
Liabilities						
Accounts Payable	\$152,412	\$700,694		\$800	\$8,064	
Contracts Payable	11,900	52,839		4,825	9,575	
Accrued Wages	582,627	965,866			58,084	
Compensated Absences Payable	58,819	105,450			82,965	
Retainage Payable				68,031		
Due to Other Funds		75,762				
Due to Other Governments	417,168	687,262			37,024	
Deferred Revenue	3,553,093	10,055,545	11,336,290	2,677,550		297,899
Undistributed Assets						
Deposits Held and Due to Others						
Matured Interest Payable			753			
Accrued Interest Payable	593			49,674	10,129	
Notes Payable						
Claims and Judgments Payable						323,546
Mortgages Payable						
Advances from Other Funds	1,970,500	414,800	7,535	2,044,891		
Issue II Loans					282,285	
Capital Leases Payable						
General Obligation Bonds Payable						
Revenue Bonds Payable (Including Unamortized Premium)					7,171,583	
Special Assessment Debt with Governmental Commitment						
Total Liabilities	<u>6,747,112</u>	<u>13,058,218</u>	<u>11,344,578</u>	<u>4,845,771</u>	<u>7,659,709</u>	<u>621,445</u>
Fund Equity and Other Credits						
Investment in General Fixed Assets						
Contributed Capital					14,930,425	300,000
Net Assets Held in Trust for Pool Participation						
Retained Earnings:						
Reserved:						
Reserved for Debt Service					648,142	
Reserved for Plant Improvement and Replacement					374,264	
Reserved for Operations					1,684,394	
Unreserved					6,628,880	479,453
Fund Balance:						
Reserved for Encumbrances	183,255	3,540,859		1,472,622		
Reserved for Inventory	291,885	350,991				
Reserved for Advances	566,756	2,347,538		1,005,500		
Reserved of Contributions						
Reserved for Loans	270,000	568,435				
Temporarily Restricted						
Unreserved	4,062,615	10,961,095	2,540,198	4,780,046		
Total Fund Equity and Other Credits	<u>5,374,511</u>	<u>17,768,918</u>	<u>2,540,198</u>	<u>7,258,168</u>	<u>24,266,105</u>	<u>779,453</u>
Total Liabilities, Fund Equity and Other Credits	<u>\$12,121,623</u>	<u>\$30,827,136</u>	<u>\$13,884,776</u>	<u>\$12,103,939</u>	<u>\$31,925,814</u>	<u>\$1,400,898</u>

See accompanying notes to the General Purpose Financial Statements.

Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)		Totals (Memorandum Only)	
	Trust and Agency	General Fixed Assets	General Long-Term Obligations	Primary Government	Component Units	Reporting Entity
				\$861,970	\$8,269	\$870,239
				79,139		79,139
				1,606,577	15,891	1,622,468
		2,159,771		2,407,005		2,407,005
				68,031		68,031
				75,762		75,762
90,818,959				91,960,413	1,535	91,961,948
				27,920,377		27,920,377
16,160,442				16,160,442		16,160,442
16,509				16,509		16,509
				753		753
				60,396	1,489	61,885
		8,216,100		8,216,100		8,216,100
				323,546		323,546
					212,853	212,853
				4,437,726		4,437,726
		232,616		514,901		514,901
		65,627		65,627		65,627
		15,816,293		15,816,293		15,816,293
				7,171,583		7,171,583
		8,656,707		8,656,707		8,656,707
106,995,910		35,147,114		186,419,857	240,037	186,659,894
	60,670,698			60,670,698		60,670,698
				15,230,425		15,230,425
2,116,229				2,116,229		2,116,229
				648,142		648,142
				374,264		374,264
				1,684,394		1,684,394
				7,108,333		7,108,333
				5,196,736		5,196,736
				642,876		642,876
				3,919,794		3,919,794
7,054				7,054		7,054
25,737				864,172		864,172
					7,551	7,551
184,909				22,528,863	1,276,306	23,805,169
2,333,929	60,670,698			120,991,980	1,283,857	122,275,837
<u>\$109,329,839</u>	<u>\$60,670,698</u>	<u>\$35,147,114</u>		<u>\$307,411,837</u>	<u>\$1,523,894</u>	<u>\$308,935,731</u>

**FINANCIAL CONDITION
ALLEN COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2002**

	Governmental Fund Types				Fiduciary Fund Type	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
Revenues						
Property Taxes	\$3,693,240	\$5,214,975		\$438,816		\$9,347,031
Permissive Sales Tax	10,300,297	288,700	1,492,700	1,016,000		13,097,697
Charges for Services	3,502,863	2,859,302		4,880		6,367,045
Licenses and Permits	10,839	3,165,633	17,500			3,193,972
Fines and Forfeitures	140,689	225,211				365,900
Intergovernmental	2,540,190	22,189,260		1,828,673		26,558,123
Special Assessments		135,103	1,182,208	396,208		1,713,519
Tap In Fees			83,575	2,500		86,075
Investment Income	1,518,431	21,980	7,428	64,717	1,583	1,614,139
Rental Income	471,667	462,027		25,183		958,877
Other	525,209	2,062,162	95,797	38,482	60,948	2,782,598
Total Revenues	<u>22,703,425</u>	<u>36,624,353</u>	<u>2,879,208</u>	<u>3,815,459</u>	<u>62,531</u>	<u>66,084,976</u>
Expenditures						
Current						
General Government						
Legislative and Executive	8,293,672	2,207,442			108,874	10,609,988
Judicial	5,278,707	3,319,993				8,598,700
Public Safety	7,837,535	1,057,856				8,895,391
Public Works	296,210	6,418,426	3,698			6,718,334
Health	237,496	10,832,802				11,070,298
Human Services	295,619	14,948,810				15,244,429
Conservation and Recreation	742,400	743,878				1,486,278
Intergovernmental	75,000					75,000
Capital Outlay				3,144,015		3,144,015
Debt Service						
Principal Retirement	23,598	16,004	16,906,158	6,978,100		23,923,860
Interest and Fiscal Charges	8,738	471	1,654,598	183,037		1,846,844
Total Expenditures	<u>23,088,975</u>	<u>39,545,682</u>	<u>18,564,454</u>	<u>10,305,152</u>	<u>108,874</u>	<u>91,613,137</u>
Excess of Revenues Under Expenditures	<u>(385,550)</u>	<u>(2,921,329)</u>	<u>(15,685,246)</u>	<u>(6,489,693)</u>	<u>(46,343)</u>	<u>(25,528,161)</u>
Other Financing Sources (Uses)						
Proceeds of Refunding Bonds			15,690,000			15,690,000
Premium on Refunding Bonds			177,630			177,630
Proceeds of Notes	220,000			8,143,477		8,363,477
Sale of Fixed Assets	4,510	25,868		956,728		987,106
Inception of Capital Lease	13,749					13,749
Operating Transfers - In	335,600	603,864	607,900	22,360		1,569,724
Operating Transfers - Out	(599,746)	(357,960)		(612,018)		(1,569,724)
Total Other Financing Sources (Uses)	<u>(25,887)</u>	<u>271,772</u>	<u>16,475,530</u>	<u>8,510,547</u>		<u>25,231,962</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(411,437)	(2,649,557)	790,284	2,020,854	(46,343)	(296,199)
Fund Balances at Beginning of Year	5,808,602	20,378,509	1,749,914	5,237,314	244,365	33,418,704
Increase (Decrease) in Reserve for Inventory	(22,654)	39,966				17,312
Fund Balances at End of Year	<u>\$5,374,511</u>	<u>\$17,768,918</u>	<u>\$2,540,198</u>	<u>\$7,258,168</u>	<u>\$198,022</u>	<u>\$33,139,817</u>

See Accompanying Notes to the General Purpose Financial Statements.

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**FINANCIAL CONDITION
ALLEN COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2002**

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues						
Property Taxes	\$3,829,667	\$3,796,510	(\$33,157)	\$5,666,903	\$5,337,453	(\$329,450)
Permissive Sales Tax	10,094,965	10,094,965		365,755	310,800	(54,955)
Charges for Services	3,723,392	3,473,715	(249,677)	2,931,710	2,838,652	(93,058)
Licenses and Permits	14,150	10,839	(3,311)	2,881,800	3,166,573	284,773
Fines and Forfeitures	160,000	147,402	(12,598)	300,400	236,913	(63,487)
Intergovernmental	3,196,168	2,719,644	(476,524)	28,891,466	22,709,820	(6,181,646)
Special Assessments				262,402	135,103	(127,299)
Tap Fees						
Investment Income	1,655,672	1,680,072	24,400	100,000	19,657	(80,343)
Rental Income	399,249	516,497	117,248	520,000	462,027	(57,973)
Other	250,279	232,719	(17,560)	1,360,958	1,030,856	(330,102)
Total Revenues	23,323,542	22,672,363	(651,179)	43,281,394	36,247,854	(7,033,540)
Expenditures						
Current						
General Government						
Legislative and Executive	8,875,627	8,636,668	238,959	4,027,259	3,355,487	671,772
Judicial	5,578,320	5,395,385	182,935	4,424,256	3,574,113	850,143
Public Safety	7,982,864	7,831,975	150,889	1,479,501	1,014,533	464,968
Public Works	539,104	524,102	15,002	7,777,205	6,869,326	907,879
Health	249,936	242,550	7,386	12,378,199	10,827,555	1,550,644
Human Services	352,707	293,166	59,541	21,325,074	17,321,054	4,004,020
Conservation and Recreation	757,739	742,588	15,151	782,500	733,833	48,667
Intergovernmental	83,000	75,000	8,000			
Capital Outlay						
Debt Service						
Principal Retirement				7,367	7,367	
Interest and Fiscal Charges						
Total Expenditures	24,419,297	23,741,434	677,863	52,201,361	43,703,268	8,498,093
Excess of Revenues Over (Under) Expenditures	(1,095,755)	(1,069,071)	26,684	(8,919,967)	(7,455,414)	1,464,553
Other Financing Sources (Uses)						
Other Financing Sources	268,243	251,123	(17,120)	967,528	1,014,116	46,588
Other Financing Uses						
Proceeds of Refunding Bonds						
Premium on Refunding Bonds						
Proceeds of Notes	220,000	220,000				
Sale of Fixed Assets	4,510	4,510			25,868	25,868
Advances - In	808,490	808,490		312,875	250,000	(62,875)
Advances - Out	(32,240)	(6,500)	25,740	(599,175)	(555,000)	44,175
Operating Transfers - In	335,600	335,600		919,677	603,864	(315,813)
Operating Transfers - Out	(694,680)	(599,746)	94,934	(450,917)	(357,960)	92,957
Total Other Sources (Uses)	909,923	1,013,477	103,554	1,149,988	980,888	(169,100)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	(185,832)	(55,594)	130,238	(7,769,979)	(6,474,526)	1,295,453
Fund Balances at Beninning of Year	4,440,849	4,440,849		13,805,841	13,805,841	
Prior Year Encumbrances Appropriated	300,491	300,491		4,440,726	4,440,726	
Fund Balances at End of Year	\$4,555,508	\$4,685,746	\$130,238	\$10,476,588	\$11,772,041	\$1,295,453

See Accompanying Notes to the General Purpose Financial Statements.

Debt Service Funds			Capital Projects Funds			Expendable Trust Funds		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
			\$512,000	\$459,470	(\$52,530)			
1,651,600	1,474,000	(177,600)	970,000	1,060,500	90,500			
	17,500	17,500		4,880	4,880			
			2,840,283	1,629,043	(1,211,240)			
1,324,400	1,182,208	(142,192)	1,914,805	396,208	(1,518,597)			
10,000	83,575	73,575		2,500	2,500			
	7,909	7,909	141,300	64,734	(76,566)	2,000	1,583	(417)
			15,000	25,183	10,183			
4,100	87,566	83,466	31,000	33,752	2,752	32,000	65,468	33,468
<u>2,990,100</u>	<u>2,852,758</u>	<u>(137,342)</u>	<u>6,424,388</u>	<u>3,676,270</u>	<u>(2,748,118)</u>	<u>34,000</u>	<u>67,051</u>	<u>33,051</u>
						63,000	108,874	(45,874)
3,698	3,698							
			14,766,270	5,267,945	9,498,325			
17,173,557	16,916,158	257,399	11,961,901	6,978,100	4,983,801			
1,492,366	1,727,050	(234,684)	973,443	194,680	778,763			
<u>18,669,621</u>	<u>18,646,906</u>	<u>22,715</u>	<u>27,701,614</u>	<u>12,440,725</u>	<u>15,260,889</u>	<u>63,000</u>	<u>108,874</u>	<u>(45,874)</u>
<u>(15,679,521)</u>	<u>(15,794,148)</u>	<u>(114,627)</u>	<u>(21,277,226)</u>	<u>(8,764,455)</u>	<u>12,512,771</u>	<u>(29,000)</u>	<u>(41,823)</u>	<u>(12,823)</u>
	8,231	8,231		5,067	5,067			
			(8,639)	(8,639)				
14,771,000	15,690,000	919,000	1,791,500		(1,791,500)			
	177,630	177,630						
			23,962,906	8,143,477	(15,819,429)			
				956,728	956,728			
			526,000	343,600	(182,400)			
			(695,490)	(693,490)	2,000			
30,000	607,900	577,900	18,500	22,360	3,860			
(79)		79	(612,018)	(612,018)				
<u>14,800,921</u>	<u>16,483,761</u>	<u>1,682,840</u>	<u>24,982,759</u>	<u>8,157,085</u>	<u>(16,825,674)</u>			
(878,600)	689,613	1,568,213	3,705,533	(607,370)	(4,312,903)	(29,000)	(41,823)	(12,823)
1,740,555	1,740,555		6,008,713	6,008,713		214,108	214,108	
			1,222,130	1,222,130				
<u>\$861,955</u>	<u>\$2,430,168</u>	<u>\$1,568,213</u>	<u>\$10,936,376</u>	<u>\$6,623,473</u>	<u>(\$4,312,903)</u>	<u>\$185,108</u>	<u>\$172,285</u>	<u>(\$12,823)</u>

**FINANCIAL CONDITION
ALLEN COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY
ALL PROPRIETARY FUNDS TYPES AND NONEXPENDABLE TRUST FUND - PRIMARY GOVERNMENT
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Non- Expendable Trust</u>	
Operating Revenues				
Charges for Services	\$3,560,863	\$4,467,185		\$8,028,048
Tap-In Fees	300,233			300,233
Interest Income			49	49
Licenses, Permits, and Inspection	5,283			5,283
Other Operating Revenues	99,560	149,237		248,797
Total Operating Revenues	<u>3,965,939</u>	<u>4,616,422</u>	<u>49</u>	<u>8,582,410</u>
Operating Expenses				
Personal Services	1,441,229			1,441,229
Contractual Services	1,122,850	133,855		1,256,705
Materials and Supplies	192,571	7,426		199,997
Claims		3,112,098		3,112,098
Depreciation	1,133,532			1,133,532
Total Operating Expenses	<u>3,890,182</u>	<u>3,253,379</u>		<u>7,143,561</u>
Operating Income	<u>75,757</u>	<u>1,363,043</u>	<u>49</u>	<u>1,438,849</u>
Non-Operating Revenues (Expenses)				
Capital Contributions	807,713			807,713
Interest Income	28,988	1,774		30,762
Loss on Disposal of Fixed Assets	(2,937)			(2,937)
Interest and Fiscal Charges	(417,206)			(417,206)
Total Non-Operating Revenues	<u>416,558</u>	<u>1,774</u>		<u>418,332</u>
Net Income	<u>492,315</u>	<u>1,364,817</u>	<u>49</u>	<u>1,857,181</u>
Depreciation on Fixed Assets Acquired by Contributed Capital	221,076			221,076
Retained Earnings/Fund Balance (Deficit) at Beginning of Year	<u>8,622,289</u>	<u>(885,364)</u>	<u>19,629</u>	<u>7,756,554</u>
Retained Earnings/Fund Balance at End of Year	<u>9,335,680</u>	<u>479,453</u>	<u>19,678</u>	<u>9,834,811</u>
Contributed Capital at Beginning of Year	15,151,501	300,000		15,451,501
Depreciation on Fixed Assets Acquired by Contributed Capital	(221,076)			(221,076)
Contributed Capital at End of Year	<u>14,930,425</u>	<u>300,000</u>		<u>15,230,425</u>
Total Fund Equity at End of Year	<u>\$24,266,105</u>	<u>\$779,453</u>	<u>\$19,678</u>	<u>\$25,065,236</u>

See Accompanying Notes to the General Purpose Financial Statements.

**FINANCIAL CONDITION
ALLEN COUNTY**

**COMBINED STATEMENT OF INCOME, EXPENSES AND CHANGES IN FUND BALANCES
DISCRETELY PRESENTED COMPONENT UNITS
FOR THE YEAR ENDED DECEMBER 31, 2002**

Income	
Contracts	\$585,771
Services	14,841
Restaurant Income	55,005
Unrealized Loss in Investments	(24,024)
Grant Income	25,018
Rental Income	90,767
Interest Income	10,978
Other Income	6,910
	<u>765,266</u>
Total Income	<u>765,266</u>
Expenses	
Personal Services	359,095
Contract and Other Services	167,662
Materials and Supplies	84,705
Other Expenses	27,078
Interest	20,397
Depreciation	62,827
	<u>721,764</u>
Total Expenses	<u>721,764</u>
Operating Income	<u>43,502</u>
Other Income and Expenses	
Special Donations	4,256
Program Expenses	(1,402)
	<u>2,854</u>
Total Other Income	<u>2,854</u>
Net Income	46,356
Fund Balance Beginning of Year	<u>1,237,501</u>
Fund Balance End of Year	<u><u>\$1,283,857</u></u>

See Accompanying Notes to the General Purpose Financial Statements.

**FINANCIAL CONDITION
ALLEN COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND - PRIMARY GOVERNMENT
FOR THE YEAR ENDED DECEMBER 31, 2002**

	Enterprise Fund		Variance Favorable (Unfavorable)
	Budget	Actual	
Revenues			
Charges for Services	\$4,230,500	\$3,590,120	(\$640,380)
Tap-In Fees	225,000	306,845	81,845
Licenses, Permits, and Inspection	3,560	5,283	1,723
Interest Income		30,026	30,026
Other Revenue	12,750	54,701	41,951
Other Financing Sources	38,300	44,859	6,559
Total Revenues	4,510,110	4,031,834	(478,276)
Expenses			
Personal Services	1,505,563	1,455,133	50,430
Contractual Services	1,541,338	987,026	554,312
Materials and Supplies	289,489	225,541	63,948
Claims			
Capital Outlay	989,192	758,707	230,485
Debt Service			
Payment on Principal	7,245,551	7,245,551	
Interest and Fiscal Charges	544,866	526,828	18,038
Total Expenses	12,115,999	11,198,786	917,213
Excess of Revenues Over (Under) Expenses	(7,605,889)	(7,166,952)	438,937
Proceeds of Bonds	7,100,000	7,150,000	50,000
Issuance Costs		(130,000)	(130,000)
Premium on Bonds Issued		21,583	21,583
Advances - In	2,000	190,000	188,000
Advances - Out	(337,100)	(337,100)	
Operating Transfers - In	383,333		(383,333)
Operating Transfers - Out	(910,462)		910,462
Excess of Revenues Over (Under) Expenses and Transfers and Advances	(1,368,118)	(272,469)	1,095,649
Fund Balance at Beginning of Year	3,219,758	3,219,758	
Prior Year Encumbrances Appropriated	331,133	331,133	
Fund Balance (Deficit) at End of Year	\$2,182,773	\$3,278,422	\$1,095,649

See Accompanying Notes to the General Purpose Financial Statements.

Internal Service Fund			Non-Expendable Trust Fund		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$4,277,500	\$4,765,084	\$487,584			
10,000	1,837	(8,163)		20	20
	1,000	1,000			
	148,237	148,237			
<u>4,287,500</u>	<u>4,916,158</u>	<u>628,658</u>		<u>20</u>	<u>20</u>
385,500	133,748	251,752			
7,700	7,426	274			
4,100,000	3,354,606	745,394			
<u>4,493,200</u>	<u>3,495,780</u>	<u>997,420</u>			
(205,700)	1,420,378	1,626,078		20	20
(205,700)	1,420,378	1,626,078		20	20
(28,240)	(28,240)		12,576	12,576	
<u>(\$233,940)</u>	<u>\$1,392,138</u>	<u>\$1,626,078</u>	<u>\$12,576</u>	<u>\$12,596</u>	<u>\$20</u>

**FINANCIAL CONDITION
ALLEN COUNTY**

**COMBINED STATEMENT OF CASH FLOWS
ALL RPROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
PRIMARY GOVERNMENT
FOR THE YEAR ENDED DECEMBER 31, 2002**

	Proprietary Fund Type		Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Internal Service	Non-Expendable Trust	
Increase (Decrease) in Cash and Cash Equivalents				
Cash Flows from Operating Activities:				
Cash Received from Customers	\$3,590,120	\$854,322		\$4,444,442
Cash Received from Tap In Fees	300,233			300,233
Cash Received from Quasi-External Transactions with Other Funds		3,910,762		3,910,762
Cash Received from Stop Loss Insurance		61,476		61,476
Cash Payments to Employees for Services	(1,455,133)			(1,455,133)
Cash Payments for Contractual Services	(1,208,759)	(133,855)		(1,342,614)
Cash Payments for Materials and Supplies	(225,541)	(7,426)		(232,967)
Cash Payments for Claims		(3,354,606)		(3,354,606)
Other Cash Received	104,843	87,761		192,604
Net Cash Provided by Operating Activities	<u>1,105,763</u>	<u>1,418,434</u>		<u>2,524,197</u>
Cash Flows from Noncapital Financing Activities:				
Advances from other Funds	190,000			190,000
Advances to other Funds	(337,100)			(337,100)
Net Cash Used for Noncapital Financial Activities	<u>(147,100)</u>			<u>(147,100)</u>
Cash Flows from Capital and Related Financing Activities:				
Acquisition and Construction of Capital Assets	(106,819)			(106,819)
Proceeds of Revenue Bonds	7,150,000			7,150,000
Principal Paid on Revenue Bonds	(7,225,000)			(7,225,000)
Call Premium Paid on Revenue Bonds	(139,100)			(139,100)
Interest and Fiscal Charges Paid on Revenue Bonds	(387,729)			(387,729)
Premium on Revenue Bonds	21,583			21,583
Issuance Costs on Revenue Bonds	(130,000)			(130,000)
Principal Paid on Issue II Loan	(20,551)			(20,551)
Net Cash Used for Capital and Related Financing Activities	<u>(837,616)</u>			<u>(837,616)</u>
Cash Flows from Investing Activities:				
Cash Received from Interest Earnings	30,026	1,774	49	31,849
Net Increase in Cash and Cash Equivalents	151,073	1,420,208	49	1,571,330
Cash and Cash Equivalents at Beginning of Year	<u>3,557,503</u>	<u>(19,310)</u>	<u>19,629</u>	<u>3,557,822</u>
Cash and Cash Equivalents at End of Year	<u><u>3,708,576</u></u>	<u><u>1,400,898</u></u>	<u><u>19,678</u></u>	<u><u>5,129,152</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities				
Operating Income	75,757	1,363,043	49	1,438,849
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities				
Depreciation	1,133,532			1,133,532
Interest Income			(49)	(49)
Change in Assets and Liabilities				
Decrease in Accounts Receivable	29,257			29,257
Increase in Inventory	(18,375)			(18,375)
Increase in Prepaid Items	(18,895)			(18,895)
Decrease in Accounts Payable	(75,618)			(75,618)
Decrease in Contracts Payable	(10,986)			(10,986)
Increase in Accrued Wages	5,942			5,942
Decrease in Compensated Absences	(2,052)			(2,052)
Decrease in Due to Other Governments	(12,799)			(12,799)
Increase in Deferred Revenue		297,899		297,899
Decrease in Claims Payable		(242,508)		(242,508)
Net Cash Provided by Operating Activities	<u>\$1,105,763</u>	<u>\$1,418,434</u>	<u>\$0</u>	<u>\$2,524,197</u>

Noncash Capital Financing Activities

The Sewer Enterprise Fund received donated assets from developers and other funds with a fair market value of \$807,713.

Reconciliation of Cash and Cash Equivalents of Non-Expendable Trust Fund to Balance Sheet

Cash and Cash Equivalents - All Trust and Agency Funds	\$ 13,574,135
Cash and Cash Equivalents - Expendable Trusts, Investment Trusts and Agency Funds	(13,554,457)
Cash and Cash Equivalents - Non-Expendable Trust Fund	<u>\$ 19,678</u>

See Accompanying Notes to the General Purpose Financial Statements

**FINANCIAL CONDITION
ALLEN COUNTY**

**COMBINED STATEMENT OF CASH FLOWS
DISCRETELY PRESENTED COMPONENT UNITS
FOR THE YEAR ENDED DECEMBER 31, 2002**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from Customers	\$668,223
Grant Income Received	25,018
Interest Received	18,923
Donations Received	4,256
Rents and Grants Received	90,767
Cash Paid to Suppliers and Employees	(648,013)
Interest Paid	(20,397)
Miscellaneous Income	6,910
	<u>6,910</u>

Net Cash Provided by Operating Activities 145,687

Cash Flows from Investing Activities:

Proceeds from Certificates of Deposit	156,896
Purchase of Certificates of Deposit	(164,050)
Proceeds from Investments	61,524
Purchase of Investments	(68,176)
Purchase of Equipment	(46,089)
	<u>(46,089)</u>

Net Cash Used for Investing Activities (59,895)

Cash Flows from Financing Activities:

Payment of Long-Term Debt	(15,456)
	<u>(15,456)</u>

Net Increase in Cash and Cash Equivalents 70,336

Cash and Cash Equivalents at Beginning of Year 126,245

Cash and Cash Equivalents at End of Year 196,581

Reconciliation of Net Income to Cash Provided by Operating Activities

Net Income 46,356

Adjustments to Reconcile Net Income to Cash

Provided by Operating Activities

Depreciation	62,827
Unrealized Loss on Investments	24,024
Realized Loss on Investments	7,945
(Increase)/Decrease in Assets	
Accounts Receivable	12,606
Inventories	(3,951)
Prepaid Expenses	(8,237)
Increase/(Decrease) in Liabilities	
Accounts Payable and Accrued Expenses	4,223
Accrued Interest Expense	(106)
	<u>(106)</u>

Net Cash Provided by Operating Activities \$145,687

See Accompanying Notes to General Purpose Financial Statements.

**FINANCIAL CONDITION
ALLEN COUNTY**

**STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUND TYPE
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002**

	<u>Investment Trust</u>
Revenues:	
Interest Income	\$51,743
Expenses:	
Operating Expenses	
Net Increase in Assets Resulting from Operations	51,743
Distribution to Participants	(51,743)
Capital Transactions	<u>(882,642)</u>
Total Decrease in Net Assets	(882,642)
Net Assets Beginning of Year	<u>2,998,871</u>
Net Assets End of Year	<u><u>\$2,116,229</u></u>

See Accompanying Notes to the General Purpose Financial Statements.

**FINANCIAL CONDITION
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002**

1. REPORTING ENTITY AND BASIS OF PRESENTATION

A. The County

Allen County, Ohio (The County) was established in 1831. 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 who manage various segments of the County's operations are the County Auditor, County Treasurer, Recorder, Clerk of Courts, Coroner, Engineer, Prosecuting Attorney, Sheriff, two Common Pleas Court Judges, a Probate/Juvenile Court Judge, and a Domestic Relations Court Judge.

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

B. Reporting Entity

The reporting entity is composed 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 Allen County, this includes the Child Support Enforcement Agency, the Children's Services Board, the Board of Mental Retardation and Developmental Disabilities, the Veterans' Memorial Civic and Convention Center, and all 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 the levying of taxes.

The component unit column in the combined financial statements identifies the financial data of the County's component units. They are reported separately to emphasize that they are legally separate from the County. The discretely presented component units of Allen County are:

Marimor Industries, Inc. - Marimor Industries, Inc. (the "Workshop") is a legally separate, non-profit organization served by a self-appointing board of trustees. The Workshop was incorporated in 1968 to provide an opportunity for employment, training, and supportive services for persons with developmental disabilities. The Allen County Board of MRDD provides the Workshop with expenses and personnel for operation of the Workshop including staff salaries and benefits and certain operating expenses and fixed assets. Based on the significant services and resources provided by the County to the Workshop and the Workshop's sole purpose of providing assistance to the retarded and handicapped adults of Allen County, the Workshop is reflected as a component unit of Allen County. Marimor Industries operates on a fiscal year ending December 31. Separately issued financial statements can be obtained from Marimor Industries, Inc., 2450 Ada Road, Lima, Ohio 45801.

**FINANCIAL CONDITION
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

1. REPORTING ENTITY AND BASIS OF PRESENTATION (Continued)

LODDI, Inc. - LODDI, Inc. (Living Options for Developmentally Disabled Individuals) is a legally separate, non-profit organization served by a self-appointing board of trustees. LODDI was incorporated on December 1, 1992, to provide lifetime affordable housing to people in Allen County with developmental disabilities. Due to a significant portion of the organization's income being received from the Allen County Board of MRDD and because MRDD assumes the responsibility for debts upon dissolution of LODDI, LODDI, Inc. is reflected as a component unit of Allen County. LODDI operates on a fiscal year ending December 31. Separately issued financial statements can be obtained from LODDI, Inc., 2450 Ada Road, Lima, Ohio 45801.

The County participates in the following joint ventures, jointly governed organizations, and insurance pool which are discussed in Notes 20, 21, 22 to the combined financial statements.

Lima-Allen County Downtown Construction
Workforce Investment Act
Mental Health and Recovery Services of Allen, Auglaize, and Hardin Counties
Lima-Allen County Regional Planning Commission
North Central Ohio Solid Waste Management District
Western Ohio Regional Treatment and Habilitation (WORTH) Center
Lima-Allen County Joint Parking Commission
County Commissioners Association of Ohio Workers' Compensation Group Rating Plan

The County Treasurer, as the custodian of public funds, invests all public monies held on deposit in the County treasury. In the case of the legally separate agencies, boards and commissions listed below, the County serves as fiscal agent but the organizations are not considered a part of Allen County. Accordingly, the activity of the following districts and agencies are presented as agency funds, with the exception of the North Central Ohio Solid Waste Management District and Metropolitan Park Board, which are presented as internal investment trust funds, within the County's financial statements:

Mental Health and Recovery Services of Allen, Auglaize, and Hardin Counties
Allen County Soil and Water Conservation
District Board of Health
District Court of Appeals
Family and Children First Council
Lima-Allen County Regional Planning Commission
Special Emergency Planning Commission
Western Ohio Regional Training and Habilitation (WORTH) Center

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board and other recognized authoritative sources.

The County also applies Financial Accounting Standards Board Statements and Interpretations issued prior to November 30, 1989, to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The more significant of the County's accounting policies are described below.

The information provided in the notes to the financial statements relates generally to the primary government. Information related to the Workshop and LODDI, Inc. is specifically identified.

**FINANCIAL CONDITION
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. 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 therein, 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.

1. 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 proprietary funds and trust funds) are accounted for through governmental funds. The following are the County's governmental fund types:

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.

Special Revenue Funds - These funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or for major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Funds - These funds are used to account for the accumulation of financial resources for, and the payment of, general long-term debt principal, interest and related costs and special assessment long-term debt principal, interest and related costs.

Capital Projects Funds - These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

2. Proprietary Fund Types

The proprietary funds are used to account for the County's ongoing activities which are similar to those found in the private sector. The following are the County's proprietary fund types:

Enterprise Fund - This fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**FINANCIAL CONDITION
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

3. Fiduciary Fund Types

These funds are used to account for assets held by the County in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. The following are the County's fiduciary fund types:

Expendable Trust Funds - These funds are accounted for in essentially the same manner as governmental funds.

Non-Expendable Trust Fund - This fund is accounted for in essentially the same manner as proprietary funds.

Investment Trust Funds - These funds are accounted for on the accrual basis.

Agency Funds - These funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

4. Account Groups

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - The general fixed assets account group is used to account for all fixed assets of the County, other than those fixed assets accounted for in the proprietary funds.

General Long Term Obligations Account Group - The general long term obligations account group is used to account for all long-term obligations of the County, except that accounted for in the proprietary funds.

B. Measurement Focus and Basis of Accounting

1. Primary Government

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and the expendable trust fund 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. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary fund types, the non-expendable trust fund and investment trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into retained earnings and contributed capital components for proprietary fund types or held in trust for pool participants for the investment trust fund. Operating statements of these funds present increases (e.g. revenues) and decreases (e.g. expenses) in net total assets.

**FINANCIAL CONDITION
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental, expendable trust and agency funds. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. Available means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current year. The available period for the County is thirty-one days after year end.

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

Non-exchange 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 fiscal year for which the taxes are levied. Revenue from sales taxes is recognized in the period in which the income is earned. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal 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 fiscal year end: property taxes available as an advance, sales taxes, payment in lieu of taxes, grants, and interest.

The County reports deferred revenues on its combined balance sheet. Deferred revenues arise when assets are recognized before revenue recognition criteria has been satisfied. Property taxes for which there is an enforceable legal claim as of December 31, 2002, but which were levied to finance fiscal year 2003 operations, are recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On the modified accrual basis, revenues that are not collected within the available period are recorded as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. Principal and interest on general and special assessment long-term obligations are recorded as fund liabilities when due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

**FINANCIAL CONDITION
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The accrual basis of accounting is utilized for reporting purposes by the proprietary fund types, non-expendable trust fund, and the investment trust funds. Revenues are recognized when they are earned and become measurable and expenses are recognized when they are incurred, if measurable. Unbilled service charges receivable are recognized as revenue at year end.

2. Component Units

The discretely presented component units utilize the proprietary accrual basis of accounting for reporting purposes. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the 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 the investment trust and agency funds, are legally required to be budgeted and appropriated.

The legal level of budgetary control is at the object level within each department. Although statutory law requires that all funds be budgeted, it is not necessary to do so if the County Commissioners do not anticipate expending the available funds. Segregated cash accounts are not included in the budgetary presentation because they are not controlled by the County Commissioners and do not adopt separate budgets. Budgetary modifications may only be made by resolution of the County Commissioners.

Budgetary information for Marimor Industries and LODDI (component units) is not reported because they are not included in the entity for which the "appropriated budget" is adopted and do not maintain separate budgetary records.

1. Tax Budget

A budget of estimated revenues and expenditures is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year. The budget includes proposed expenditures and the means of financing for all funds. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates.

2. 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 County Budget Commission certifies its actions to the County by September 1. As part of this certification, the County receives the official certificate of estimated resources, which states the estimated fund balance and projected revenue of each fund.

**FINANCIAL CONDITION
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the actual unencumbered balances from the preceding year. The certificate of estimated resources may be amended further during the year if the County Auditor determines, and the County Budget Commission agrees, that an estimate needs either to be increased or decreased. The amounts reported in the budget column on the budgetary statements reflect the amounts in the final amended official certificate of estimated resources issued during 2002.

3. 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 appropriations resolution may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified.

The allocation of appropriations among departments and objects within a fund may be modified during the year only by a resolution of the County Commissioners. Several supplemental appropriation resolutions were legally enacted by the County Commissioners during the year. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications passed during 2002.

4. Budgeted Level of Expenditures

Administrative control is maintained through the establishment of detailed line-item budgets. Appropriated funds may not be expended for the 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 - salaries, supplies, equipment, contract repairs, travel expenses, maintenance, other expenses, etc.).

5. 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.

**FINANCIAL CONDITION
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6. 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 re-appropriated.

D. Cash and Cash Equivalents

To improve cash management, cash received by the County, except cash in segregated accounts, is pooled and invested. Individual fund integrity is maintained through County records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

Cash and cash equivalents that are held separately within departments of the County and not held with the County Treasurer or held separately for the County by a trustee are recorded on the combined balance sheet as "Cash and Cash Equivalents in Segregated Accounts" or "Cash and Cash Equivalents with Trustees", respectively.

Cash and cash equivalents and investments of Marimor Industries, Inc. and LODDI, Inc. are held by the component unit and are recorded on the combined balance sheet as "Cash and Cash Equivalents in Segregated Accounts" or "Investments in Segregated Accounts".

Investments are reported at fair value except for commercial paper, repurchase agreements and non-negotiable certificates of deposit which are reported at cost. Fair value is based on quoted market prices. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2002.

Following Ohio statutes, the County has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General fund during 2002 amounted to \$1,518,431, which includes \$1,337,369 assigned from other County funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, 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.

E. Receivables and Payables

Receivables and payables on the County's financial statements are recorded to the extent that the amounts are determined material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and in the case of receivables, collectibility.

Using this criteria, the County has elected not to record child support arrearages within the Special Revenue and Agency fund types. These amounts, while potentially significant, are not considered measurable, and because collections are often significantly in arrears, the County is unable to determine a reasonable value.

**FINANCIAL CONDITION
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Materials and Supplies Inventory

Inventories of governmental funds are stated at cost while inventories of proprietary 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 purchased and expensed in the proprietary fund types when used. Reported supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2002, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense in the year in which services are consumed.

H. Unamortized Bond Issuance and Refunding Costs

Unamortized bond issuance and refunding costs consist of underwriting fees and other costs incurred in the issuance and reissuance of bonds which are deferred and amortized over the life of the related new bond issues.

I. Restricted Assets

Certain proceeds of enterprise fund revenue bonds are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

J. Fixed Assets and Depreciation

Fixed asset values initially were determined at December 31, 1990, assigning original acquisition costs when such information was available. In cases when original costs were not practicably determinable, estimates were arrived at by indexing estimated current costs back to the estimated year of acquisition. Donated fixed assets are capitalized at estimated fair market value on the date donated.

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 which extend the useful life or increase the capacity or operating efficiency of the asset are capitalized at cost. The County has established a capitalization threshold for fixed assets of \$3,000.

General Fixed Assets

General fixed assets (fixed assets used in governmental fund type operations) are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the General Fixed Assets Account Group at historical cost or estimated historical cost. Assets in the General Fixed Assets Account Group are not depreciated. Public domain (infrastructure) general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems are not capitalized or reported, as these assets are immovable and of value only to the government.

**FINANCIAL CONDITION
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Enterprise Fund Fixed Assets

Fixed assets reflected in the enterprise funds are stated at historical cost (or estimated historical cost) and are updated for the cost of additions and retirements during the year. Depreciation is provided on a straight-line basis over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Infrastructure	15-35 years
Buildings	35 years
Machinery and Equipment	10 years
Licensed Vehicles	6 years

Interest is capitalized when necessary on all proprietary fund assets acquired with debt. The County's policy is to capitalize net interest on construction projects until substantial completion of the project. The amount of capitalized interest equals the difference between the interest cost associated with the tax-exempt borrowing used to finance the project from the date of borrowing until completion of the project and the interest earned from temporary investment of the debt proceeds over the same period. For 2002, interest cost incurred was immaterial.

Component Units

Property and equipment are recorded at cost. Donated equipment is recorded at its fair market value at the date donated. Depreciation is provided on the straight-line method, with estimated useful lives of forty years for buildings and ranging from three to seven years for equipment.

K. Interfund Assets and Liabilities

Receivables and payables arising between funds for goods provided, services rendered and distributions to be made to other County funds by agency funds are classified as "due from other funds" or "due to other funds" on the balance sheet.

Long-term interfund loans are reported as advances to/from other funds and are equally offset by a fund balance reserve account which indicates that they do not constitute "available expendable resources" since they are not a component of net current assets.

L. 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 termination method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the County's past experience of making termination payments.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

**FINANCIAL CONDITION
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Accrued and Long-Term Liabilities

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences, and contractually required pension obligations are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current expendable available financial resources. Bonds, notes, loans, and capital leases are recognized as a liability of the general long-term obligations account group until due.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

Under Ohio Law, a debt retirement fund may be created and used for the payment of all tax and revenue anticipation notes. Generally accepted accounting principles requires the reporting of the liability in the funds that received the proceeds. To comply with GAAP reporting requirements, the County's debt service fund has been split among the appropriate funds. Debt service fund resources used to pay both principal and interest have also been allocated accordingly.

N. Unamortized Premium on Bonds

In governmental funds, bond premiums are recognized in the current period. In proprietary funds, the premiums on bonds are deferred and amortized over the term of the bonds using the straight line method. On the balance sheet, the revenue bonds payable are presented with the unamortized bond premium included.

O. Contributed Capital

Contributed capital represents resources from other funds, other governments, and private sources provided to proprietary funds prior to 2001, that are not subject to repayment. These assets were recorded at their fair market value on the date contributed. Depreciation on those assets acquired or constructed with capital grants is expensed and closed to contributed capital at year end. Contributed resources subsequent to January 1, 2001, are reported as capital contributions within the financial statements pursuant to GASB 33 "*Accounting and Reporting for Nonexchange Transactions.*"

P. Reservations of Fund Equity

The County records reservations for portions of fund balance which are legally segregated for specific future use or which do not represent available, expendable resources and, therefore, are not available for expenditure. Unreserved fund balance/retained earnings indicates that portion of fund equity which is available for appropriation in future periods.

Fund balance reserves have been established for encumbrances, inventory, advances, non-expendable trust fund contributions, and loans, which represent community development block grant monies loaned to local businesses and individuals and for the Craft Educational Expendable Trust fund monies loaned to college students.

Retained earnings reserves have been established for debt service, plant improvement and replacement, and for operations of the enterprise fund as a requirement of the revenue bond covenants.

**FINANCIAL CONDITION
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Q. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as entitlements and 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 proprietary fund operations are recognized as non-operating revenues in the accounting period in which they are earned and become measurable.

R. Interfund Transactions

During the course of normal operations the County has numerous transactions between funds, most of which are in the form of transfers of resources to provide services, construct assets and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Operating subsidies are also recorded as operating transfers.

Nonrecurring and non-routine transfers of equity between funds, capital contributions to the Enterprise fund, the subsequent return of all or part of such contributions, and the transfer of residual balances of discontinued funds or projects to the General fund, Capital Projects funds, or Debt Service funds (when financed with debt proceeds) are classified as residual equity transfers.

Transactions that constitute reimbursements for expenditures or expenses initially made from a fund that are properly allocable to another fund are recorded as expenditures or expenses in the reimbursing fund and as reductions of the expenditures and expenses in the fund that is reimbursed. Quasi-external transactions are accounted for as revenues and expenditures or expenses.

S. Use of Estimates

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

T. Total Columns on General Purpose Financial Statements

Total Columns on the general purpose financial statements are captioned "Totals (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

When the title of a statement indicates that component units are included, two total columns are presented. The first is captioned "Primary Government" to indicate that only those activities that comprise the County's legal entity have been included. The second is captioned "Reporting Entity" and includes the activity and operations of the County's legally separate discretely presented component units (see Note 1). The total column on statements which do not include component units have no additional caption.

**FINANCIAL CONDITION
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

3. RESTATEMENT OF PRIOR YEAR FUND EQUITY

During 2002, the County revised its policy for capitalizing fixed assets by increasing the capitalization threshold from \$500 to \$3,000. The revision decreased the fixed assets and investment in general fixed assets by \$3,388,529, from \$64,283,260 to \$60,894,731 in the General Fixed Assets Account Group. For the proprietary funds, fixed assets decreased by \$236,812, from \$1,343,645 to \$1,106,833, and accumulated depreciation decreased by \$315,368, from \$964,679 to \$649,311, with a net result of a decrease in fixed assets and unreserved retained earnings of \$78,556.

4. ACCOUNTABILITY AND COMPLIANCE

A. Accountability

The following funds had deficit fund balances/retained earnings as of December 31, 2002:

	Deficit
Special Revenue Fund:	
Dog and Kennel	\$182,627
Job and Family Services	27,561
Capital Projects Funds:	
Special Assessments Notes - Ditches	165,918

The deficits in the Special Revenue and Capital Projects Funds are the result of applying generally accepted accounting principles.

B. Compliance

The Self Insurance Internal Service Fund had appropriations in excess of estimated resources plus available balances, in the amount of \$233,940.

The following accounts had expenditures plus encumbrances in excess of appropriations for the year ended December 31, 2002:

	Appropriation	Expenditures Plus Encumbrances	Excess
Special Revenue Fund			
Children's Services – Human Service	\$4,890,000	\$4,921,347	\$31,347
Capital Project Fund			
Issue II Projects - Capital Outlay	0	928,301	928,301
Expendable Trust Fund			
Unclaimed Monies – Legislative and Executive	60,000	108,874	48,874

5. BUDGETARY BASIS OF ACCOUNTING

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

The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Budgetary Basis) and Actual, All Governmental Fund Types and Expendable Trust Funds and the Combined Statement of Revenues, Expenses and Changes in Fund Balances - Budget (Non-GAAP Budgetary Basis) and Actual - All Proprietary Fund Types and Non-expendable Trust Fund - Primary Government, are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

**FINANCIAL CONDITION
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

5. BUDGETARY BASIS OF ACCOUNTING (Continued)

The major differences between the budget basis and the GAAP basis are that:

- a. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- b. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
- c. Outstanding year end encumbrances are treated as expenditures/expenses (budget basis) rather than as a reservation of fund balance for governmental fund types and expendable trust funds (GAAP basis) and note disclosure for proprietary fund types and non-expendable trust funds (GAAP basis).
- d. For proprietary funds and non-expendable trust funds, the acquisition and construction of capital assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).
- e. Cash accounts which are held separately by the County are not budgeted but are recorded on the GAAP basis as Cash and Cash Equivalents in Segregated Accounts.
- f. Principal payments on proprietary long-term obligations are reported on the operating statement (budget basis), rather than as balance sheet transactions (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 All Governmental Fund Types and Expendable Trust Funds					
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust
GAAP Basis	(\$411,437)	(\$2,649,557)	\$790,284	\$2,020,854	\$(46,343)
Increase (Decrease) Due To					
Revenue Accruals	(151,824)	469,263	(18,219)	(196,938)	0
Expenditure Accruals	(60,309)	518,333	(82,452)	(603,949)	0
Prepaid Items	(144,953)	(87,929)	0	0	0
Increase in Fair Value	371,885				
Outside Cash	(9,861)	(202,871)	0	0	0
Revolving Loans:					
New Loans	(220,000)	(67,937)	0	0	0
Repayments	0	6,191	0	0	4,520
Advances - In	808,490	250,000	0	343,600	0
Advances - Out	(6,500)	(555,000)	0	(693,490)	0
Encumbrances Outstanding at					
Year End (Budget Basis)	(231,085)	(4,155,019)	0	(1,477,447)	0
Budget Basis	<u>(\$55,594)</u>	<u>(\$6,474,526)</u>	<u>\$689,613</u>	<u>(\$607,370)</u>	<u>(\$41,823)</u>

**FINANCIAL CONDITION
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

5. BUDGETARY BASIS OF ACCOUNTING (Continued)

	Net Income/Excess of Revenues Over (Under) Expenses and Transfers and Advances Proprietary Fund Types and Nonexpendable Trust		
	Enterprise	Internal Service	Non Expendable Trust
GAAP Basis	<u>\$492,315</u>	<u>\$1,364,817</u>	<u>\$49</u>
Increase (Decrease) Due To			
Revenue Accruals	36,907	63	0
Expense Accruals	(119,267)	55,391	0
Materials and Supplies Inventory	(18,375)	0	0
Prepaid Items	(18,895)	0	0
Outside Cash	53,232	107	(29)
Acquisition of Fixed Assets	(914,532)	0	0
Depreciation Expense	1,133,532	0	0
Loss on Disposal of Fixed Assets	2,937	0	0
Advances-In	190,000	0	0
Advances-Out	(337,100)	0	0
Loan Principal Retirement	(20,551)	0	0
Bond Proceeds	7,150,000	0	0
Bond Principal Retirement	(7,225,000)	0	0
Bond Call Premium	(139,100)	0	0
Bond Issuance Costs	(130,000)	0	0
Premium on Bond Issue	21,583	0	0
Encumbrances Outstanding	(430,155)	0	0
Budget Basis	<u><u>(\$272,469)</u></u>	<u><u>\$1,420,378</u></u>	<u><u>\$20</u></u>

6. DEPOSITS AND INVESTMENTS

A. Primary Government

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

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**FINANCIAL CONDITION
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

6. DEPOSITS AND INVESTMENTS (Continued)

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond and other obligations of the State of Ohio or its political subdivisions, provided that such political subdivisions are located wholly or partly within the County;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which the County lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2) or cash or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed five percent of the County's total average portfolio; and
10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the County's total average portfolio;

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

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

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

At year-end, the County had \$296,945 in undeposited cash on hand which is included on the balance sheet of the County as part of "Equity in Pooled Cash and Cash Equivalents".

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

**FINANCIAL CONDITION
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

6. DEPOSITS AND INVESTMENTS (Continued)

At year-end, the carrying amount of the County's deposits was \$15,933,207, and the bank balance was \$18,540,159. Of the bank balance, \$969,775 was covered by federal depository insurance. The remaining amount of \$17,570,384 was uninsured and uncollateralized. Although all state statutory requirements for the deposit of money had been followed and for some deposits collateral was held by pledging financial institutions' trust department in the County's name, noncompliance with federal requirements could potentially subject the County to a successful claim by the FDIC.

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

	Category 3	Carrying Value	Fair Value
Federal Farm Credit Bank Notes	\$2,078,750	\$2,078,750	\$2,078,750
Federal Home Loan Bank Notes	3,295,234	3,295,234	3,295,234
Federal Home Mortgage Corporation Notes	6,535,687	6,535,687	6,535,687
Federal National Mortgage Association Notes	15,137,969	15,137,969	15,137,969
Repurchase Agreements	700,000	700,000	700,000
	<u>\$27,747,640</u>	27,747,640	27,747,640
STAR Ohio		6,085,760	6,085,760
U.S. Treasury Security Money Market Fund		638,754	638,754
Bank One Money Market		1,383,248	1,383,248
Grand Total		<u>\$35,855,402</u>	<u>\$35,855,402</u>

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, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting". A reconciliation between the classification of cash and cash equivalents and investments on the combined financial statements and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$52,085,554	\$0
Cash on Hand	(296,945)	0
Investments:		
Federal Farm Credit Bank Notes	(2,078,750)	2,078,750
Federal Home Loan Bank Notes	(3,295,234)	3,295,234
Federal Home Mortgage Corporation Notes	(6,535,687)	6,535,687
Federal National Mortgage Association Notes	(15,137,969)	15,137,969
Repurchase Agreements	(700,000)	700,000
STAR Ohio	(6,085,760)	6,085,760
U.S. Treasury Security Money Market	(638,754)	638,754
Bank One Money Market	(1,383,248)	1,383,248
GASB Statement No. 3	<u>\$15,933,207</u>	<u>\$35,855,402</u>

**FINANCIAL CONDITION
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

6. DEPOSITS AND INVESTMENTS (Continued)

B. Component Units

Marimor Industries, Inc. - At year end, the carrying amount of Marimor Industries, Inc. deposits was \$179,140. The investments are carried at fair market values. Of these investments, mutual funds have a fair value of \$183,238 and the long-term certificates of deposit have a fair value of \$265,243, for a total investment amount of \$448,481.

LODDI, Inc. - At year end, the carrying amount of LODDI, Inc. deposits was \$17,441. These amounts are classified as "Cash and Cash Equivalents and Investments in Segregated Accounts" on the balance sheet. There are no statutory guidelines regarding the deposit of funds by the not-for-profit corporations.

7. INVESTMENT POOL

The County serves as fiscal agent for the Metropolitan Park Board and the Joint Solid Waste Management District which are legally separate entities. The County pools the monies of these entities with the County's for investment purposes. The County cannot allocate its investments between the internal and external investment pools. The investment pool is not registered with the Securities Exchange Commission as an investment company. The fair value of investments is determined annually. The pool does not issue shares. Each participant is allocated a pro rata share of each investment at fair value along with a pro rata share of the interest that it earns.

Condensed financial information for the investment pool is as follows:

**Statement of Net Assets
December 31, 2002**

Assets	
Equity in Pooled Cash and Cash Equivalents	\$47,484,458
Interest Receivable	220,035
Restricted Assets:	
Equity in Pooled Cash and Cash Equivalents	2,068,046
Total Assets	<u>\$49,772,539</u>
Net Assets Held in Trust for Pool Participants	
Internal Portion	\$47,656,310
External Portion	2,116,229
Total Net Assets Held in Trust for Pool Participants	<u>\$49,772,539</u>

**Statement of Changes in Net Assets
For the Year Ended December 31, 2002**

Revenues	
Interest	\$1,696,693
Expenses	
Operating Expenses	0
Net Increase in Assets Resulting from Operations	1,696,693
Distribution to Participants	(1,857,581)
Capital Transactions	(757,755)
Total Decrease in Net Assets	(918,643)
Net Assets Beginning of Year	50,691,182
Net Assets End of Year	<u>\$49,772,539</u>

**FINANCIAL CONDITION
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

7. INVESTMENT POOL (Continued)

At year end, the carrying amount of the pools deposits was \$15,008,093 and the bank balance was \$16,604,605. Of the bank balance, \$200,000 was covered by federal depository insurance and \$16,404,605 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the County to a successful claim by the FDIC.

At year end, the investments of the pool classified according to GASB Statement No. 3 were as follows:

	<u>Category 3</u>	<u>Fair Value</u>
Federal Farm Credit Bank Notes	\$2,078,750	\$2,078,750
Federal Home Loan Bank Notes	3,295,234	3,295,234
Federal Home Mortgage Corporation Notes	6,535,687	6,535,687
Federal National Mortgage Association Notes	15,137,969	15,137,969
	<u>\$27,047,640</u>	<u>27,047,640</u>
STAR Ohio		5,909,802
Bank One Money Market		1,383,248
Total Investments		<u>\$34,340,690</u>

STAR Ohio accounts have an interest rate of 1.44 percent. Other investments interest rates and maturities are as follows:

	<u>Interest Rate</u>	<u>Maturity</u>
Federal Farm Credit Bank Notes	3.875%	December 2004
Federal Home Loan Bank Notes	2.00-4.985%	December 2003-August 2005
Federal Home Loan Mortgage Corp. Notes	2.34-4.125%	April 2003-April 2006
Federal National Mortgage Association Notes	2.45-5.45%	October 2003-September 2005

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, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

A reconciliation between the classification of cash and cash equivalents and investments on the combined financial statements and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$49,552,504	\$0
Cash on Hand	(203,721)	0
Investments:		
Federal Farm Credit Bank Notes	(2,078,750)	2,078,750
Federal Home Loan Bank Notes	(3,295,234)	3,295,234
Federal Home Mortgages Corporation Notes	(6,535,687)	6,535,687
Federal National Mortgage Association Notes	(15,137,969)	15,137,969
STAR Ohio	(5,909,802)	5,909,802
Bank One Money Market	(1,383,248)	1,383,248
GASB Statement No. 3	<u>\$15,008,093</u>	<u>\$34,340,690</u>

**FINANCIAL CONDITION
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

8. 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 revalued every six years. The last reappraisal was completed in 2000. Real property taxes are payable annually or semiannually. The first payment is due December 31, with the remainder payable by June 20, unless extended.

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 is currently assessed at 88 percent of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Taxes collected on tangible personal property (other than public utility property) in one calendar year are levied in the prior calendar year on assessed values as of December 31 of the current 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 September 20. Single-county taxpayers may pay annually or semiannually. The first payment is due April 30, with the remainder payable by September 20.

The County Treasurer collects property tax on behalf of all taxing districts within the County. The County Auditor periodically remits to the taxing district their portion of taxes collected. The collection and distribution of taxes for the County and for all subdivisions within the County is accounted for through agency funds. The amount of the County's tax collections which will flow through an agency fund is reported as "Taxes Receivable" on the combined balance sheet in both the agency fund and the governmental fund which will receive the tax distribution.

Property taxes receivable represents delinquent taxes outstanding and real, public utility, and tangible personal property taxes which were measurable and unpaid as of December 31, 2002. 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 2002 operations. The receivable is therefore offset by a credit to deferred revenue for the amount not intended to finance current year operations.

The full tax rate for all County operations for the year ended December 31, 2002 was \$7.70 per \$1,000 of assessed value. The assessed values of real, public utility, and tangible personal property upon which 2002 property tax receipts were based are as follows:

Real Property	\$1,218,446,960
Public Utility Personal Property	84,322,810
Tangible Personal Property	417,122,801
Total Assessed Value	<u>\$1,719,892,571</u>

**FINANCIAL CONDITION
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

9. PERMISSIVE SALES AND USE TAX

In 1967, the County Commissioners by resolution imposed a one percent tax on all retail sales, except sales of motor vehicles, made in the County, and on the storage, use, or consumption in the County of tangible personal property, including automobiles, not subject to the sales tax. Vendor collections of the tax are paid to the State Treasurer by the twenty-third day of the month following collection.

The State Tax Commissioner certifies to the State Auditor the amount of the tax to be returned to the County. The Tax Commissioner's certification must be made within forty-five days after the end of each month. The State Auditor then has five days in which to draw the warrant payable to the County.

Proceeds of the tax are credited to the General Fund (\$10,300,297), the 911 Systems and the Jail Maintenance Special Revenue Funds (\$288,700), the General Obligation Bond Retirement Debt Service Fund (\$1,492,700), and the Building and Expansion and Economic Development Capital Projects Funds (\$1,016,000), for a total amount of \$13,097,697 received in 2002. Amounts that are to be received within the available period are accrued as revenue.

10. RECEIVABLES

Receivables at December 31, 2002, consisted of taxes, interest, special assessments, accounts (billings for user charged services, including unbilled utility services), loans, and intergovernmental receivables arising from grants, entitlements and shared revenues. All receivables are considered collectible in full. Delinquent accounts receivable may be certified and collected as a special assessment, subject to foreclosure for nonpayment.

The County has three types of loans receivable. Some represent zero to six percent loans for home improvements granted to eligible County residents under the Federal Community Development Block Grant program. These loans are to be repaid over periods ranging from ten to thirty years.

Some loans are zero interest loans for college tuition granted to recipients of the Craft Educational Trust Scholarship. Beginning three years after the recipient graduates from college, sixty percent of the awarded scholarship is to be repaid over the next five years.

The remaining forty percent is not required to be repaid and therefore is not recorded as part of loans receivable. Additionally, the County has loaned money to the Port Authority of Allen County for economic development. This money will be repaid to the County with zero interest.

A summary of the principal items of due from other governments follows:

	<u>Amount</u>
General Fund:	
Defense of Indigents	\$101,942
Local Government	24,118
Juvenile Court Subsidy	16,544
Sheriff's Contracts	15,034
Juvenile Center Breakfast/Lunch Program	2,300
Total General Fund	<u>159,938</u>

**FINANCIAL CONDITION
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

10. RECEIVABLES (Continued)

Special Revenue Funds:	<u>Amount</u>
CDBG Grants	1,743,000
Child Support Enforcement Overpayment	145,718
Public Assistance	141,277
Adult Probation Grants	183,091
Felony Custody and Care	57,773
Sheriff Reimbursable Grants	68,174
Gasoline Tax - Excise Tax	116,513
MRDD Reimbursable Grants	85,380
MRDD CAFS Reimbursement	756,168
Motor Vehicle License Tax	124,581
Juvenile Court Grants	107,125
Permissive Motor Vehicle License Tax	20,674
Miscellaneous	8,358
Total Special Revenue Funds	<u>3,557,832</u>
Capital Projects Funds:	
Industrial Park Grant	1,010,361
County Engineer Grants	203,067
Total Capital Projects Funds	<u>1,213,428</u>
Agency Funds:	
Library Local Government	312,867
Local Government	390,790
Gasoline Tax - Excise	50,559
Motor Vehicle License Tax	28,993
Permissive Motor Vehicle License Tax	14,727
Total Agency Funds	<u>797,936</u>
Total All Funds	<u><u>\$5,729,134</u></u>

11. FIXED ASSETS

A summary of the enterprise funds' and the component units' fixed assets at December 31, 2002, follows:

	<u>Primary Government Enterprise Fund</u>	<u>Component Units</u>
Land	\$51,219	\$91,263
Buildings	7,717,680	704,545
Machinery and Equipment	626,506	542,484
Licensed Vehicles	496,852	0
Infrastructure	31,293,304	0
Total	<u>40,185,561</u>	<u>1,338,292</u>
Less Accumulated Depreciation	(14,905,617)	(532,331)
Fixed Assets Net of Accumulated Depreciation	<u><u>\$25,279,944</u></u>	<u><u>\$805,961</u></u>

**FINANCIAL CONDITION
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

11. FIXED ASSETS (Continued)

A summary of the changes in general fixed assets during 2002 follows:

	Balance December 31, 2001	Additions	Deletions	Balance December 31, 2002
Land	\$ 5,442,700	\$ 0	\$ 0	\$ 5,442,700
Buildings	42,948,047	8,500	0	42,956,547
Machinery and Equipment	1,621,871	115,948	308,179	1,429,640
Licensed Vehicles	4,997,740	241,159	324,589	4,914,310
Office Furniture and Equipment	5,884,373	195,569	152,441	5,927,501
Total	\$60,894,731	\$561,176	\$785,209	\$60,670,698

12. RISK MANAGEMENT

A. Insurance Coverages

The County is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2002, the County contracted with several companies for commercial insurances. There has been no significant reduction in insurance coverage from the prior year. Settled claims have not exceeded coverage in aggregate for the past three years.

B. Workers' Compensation

For 2002, the County participated in the County Commissioners Association of Ohio Workers' Compensation Group Rating Plan ("the Plan"), an insurance purchasing pool (see Note 22). The Plan is intended to achieve lower workers' compensation rates while establishing safer working conditions and environments for the participants.

The workers' compensation experience of the participating counties is calculated as one experience and a common premium rate is applied to all participants in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate.

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

The firm of Comp Management, Inc. provides administrative, cost control and actuarial services to the Plan. Each year, the County pays an enrollment fee to the Plan to cover the costs of administering the program.

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

**FINANCIAL CONDITION
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

12. RISK MANAGEMENT (Continued)

C. Self-Insurance Program

The County established an Employee Health Insurance Fund (an internal service fund) to account for and finance employee health benefits. The Employee Health Care Plan is responsible for the first \$90,000 in aggregated claims per year. After that, stop-loss covers up to a lifetime maximum of \$2,000,000 per covered person.

The County had three occurrences in which settled claims exceeded coverage by the fund on an individual level for 2001 and one in 2002. Settled claims did not exceed coverage provided by the fund in the aggregate for the past three years.

All funds of the County except for the funds of the Child Support Enforcement Agency, Public Assistance, Health Department, and Marimor School participate in the program and make payments to the Employee Health Insurance Fund based on estimates of the annual cost of claims. These rates are paid by the fund from which the employees' compensation is paid.

Claims payable is based on the requirement of Governmental Accounting Standards Board Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported if information prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount can be reasonably estimated. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Claims payable at December 31, 2002 are estimated by the third party administrator at \$323,546.

<u>Year</u>	<u>Beginning of Year</u>	<u>Current-Year Claims And Changes in Estimates</u>	<u>Claims Payments</u>	<u>End of Year</u>
2001	\$659,155	\$3,735,149	\$3,828,250	\$566,054
2002	566,054	3,112,098	3,354,606	323,546

13. DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System (OPERS)

All County employees, other than teachers, participate in the Ohio Public Employees Retirement System of Ohio (OPERS), a cost-sharing multiple employer defined benefit pension plan administered by the Ohio Public Employees Retirement Board. OPERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries.

Benefits are established by Chapter 145 of the Ohio Revised Code. OPERS issues a publicly available financial report, which includes financial statements and required supplementary information. The report may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 1-800-222-7377.

**FINANCIAL CONDITION
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

13. DEFINED BENEFIT PENSION PLANS (Continued)

Plan members, other than those engaged in law enforcement, are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. In January, 2001, House Bill 416 divided the OPERS law enforcement program into two separate divisions with separate employee contribution rates and benefits. The law enforcement classification consisted of sheriffs and deputy sheriffs with an employee contribution rate of 10.1 percent.

All other members of the OPERS law enforcement program were placed in a newly named public safety division and continued to contribute at 9 percent. The 2002 employer contribution rate for regular employees was 13.55 percent of covered payroll. 8.55 percent was the portion used to fund pension obligations, a decrease from 9.25 percent in 2001. The 2002 employer contribution rate for both the law enforcement and public safety divisions was 16.7 percent of covered payroll. 11.70 percent was the portion used to fund pension obligations, a decrease from 12.40 percent in 2001. Contributions are authorized by State statute and are determined actuarially.

The County's contributions to OPERS for the years ended December 31, 2002, 2001, and 2000, were \$2,854,518, \$2,927,616, and \$2,067,041, respectively; 87 percent has been contributed for 2002 and 100 percent has been contributed for 2001 and 2000. The unpaid contribution for 2002 is recorded as a liability in the respective funds.

B. State Teachers Retirement System (STRS)

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

Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614)227-4090.

Plan members are required to contribute 9.3 percent of their annual covered salary to fund pension obligations and the County is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The County's contributions to STRS for the years ending December 31, 2002, 2001, and 2000, were \$87,893, \$86,917, and \$52,194, respectively; 94.74 percent has been contributed for 2002 and 100 percent has been contributed for 2001 and 2000. The unpaid contribution for 2002 is recorded as a liability in the respective fund.

14. POSTEMPLOYMENT BENEFITS

A. Public Employees Retirement System

The Ohio Public Employees Retirement System of Ohio (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available.

**FINANCIAL CONDITION
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

14. POSTEMPLOYMENT BENEFITS (Continued)

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "*Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers*". A portion of each employer's contribution to PERS is set aside for the funding of post retirement health care based on authority granted by State statute.

The employer contribution rate for 2002 was 13.55 percent of covered payroll for employees not engaged in law enforcement; 5 percent was the portion that was used to fund health care. During 2001, the PERS law enforcement program was separated into two divisions, law enforcement and public safety, with separate employee contribution rates and benefits. The employer contribution rate for law enforcement and public safety employees for 2002 was 16.7 percent; 5 percent was used to fund health care.

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 percent of unrealized market appreciation or depreciation on assets. The investment assumption rate for 2001 was 8 percent.

The annual increase of 4 percent 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 percent base increase, were assumed to range from .50 percent to 6.3 percent. Health care costs were assumed to increase 4 percent annually.

OPEB are advance-funded on an actuarially determined basis. As of December 31, 2001, the actuarial value of the Retirement System's net assets available for OPEB were \$11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$16.4 billion and \$4.8 billion, respectively. The number of active contributing participants was 402,041. The County's actual contributions for 2002 which were used to fund OPEB were \$1,608,683.

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 then 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. This 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.

**FINANCIAL CONDITION
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

14. POSTEMPLOYMENT BENEFITS (Continued)

B. State Teachers Retirement System

State Teachers Retirement System of Ohio (STRS) provides access to health care benefits for retirees and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Ohio Revised Code (O.R.C.), the State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of monthly premiums.

The Ohio Revised Code grants authority to STRS to provide health care coverage to benefit recipients, spouses and dependents. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll.

STRS allocates employer contributions to the Health Care Reserve Fund from which health care benefits are paid. For the fiscal year ended June 30, 2002, the STRS allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. Effective July 1, 2002, 1 percent of covered payroll was allocated to the fund. For the County, the total amount equaled \$25,461 during 2002. The balance in the Health Care Reserve Fund was \$3.011 billion on June 30, 2002. For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000. There were 105,300 eligible benefit recipients.

15. OTHER EMPLOYER BENEFITS

Compensated Absences

Vacation leave is earned at rates which vary depending upon length of service and standard work week. The County currently has different policies regarding vacation leave. All of the policies state that the County employees are paid for all earned, unused vacation leave at the time of termination of employment with more than one year of service with the County.

Employees earn sick leave at varying rates based on whether the employee is union or non-union. Upon retirement, employees with ten or more years of service are paid one-fourth of accumulated sick leave up to a maximum of thirty days.

Unpaid compensated absences of \$58,819 and \$105,450, respectively, were reported as an accrued liability in the general and special revenue funds. The balance of the liability for governmental funds is reported in the general long-term obligations account group in the amount of \$2,159,771. The accrual for unpaid compensated absences of \$82,965 was reported in the enterprise fund.

16. CAPITAL LEASES - LESSEE DISCLOSURE

The County has entered into capitalized leases for office equipment. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. New capital leases are reflected in the accounts "Capital Outlay" and "Inception of Capital Leases" for governmental funds.

**FINANCIAL CONDITION
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

16. CAPITAL LEASES - LESSEE DISCLOSURE (Continued)

Capital leases are reported as a liability in the general long-term obligations account group. Capital lease payments are reflected as debt service expenditures for the governmental funds. Equipment acquired by lease has been capitalized in the General Fixed Assets Account Group at an amount equal to the present value of the future minimum lease payments at the time of acquisition. The carrying value of leased assets in the General Fixed Assets Account Group is \$122,560.

A corresponding liability was recorded in the general long-term obligations account group. Principal payments in 2002 totaled \$24,868, with \$23,598 being paid from the General fund and \$1,270 from the Special Revenue Funds, and a trade in valued at \$4,379 was made during 2002.

Future minimum lease payments through 2007 for the governmental funds are as follows:

Year	General Long- Term Obligation Account Group
2003	\$36,629
2004	18,615
2005	14,117
2006	4,987
2007	591
Total	74,939
Less: Amount Representing Interest Present Value of Net Minimum Lease Payments	(9,312) \$65,627

17. LONG-TERM DEBT

The changes in the County's long-term obligations during the year consisted of the following:

	Balance 12/31/01	Additions	Reductions	Balance 12/31/02
General Long-Term Obligations				
Bond Anticipation Notes:				
General Obligation Notes:				
Airport Improvement	\$0	\$220,000	\$0	\$220,000
West Side of Interstate 75	3,385,000	3,020,000	3,385,000	3,020,000
East Side of Interstate 75	2,400,000	2,265,000	2,400,000	2,265,000
Total General Obligation Notes	5,785,000	5,505,000	5,785,000	5,505,000
Special Assessment Notes:				
Bath Township Trustees	460,000	360,000	460,000	360,000
Bear Ditch	70,000	50,000	70,000	50,000
Bellinger Ditch #1188	42,000	40,000	42,000	40,000
Dug Run Ditch #1151	125,000	100,000	125,000	100,000
Spencerville Ditch #1202	76,500	76,500	76,500	76,500
Tom Ahl Ditch #1203	81,560	28,000	81,560	28,000
Mayer Ditch #1205	0	59,600	0	59,600
Belmont Ditch #1218	0	146,000	0	146,000
Pike Run Ditch #1150	0	91,000	0	91,000
Zimmerman Ditch #1219	0	124,000	0	124,000

**FINANCIAL CONDITION
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

17. LONG-TERM DEBT (Continued)

	<u>Balance 12/31/01</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/02</u>
Southwood Waterline DPA	85,000	85,000	85,000	85,000
Early/Lutz Road Waterline	70,000	70,000	70,000	70,000
Berryman Waterline	22,000	212,000	22,000	212,000
Hamernik Ditch #1193	31,040	29,000	31,040	29,000
Oakview Sewer Improvement	90,000	1,280,000	130,000	1,240,000
Total Special Assessment Notes	<u>1,153,100</u>	<u>2,751,100</u>	<u>1,193,100</u>	<u>2,711,100</u>
Total Bond Anticipation Notes	<u>6,938,100</u>	<u>8,256,100</u>	<u>6,978,100</u>	<u>8,216,100</u>
General Long-Term Obligations:				
General Obligation Bonds:				
1993 County Office Building - 6.0%	2,870,000	0	2,870,000	0
2002 Court of Appeals - 1.5-5.25%	0	2,744,858	0	2,744,858
1993 County Justice Center - 6.0%	8,005,000	0	8,005,000	0
2002 County Justice Center – 1.5-5.25%	0	7,655,435	0	7,655,435
2001 Downtown Parking – .3.3-5.0%	1,310,000	0	30,000	1,280,000
2001 Civic Center – 3.3 to 5.0%	4,230,000	0	94,000	4,136,000
Total General Obligation Bonds	<u>16,415,000</u>	<u>10,400,293</u>	<u>10,999,000</u>	<u>15,816,293</u>
Special Assessment Bonds:				
1983 Bath-Perry Sewer - 9.75%	12,000	0	4,000	8,000
1985 St. John's Waterline - 8.875%	35,000	0	5,000	30,000
1990 Project #17-700, 17-800 – 5.9-7.2%	410,000	0	410,000	0
2002 Project #17-700, 17-800- 1.5-5.25%	0	380,000	0	380,000
1991 Waterline Improvement – 4.75-6.9%	475,000	0	475,000	0
2002 Waterline Improvement – 1.5-5.25%	0	450,000	0	450,000
1992 Various Purpose Issue – 2.9-6.3 %	330,000	0	330,000	0
2002 Hixenbaugh/Copus/Indianbrook 1.5-5.25%	0	310,000	0	310,000
1993 Project #17-400, 17-500, 11-800-6.0%	2,395,000	0	2,395,000	0
2002 Project #17-400, 17-500, 11-800-1.5-5.25%	0	2,039,707	0	2,039,707
1994 Ft. Shawnee Waterline Improvement- 6.5%	2,475,000	0	130,000	2,345,000
2001 Findlay/Ada/Stewart Road Sewer – 5.0%	2,132,158	0	2,132,158	0
2002 Findlay/Ada/Stewart Road Sewer-1.5-5.25%	0	2,110,000	0	2,110,000
2001 Allentown Road Sewer – 3.3 - 5.0%	865,000	0	20,000	845,000
2001 East Road Waterline – 3.3 to 5.0%	50,000	0	2,000	48,000
2001 Ottawa River Bend Waterline- 3.3-5.0%	95,000	0	4,000	91,000
Total Special Assessment Bonds	<u>9,274,158</u>	<u>5,289,707</u>	<u>5,907,158</u>	<u>8,656,707</u>
Total Bonds Payable	<u>25,689,158</u>	<u>15,690,000</u>	<u>16,906,158</u>	<u>24,473,000</u>

**FINANCIAL CONDITION
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

17. LONG-TERM DEBT (Continued)

	<u>Balance 12/31/01</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/02</u>
Other Long-Term Obligations:				
Compensated Absences Payable	2,210,576	0	50,805	2,159,771
Issue II Loan Payable - 0.00%	132,606		7,367	125,239
Issue II Loan Payable - 0.00%		<u>107,377</u>		<u>107,377</u>
Capital Leases Payable	<u>81,125</u>	<u>13,749</u>	<u>29,247</u>	<u>65,627</u>
Total Other Long-Term Obligations	<u>2,424,307</u>	<u>121,126</u>	<u>87,419</u>	<u>2,458,014</u>
Total General Long-Term Obligations	35,051,565	24,067,226	23,971,677	35,147,114
Enterprise Fund Obligations:				
Revenue Bonds:				
1993 Sewer System Revenue Bonds- 3.1-5.75%	7,164,520	60,480	7,225,000	0
2002 Sewer System Revenue Bonds- 1.5-5.25%	<u>0</u>	<u>7,171,583</u>	<u>0</u>	<u>7,171,583</u>
Total Revenue Bonds Payable	7,164,520	7,232,063	7,225,000	7,171,583
Other Long-Term Obligations:				
Issue II Loan Payable - 0.00%	<u>302,836</u>	<u>0</u>	<u>20,551</u>	<u>282,285</u>
Total Enterprise Fund Obligations	<u>7,467,356</u>	<u>7,232,063</u>	<u>7,245,551</u>	<u>7,453,868</u>
Total Long-Term Obligations	<u>\$42,518,921</u>	<u>\$31,299,289</u>	<u>\$31,217,228</u>	<u>\$42,600,982</u>

The General Obligation and Special Assessment notes payable have been reported in General Long Term Obligations Account Group since it is the County's intention to refinance those short-term obligations on a long-term basis.

All general obligation bonds are supported by the full faith and credit of the County. General obligation bonds are presented as a liability in the general long-term obligations account group and will be paid from unvoted property taxes. Special assessment debt is backed by the full faith and credit of the County and will be paid from the proceeds of special assessments levied against benefitted property owners. In the event that property owners fail to make their special assessment payments, the County is responsible for providing the resources to meet annual principal and interest payments.

The Issue II loan reflected in the enterprise fund will be paid from operating revenues of the sewer enterprise fund. The Issue II loan reflected in the General Long Term Obligations Account Group will be repaid from resources of the governmental funds.

During 2002, the County was granted an Issue II loan for \$253,335 for a bridge construction project with payments beginning July 1, 2003. The County received \$107,377 in 2002 and the remaining amount was received in 2003. The amortization schedule in Note 17 reflects the payments to be made over a term of 20 years.

On November 1, 2002, the County issued \$7,150,000 sewer system revenue bonds for a current refunding of \$6,995,000 in sewer system revenue bonds. The callable bonds required a premium payment of \$139,100 on the call date. The refunding bonds were issued at 99.22% for sixteen years with interest rates ranging from 1.50% to 5.25% to repay the original debt issued for the construction of new treatment facilities in the American-Bath Sub-district and Shawnee #2 Sub-district, and are to be paid from the enterprise fund. As a result of this current refunding, the County reduced its total debt service payments by \$950,625 over the term of the debt, and obtained an economic gain (difference between present values of the debt service on the old and new debt) of \$105,905. The reacquisition price exceeded the net carrying amount of the old debt by \$302,221. This amount is being amortized over the life of the new debt.

**FINANCIAL CONDITION
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

17. LONG-TERM DEBT (Continued)

In conjunction with the issuance of the sewer system revenue bonds, the County entered into a trust agreement with Fifth Third Bank. This trust agreement requires that the County establish various accounts for the repayment of debt. Certain restricted assets in the sewer fund are held by the trustees in accordance with the trust agreement.

Restricted assets relating to the sewer revenue bonds consisted of the following at December 31, 2002:

Restricted assets held by the trustee for debt service	\$638,754
Restricted assets held by the County for operations	1,684,394
Restricted assets held by the County for replacement and improvement	374,264
Restricted assets held by the County for future debt service	9,388

Compensated absences liabilities will be paid from the fund from which the employees' salaries are paid. Compensated absences are presented net because it is not practical to determine the actual increases or decreases. Capital lease obligations will be paid from the fund that maintains custody of the related asset.

The Ohio Revised Code provides that the net general obligation debt of the County, exclusive of certain exempt debt, issued without a vote of the electors shall never exceed one percent of the total assessed valuation of the County. The Code further provides that the total voted and unvoted net debt of the County less the same exempt debt shall never exceed a sum equal to three percent of the first \$100,000,000 of the assessed valuation, plus one and one-half percent of such valuation in excess of \$100,000,000 and not in excess of \$300,000,000, plus two and one-half percent of such valuation in excess of \$300,000,000.

The effects of the debt limitations described above at December 31, 2002 are an overall debt margin of \$28,599,825 and an unvoted debt margin of \$4,301,437.

The following is a summary of the County's future annual debt service requirements, including interest, for long-term obligations:

<u>Years</u>	<u>Issue II Loan</u>	<u>General Obligation Bonds</u>	<u>Special Assessment Bonds</u>	<u>Total</u>
2003	\$10,017	\$1,509,989	\$1,181,231	\$2,701,237
2004	20,034	1,511,383	1,173,396	2,704,813
2005	20,034	1,504,838	1,155,683	2,680,555
2006	20,034	1,514,421	1,146,251	2,680,706
2007	20,034	1,432,642	1,105,787	2,558,463
2008 - 2012	100,169	7,392,739	3,244,146	10,737,054
2013 - 2017	100,169	5,288,147	1,826,184	7,214,500
2018 - 2023	88,084	1,742,250	863,331	2,693,665
	<u>\$378,575</u>	<u>\$21,896,409</u>	<u>\$11,696,009</u>	<u>\$33,970,993</u>

**FINANCIAL CONDITION
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

17. LONG-TERM DEBT (Continued)

Enterprise Fund

<u>Years</u>	<u>Issue II Loans</u>	<u>Revenue Bonds</u>	<u>Total</u>
2003	\$10,276	\$615,757	\$626,033
2004	20,551	614,445	634,996
2005	20,550	613,240	633,790
2006	20,551	620,840	641,391
2007	20,550	616,792	637,342
2008 - 2012	102,754	3,080,188	3,182,942
2013 - 2018	87,053	3,700,656	3,787,709
	<u>\$282,285</u>	<u>\$9,861,918</u>	<u>\$10,144,203</u>

A. Conduit Debt

In 1998, the County issued economic development revenue bonds and health care facilities revenue bonds in the amount of \$10,400,000 and \$4,520,000, respectively. In 1999, the County issued health care facilities revenue bonds in the amount of \$1,455,000.

In 2001, the County issued development revenue bonds in the amount of \$1,600,000. These bonds were issued to provide financial assistance to private-sector entities for the acquisition, construction, renovating, and equipping of facilities deemed to be in the public interest.

The bonds are secured by the property financed and are payable solely from payments received on the underlying loan or lease and the trust agreements. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance.

The County is not obligated in any way to pay the debt and related charges on revenue bonds from any of its funds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of December 31, 2002, the aggregate principal amount payable on these bonds is \$15,570,000.

B. Component Units

<u>Component Unit Obligations</u>	<u>Outstanding 12/31/01</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding 12/31/02</u>
LODDI, Inc. Mortgage Notes Payable	\$228,309	\$0	\$15,456	\$212,853

The mortgage notes payable for the component unit LODDI, Inc. are a result of LODDI purchasing properties located within Allen County. The notes are currently held by The Commercial Bank of Delphos, Ohio and Fifth-Third Bank, Western Ohio. The notes will be repaid with operating revenues.

**FINANCIAL CONDITION
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

17. LONG-TERM DEBT (Continued)

The following is a summary of the component units' future annual debt service requirements for the notes payable:

Year	Mortgage Loans (Principal Only)
2003	\$17,135
2004	18,340
2005	19,377
2006	19,489
2007	19,656
Thereafter	118,856
	\$212,853

18. INTERFUND TRANSACTIONS

Interfund balances at December 31, 2002, consist of the following individual fund receivables and payables:

	Due To/From Other Funds		Advances To/From Other Funds	
	Receivable	Payable	Receivable	Payable
General Fund	\$10,889	\$0	\$566,756	\$1,970,500
Special Revenue Funds:				
Dog and Kennel	0	0	0	250,000
Job and Family Services	0	64,873	0	0
Sheriff's Law Enforcement	0	0	0	7,000
Child Support Enforcement Agency	0	10,889	1,300,000	0
MRDD	64,873	0	1,047,538	0
Ditch Maintenance	0	0	0	72,800
Civic Center	0	0	0	85,000
Total Special Revenue Funds	64,873	75,762	2,347,538	414,800
Debt Service Fund				
Special Assessments Bond Retirement	0	0	0	7,535
Capital Projects Funds				
Detailed Planning - Water Projects	0	0	0	112,095
Detailed Planning - Sewer Projects	0	0	0	402,338
Marimor Permanent Improvement	0	0	0	1,047,538
Special Assessment Notes - Ditches	0	0	0	482,920
Building and Expansion	0	0	1,005,500	0
Total Capital Projects Funds	0	0	1,005,500	2,044,891
Enterprise Fund				
Sewer	0	0	517,932	0
Total All Funds	\$75,762	\$75,762	\$4,437,726	\$4,437,726

**FINANCIAL CONDITION
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

19. CONDENSED FINANCIAL STATEMENTS - DISCRETELY PRESENTED COMPONENT UNITS

Balance Sheets

	Marimor Industries	LODDI	Total Component Units
Assets:			
Current Assets	\$694,095	\$23,838	\$717,933
Property, Plant, and Equipment (Net of accumulated depreciation)	125,038	680,923	805,961
Total Assets	<u>\$819,133</u>	<u>\$704,761</u>	<u>\$1,523,894</u>
Liabilities:			
Current Liabilities	\$25,695	\$1,489	\$27,184
Long-Term Mortgages Payable	0	212,853	212,853
Total Liabilities	<u>25,695</u>	<u>214,342</u>	<u>240,037</u>
Equity:			
Fund Balance - Temporarily Restricted	7,551	0	7,551
Fund Balance-Unreserved	785,887	490,419	1,276,306
Total Equity	<u>793,438</u>	<u>490,419</u>	<u>1,283,857</u>
Total Liabilities and Equity	<u>\$819,133</u>	<u>\$704,761</u>	<u>\$1,523,894</u>

Operating Statements

	Marimor Industries	LODDI	Total Component Units
Income	\$673,967	\$91,299	\$765,266
Expenses:			
Expenses Excluding Depreciation	587,475	71,462	658,937
Depreciation	45,213	17,614	62,827
Total Expenses	<u>632,688</u>	<u>89,076</u>	<u>721,764</u>
Excess of Income Over Expenses	41,279	2,223	43,502
Other Income	2,854	0	2,854
Excess of Income and Other Income Over Expenses	44,133	2,223	46,356
Fund Balance at Beginning of Year	749,305	488,196	1,237,501
Fund Balance at End of Year	<u>\$793,438</u>	<u>\$490,419</u>	<u>\$1,283,857</u>

20. JOINT VENTURES

A. Lima-Allen County Downtown Construction

The County and the City of Lima (City) entered into a joint funding agreement for the construction and funding of certain facilities, including the expansion of the Veteran's Memorial Civic and Convention Center, a parking garage, and a pedestrian overhead walkway (skywalk) from the Civic Center addition to the parking garage. The Civic Center expansion and the skywalk were constructed by and are owned by the County. The parking garage was constructed by and is owned by the City.

**FINANCIAL CONDITION
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

20. JOINT VENTURES (Continued)

The operation and maintenance costs associated with the skywalk and the parking garage are the joint responsibility of the County and the City. The City and the County share equally the net revenue/(loss) derived from the garage. For the year 2002, this amounted to a loss of \$45,755, of which the County was responsible for \$22,877. Complete financial information can be obtained from the Allen County Commissioners, Allen County, Ohio.

The City of Lima has agreed to enter into a long-term lease agreement with the County offering the County a one-half ownership interest in the parking garage, which will be operated and maintained by the Lima-Allen County Joint Parking Commission, in accordance with the rules and regulations established for the JPC (see Note 21). As of December 31, 2002 this lease has not been entered into.

B. Mental Health and Recovery Services Board of Allen, Auglaize and Hardin Counties

The Mental Health and Recovery Services Board of Allen, Auglaize and Hardin Counties (MHRS), is a three county political organization whose general purpose is to provide leadership in planning for and supporting community-based alcohol, drug addiction and mental health services in cooperation with public and private resources with emphasis on the development of prevention and early intervention programming, while respecting, protecting and advocating for the rights of persons as consumers of alcohol, drug addiction and mental health services

The MHRS Board of Trustees consists of eighteen members. Four members are appointed by the Director of the Ohio Department of Mental Health and four members appointed by the Director of the Ohio Department of Alcohol and Drug Addiction Services. The remaining members are appointed by the County Commissioners of Allen, Auglaize and Hardin Counties in the same proportion as each county's population bears to the total population of the three counties combined. The degree of control exercised by any participating government is limited to its representation on the Board. The MHRS Board is a joint venture since continued participation by the County is necessary for the continued existence.

Allen County acts as the fiscal agent for the MHRS Board. The Board receives tax revenue from the three counties and receives federal and state funding through grant monies which are applied for and received by the Board of Trustees. The MHRS Board is not accumulating significant financial resources and is not experiencing fiscal stress that may cause an additional financial benefit to or burden on members in the future.

During 2002, tax revenues generated by the levy in Allen County totaled \$606,723, which represents 7.2 percent of total revenue. Complete financial statements can be obtained from the Mental Health and Recovery Services Board, Allen County, Ohio.

C. Workforce Investment Act

The Workforce Investment Act (WIA) of 1998 (Pub L. No 105.220) abolished the former Job Training and Partnership Act (JTPA) and merged services previously provided by both the Ohio Bureau of Unemployment Services (OBES) and the Ohio Department of Human Services (ODAS). As a result of this legislation, both State and County Departments of Human Services (DHS) are now the Department of Job and Family Services (DJFS).

**FINANCIAL CONDITION
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

20. JOINT VENTURES (Continued)

Objectives of WIA are to increase the employment, retention, and earnings of participants in the program, and as a result improve the quality of the workforce, reduce welfare dependency, and enhance the productivity of the nation.

Ohio is organized into seven local workforce investment areas. There are six "traditional" local areas and a seventh area known as the Ohio Option, which includes most of the state. Each traditional area has its own workforce investment board and acts as its own workforce investment system. The Ohio Option is subdivided into local Workforce Development Areas (WDA), typically a county or multi-county WDA.

Each workforce investment or policy board is responsible for developing "one-stop" service delivery systems for the local areas. The one stop system is a network of required partners delivery training/employment services and activities defined in the law.

Each federal WIA program is administered through the ODJFS and operates on a state fiscal year from July 1, to June 30.

21. JOINTLY GOVERNED ORGANIZATIONS

A. Lima-Allen County Regional Planning Commission

The Lima-Allen County Regional Planning Commission is a political organization as established and set forth under Section 713.21 et seq. of the Ohio Revised Code. Representation on the Commission consists of six delegates and six alternates appointed by the Allen County Board of Commissioners, one delegate and one alternate for each 5,000 persons determined by the last federal decennial census from each municipal corporation and each of the townships participating in the Commission; provided that in no event shall any cooperating municipality or township have less than one delegate and one alternate to the Commission.

Each participating municipality and township contributes in each calendar year twenty cents per capita according to the latest federal census. Duties of the Commission include making studies, maps, plans and other reports of the County and adjoining areas, showing recommendations for systems of transportation, highways, park and recreational facilities, water supply, sewerage disposal, garbage disposal, civic centers and other public improvements and land uses which affect the development of the region.

The Commission has the authority to employ an Executive Director, engineers, accountants, attorneys, planners and others as may be necessary and set their compensation.

In 2002, the County paid membership fees of \$107,111, which represents 14 percent of total revenue. Complete financial statements can be obtained from the Lima-Allen County Regional Planning Commission, Allen County, Ohio.

**FINANCIAL CONDITION
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

21. JOINTLY GOVERNED ORGANIZATIONS (Continued)

B. North Central Ohio Solid Waste Management District

Allen County participates in a Multi-County Solid Waste District (the District), along with Champaign, Hardin, Marion, Shelby and Union Counties. The District was established following the requirements of House Bill 592. The Board of Directors consists of County Commissioners from each county. Initial funding for the District was contributed by each county based on its individual county's population as compared to the total of all participating counties' populations.

Allen County, being the largest of the six counties, initially contributed 33 percent of the total funds contributed, and is the fiscal agent for the District. In 1994, the District became self-supporting and does not anticipate having to rely on future support coming from funds given to the District by the six counties involved. The County does not contribute to the District nor does it anticipate doing so in the future. Complete financial statements can be obtained from the North Central Ohio Solid Waste Management District, Allen County, Ohio.

C. Western Ohio Regional Treatment and Habilitation (WORTH) Center

The Western Ohio Regional Treatment and Habilitation (WORTH) Center is a residential probation center created in 1991 under Section 2301.51 of the Ohio Revised Code. The WORTH Center is operated by the Judicial Corrections Board for the district comprised of Allen, Auglaize, Hancock, Hardin, Mercer, Paulding, Putnam, and Van Wert Counties for men from the eight counties placed on probation by the Common Pleas Court that otherwise would be sentenced to incarceration in a state penal institution. Training and counseling are personalized to meet the needs of each offender and are designed to establish an ongoing treatment plan that will accompany the offender upon release from the WORTH Center.

The Judicial Corrections Board of the WORTH Center consists of ten judges of the eight member counties who are appointed by the presiding judge of the court of common pleas of Allen County. The County has entered into a sublease with the Department of Rehabilitation and Correction which stipulates that the WORTH Center building constructed by the Ohio Building Authority will revert to the County's ownership after 20 years from the start of the WORTH Center project.

The Center is located in Allen County and the County acts as the fiscal agent. The County does not contribute to the Center nor does it anticipate doing so in the future. Complete financial statements can be obtained from the WORTH Center, Allen County, Ohio.

D. Lima-Allen County Joint Parking Commission

The County and the City of Lima have established a joint parking commission (JPC) which will be responsible for developing and implementing a joint City-County parking system for the Central Business District in Lima, and will have management control over the downtown parking garage and various downtown surface lots placed under the administration of the JPC by the respective parties. The JPC establishes policies for the operation of the parking system under its control, including rates to be charged.

The JPC is comprised of two members, one appointed by the Mayor of the City of Lima, and one appointed by the President of the Board of County Commissioners.

**FINANCIAL CONDITION
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

22. INSURANCE POOL

County Commissioners Association of Ohio Workers' Compensation Group Rating Plan

The County is participating in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The County Commissioners Association Service Corporation (CCAOSC) was established through the County Commissioners Association of Ohio (CCAO) as a group purchasing pool.

A group executive committee is responsible for calculating annual rate contributions and rebates, approving the selection of a third party administrator, reviewing and approving proposed third party fees, fees for risk management services, and general management fees, determining ongoing eligibility of each participant and performing any other acts and functions which may be delegated to it by the participating employers. The group executive committee consists of seven members. Two members are the president and treasurer of CCAOSC; the remaining five members are representatives of the participants. These five members are elected for the ensuing year by the participants at a meeting held in the month of December each year. No participant can have more than one member of the group executive committee in any year, and each elected member shall be a County Commissioner.

23. RELATED PARTY TRANSACTIONS

Marimor Industries, Inc., a discretely presented component unit of Allen County, has entered into a contract with the Allen County Board of Mental Retardation/Developmental Disabilities (MRDD), whereby the MRDD has agreed to pay specified overhead expenses for the workshop. The additional income and related expenses are not reflected in the financial statements of the component unit. In 2002, the contribution to Marimor Industries, Inc. for salaries, retirement, employee benefits, worker's compensation, repairs, supplies, equipment, Medicare, and other expenses was \$3,131,110.

24. CONTRACTUAL COMMITMENTS

The County had entered into various contracts with outstanding amounts of \$100,000 or more at December 31, 2002, as follows:

<u>Company</u>	<u>Project</u>	<u>Amount</u>
Maintenance Unlimited, Inc.	Oakview Sewer Improvement	\$1,042,883
Kohli and Kaliher Associates, Inc.	Eastown Road Improvements	336,009
Manatron, Inc.	Property Tax Appraisal/Revaluation	285,389
Allen County Board of MRDD	Help Me Grow Program	236,081
Finkbeiner Pettis and Strout, Ltd.	American II Wastewater Treatment Plan Design	200,000
Lima City School District	WIA Youth Work Readiness	195,931
Lima City School District	WIA Youth Services	121,502
Apollo Career Center	WIA Youth Services	110,020
Apollo Career Center	WIA In-School Youth Services	110,000
Hull and Associates, Inc.	Zimmerman Ditch Project	104,149
Allen Economic	Economic Development	103,752

**FINANCIAL CONDITION
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

25. CONTINGENT LIABILITIES

A. Pending Litigation

Several claims and lawsuits are pending against the County. In the opinion of the Assistant County Prosecuting Attorney, any potential liability would not have a material effect on the financial statements.

B. Grants

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 for expenditures disallowed under terms of the grant. Based on prior experience, the County Commissioners believe such disallowance, if any, will be immaterial.

26. SUBSEQUENT EVENTS

On January 28, 2003, the County authorized the renewal of the Spencerville and Bear Ditch notes in the amount of \$72,000; the Jennings Creek, Bath Township, and the Lafayette Ditch notes in the amount of \$364,000; and the various purpose ditch bond anticipation notes in the amount of \$436,000.

On January 30, 2003, the County authorized the issuance of \$6.5 million in conduit debt to assist Chancellor Health Partners with the purchase of the Amanda House Senior Living Facility, along with renovations.

On May 27, 2003, the County authorized the renewal of three various purpose ditch notes. The existing notes of \$436,000, \$617,600 and \$217,000, were combined into one various purpose note in the amount of \$1,125,000.

**FINANCIAL CONDITION
ALLEN COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2002**

Federal Grantor/Pass Through Grantor Program Title	Pass Through Number	Federal CFDA Number	Award Amount	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. Department of Agriculture							
<i>Passed Through Ohio Department of Agriculture:</i>							
School Breakfast Program							
Marimor School (Note 4)	05-PU-99	10.553	n/a	\$15,063		\$15,063	
Detention Center (Note 4)	05-PU-99	10.553	n/a	18,005		18,005	
Total National School Breakfast Program				33,068		33,068	
National School Lunch Program							
Marimor School (Note 4)	03-PU-99	10.555	n/a	27,741		27,741	
Detention Center (Note 4)	03-PU-99	10.555	n/a	19,628		19,628	
Total National School Lunch Program				47,369		47,369	
Food Distribution Program							
Marimor School (Note 4)	N/A	10.550	n/a		7,280		6,901
Detention Center (Note 4)	N/A	10.550	n/a		6,688		6,430
Total Food Distribution Program					13,968		13,331
Total U.S. Department of Agriculture (Nutrition Cluster)				80,437	13,968	80,437	13,331
U.S. Department of Housing and Urban Development							
<i>Passed Through Ohio Department of Development:</i>							
HOME Investment Partnerships Program	B-C-00-002-2	14.239	\$ 336,200	206,750		223,883	
Community Development Block Grant - Entitlement Grants							
Formula Allocation Program FY01	B-F-01-002-1	14.228	267,000	230,000		229,973	
Formula Allocation Program FY00	B-F-00-002-1	14.228	267,000	14,100		10,163	
Home Community Housing Improvement Program	B-C-00-002-1	14.228	163,800	74,702		65,061	
Economic Development Program FY99	B-E-99-002-1	14.228	400,000	390,000		392,175	
Economic Development Program FY00	B-E-00-002-1	14.228	400,000			8,424	
Total CDBG Entitlement Grants				708,802		705,796	
Total U.S. Department of Housing and Urban Development				915,552		929,679	
U.S. Department of Justice:							
<i>Passed Through Ohio Department of Public Safety</i>							
Domestic Preparedness Equipment Support Program	J-732	16.007	50,000	50,000		27,928	
<i>Passed Through Ohio Department of Criminal Justice:</i>							
Local Law Enforcement Block Grant FY02	LB-BX-0945	16.592	40,788	40,788			
Local Law Enforcement Block Grant FY01	LB-BX-1394	16.592	56,640	56,640		26,047	
Local Law Enforcement Block Grant FY00	LB-BX-2536	16.592	89,695			87,797	
Total Local Law Enforcement Block Grant				97,428		113,844	
Byrne Formula Grant Program - Narcotics Task Force	DG-A01-7006	16.579	94,676	94,676		94,676	
Bulletproof Vest Partnership Program		16.607	4,175	4,175		4,175	
Juvenile Accountability Incentive Block Grant:							
South Youth Succeed FY99	JB-007-A117	16.523	50,000			8,333	
Rehab Counseling FY00	JB-002-A138	16.523	72,000	18,239		36,239	
Rehab Counseling FY01	JB-002-A138	16.523	59,157	14,799		18,168	
Van Purchase FY00	JB-002-A197	16.523	18,900	18,900		18,900	
Day Treatment FY00	JB-002-A099	16.523	30,485	15,243			
Day Treatment FY01	JB-002-A099	16.523	29,793	29,471		29,471	
Total Juvenile Accountability Incentive Block Grant				96,652		111,111	
Total U.S. Department of Justice				342,931		351,734	

**FINANCIAL CONDITION
ALLEN COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2002**

Federal Grantor/Pass Through Grantor Program Title	Pass Through Number	Federal CFDA Number	Award Amount	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. Department of Labor							
<i>Passed through Ohio Department of Job and Family Services</i>							
Workforce Investment Act Adult		17.258		468,614		468,614	
Workforce Investment Act Adult Administrative		17.258		20,712		20,712	
Workforce Investment Act Adult Total				489,326		489,326	
Workforce Investment Act Youth		17.259		428,031		428,031	
Workforce Investment Act Youth Administrative		17.259		18,918		18,918	
Workforce Investment Act Youth Total				446,949		446,949	
Workforce Investment Act Dislocated Worker		17.260		208,577		208,577	
Wordforce Investment Act Dislocated Worker Administrative		17.260		9,219		9,219	
Workforce Investment Act Dislocated Worker Total				217,796		217,796	
Workforce Investment Act (Cluster)	N/A			1,154,071		1,154,071	
Total U.S. Department of Labor				1,154,071		1,154,071	
U.S. Department of Education							
<i>Passed Through Ohio Department of Education:</i>							
Special Education Grants to States (IDEA Part B)	6B-SF-03	84.027	74,461	13,403		9,842	
Special Education Grants to States (IDEA Part B)	6B-SF-02	84.027	73,024	51,549		55,989	
Total Special Education Grants to States (IDEA Part B)				64,952		65,831	
Special Education-Preschool Disabilities (IDEA Part B)	PG-S1-03	84.173	24,700	4,446		5,095	
Special Education-Preschool Disabilities (IDEA Part B)	PG-S1-01	84.173	24,668			17,207	
Total Special Education-Preschool Disabilities (IDEA Part B)				4,446		22,302	
Total Special Education Cluster				69,398		88,133	
Innovative Education Program Strategies FY01	C2-S1-03	84.298	665	120			
Innovative Education Program Strategies FY02	C2-S1-02	84.298	5,309	3,769		5,309	
Total Innovative Education Programs				3,889		5,309	
Total U.S. Department of Education				73,287		93,442	
U.S. Federal Emergency Management Agency							
<i>Passed Through Ohio Department of Public Safety:</i>							
Emergency Management Performance Grant FY01	J-732	83.552	28,004	28,004		28,004	
Terrorism Consequence Management Preparedness Assistance	H-536	83.552	15,000			4,052	
Total U.S. Federal Emergency Management Agency				28,004		32,056	
U.S. Department of Health and Human Services							
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>							
Social Services Block Grant - Title XX	N/A	93.667	n/a	93,541		93,541	
Medical Assistance Program - Title XIX (CAFS)	N/A	93.778	n/a	1,303,052		1,303,052	
<i>Passed through Ohio Department of Job and Family Svcs.</i>							
Independent Living	N/A	93.674		395		395	
Child Abuse and Neglect State Grants		93.669		7,662		7,662	
Promoting Safe and Stable Families		93.556		18,198		18,198	
Child Welfare Services - State Grants		93.645		13,182		13,182	
Total U.S. Department of Health and Human Services				1,436,030		1,436,030	

FINANCIAL CONDITION
ALLEN COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2002

Federal Grantor/Pass Through Grantor Program Title	Pass Through Number	Federal CFDA Number	Award Amount	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. Department of Transportation							
National Highway Traffic Safety Administration							
<i>Passed Through Ohio Department of Public Safety:</i>							
Young Safe Drivers/Cops in Shops							
State and Community Highway Safety - FY02		20.600	36,167	34,239		27,881	
State and Community Highway Safety - FY01	01-J8-J / 2	20.600	44,292	12,545		12,545	
Total National Highway Traffic Safety Administration				<u>46,784</u>		<u>40,426</u>	
Federal Highway Administration							
<i>Passed Through Ohio Department of Transportation</i>							
Highway Planning and Construction:							
- High Street Bridge	01N033	20.205	1,193,160	250,968		250,968	
- Lincoln Highway Bridge	01N116	20.205	612,177	612,177		612,177	
- Bluelick Rd / Sugar Street	02N057	20.205	65,156	65,156		65,156	
Total Federal Highway Administration				<u>928,301</u>		<u>928,301</u>	
Total U.S. Department of Transportation				<u>975,085</u>		<u>968,727</u>	
Total Federal Financial Assistance				<u>\$5,005,397</u>	<u>\$13,968</u>	<u>\$5,046,176</u>	<u>\$13,331</u>

See accompanying notes to the general purpose financial statements.

**FINANCIAL CONDITION
ALLEN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2002**

NOTE 1 - GENERAL

The accompanying Schedule of Federal Financial Assistance presents the activity of all federal financial programs of Allen County, Ohio. The County reporting entity is defined in Note 1 of the County's general-purpose financial statements. All federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other governmental agencies is included in the schedule.

NOTE 2 - BASIS OF ACCOUNTING

The accompanying Schedule of Federal Financial Assistance has been prepared on a basis of cash receipts and disbursements, consequently, revenues are recognized when received rather than when earned, and expenditures are recognized when paid rather than when the obligation is incurred.

NOTE 3 - COMMUNITY DEVELOPMENT BLOCK GRANT FUNDS (CDBG)

The Allen County CDBG received periodic loan repayments from individuals awarded loans for rehabilitation programs. In addition, the County received payments from individuals who did not reside in a rehabilitated dwelling for the required ten-year period. The activity for the loan fund is scheduled below and is not reflected in the federal receipts, expenditures, and cash balances on the schedule of federal financial assistance.

The loan receivable activity and cash balances available for rehabilitation loans under the revolving loan program for 2002 are as follows:

<u>Rehabilitation Loans</u>	<u>Loans Receivable</u>	<u>Cash Balance</u>
Beginning Balance	\$ 84,830	\$ 55,290
Loan Principal Receipts	(6,191)	6,191
Loan Interest Repayment Receipts		3,674
Interest on Bank Account		338
Grant Disbursements	67,937	(15,308)
Ending Balance	<u>\$ 146,576</u>	<u>\$ 50,185</u>

In addition to the rehabilitation loans under the direct control of Allen County, the County also provides oversight for the CDBG Small Business Revolving Loans administered by the Allen County Port Authority whose 2002 activity is as follows:

<u>Small Business Revolving Loans</u>	<u>Loans Receivable</u>	<u>Cash Balance</u>
Beginning Balance	\$ 111,201	\$ 312,315
Loan Repayment Receipts	(2,430)	4,965
Loan Interest Repayment Receipts		-
Interest on Bank Account		-
Loan Disbursements		(129,931)
Administration		-
Ending Balances	<u>\$ 108,771</u>	<u>\$ 187,349</u>

The ending cash balance is the total amount available for loan by the revolving loan program. Additional information on the Revolving Loan Program is provided in the audit of the Allen County Port Authority.

**FINANCIAL CONDITION
ALLEN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

NOTE 4 - FOOD SERVICES PROGRAMS - MARIMOR SCHOOL AND DETENTION CENTER

The Department of Mental Retardation and Development Disabilities (Marimor School) and the Youth Detention Home, received federal assistance through the National School Lunch and Donated Food Programs. The National School Lunch program is reimbursing in nature and revenues are considered expended when received. The above departments are allowed a selection from a pool of foods, when available, under the Food Distribution Program.

NOTE 5 - MATCHING REQUIREMENTS

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

NOTE 6 - OHIO DEPARTMENT JOB AND FAMILY SERVICES

The Allen County Department of Job and Family Services, Childrens Services Board and Child Support Enforcement Agency received federal financial assistance from the Ohio Department of Job and Family Services for the following programs (which are audited at the state level and reported in the State Single Audit Report):

- Food Stamps Cluster (CFDA # 10.551/561)
- Temporary Assistance for Needy Families (CFDA # 93.558)
- Child Support Enforcement (CFDA # 93.563)
- Child Care Cluster (CFDA # 93.575/596)
- Foster Care (CFDA # 93.658)
- Adoption Assistance (CFDA # 93.659)
- Social Services Block Grant Title XX (CFDA # 93.667)
- State Children's Insurance Fund (CFDA #93.767)
- Medical Assistance Program (CFDA # 93.775/.777/.778)

NOTE 7 - FEDERAL FOOD STAMP PROGRAM

The Ohio Department of Job and Family Services (DJFS) distributes Federal food stamps to entitled recipients within Allen County. The receipt and issuance of these stamps have the characteristics of federal "grants"; however, the DJFS merely acts in an intermediary capacity. Therefore, the inventory value of these stamps is not reflected in the accompanying financial statements as the only economic interest related to these stamps rests with the ultimate recipient. Federal food stamps activity for the year was as follows:

Balance at Beginning of Year	\$ 20,518
Amount Distributed to Recipients	<u>2,249</u>
Balance at End of Year	<u>\$ 18,269</u>

Generally, Columbus is responsible for the distribution of benefits and the County does not have to maintain a substantial inventory of food stamp coupons. However, a minimal supply is kept on hand in the event the food stamp system should fail, or an emergency should arise.

NOTE 8 - WORKFORCE INVESTMENT ACT

The Workforce Investment Act requires recipients to account for this activity on an accrual basis. The activity on this schedule is reported on a cash basis.



**Auditor of State
Betty Montgomery**

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

Allen County
301 North Main Street
Lima, Ohio 45801

To the Board of Commissioners:

We have audited the financial statements of Allen County, (the County), as of and for the year ended December 31, 2002, and have issued our report thereon dated August 20, 2003, which indicated we did not audit the financial statements of Marimor Industries, Inc. and LODDI, Inc. and our opinion insofar as it relates to the amounts included for Marimor Industries, Inc. and LODDI, Inc., is based on the reports of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of Marimor Industries, Inc. and LODDI, Inc. were not audited in accordance with *Government Auditing Standards* and accordingly this report does not extend to those component units.

Compliance

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2002-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the County in a separate letter dated August 20, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2002-002.

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**Internal Control Over Financial Reporting
(Continued)**

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the County in a separate letter dated August 20, 2003.

This report is intended for the information and use of management, the Board of 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.



Betty Montgomery
Auditor of State

August 20, 2003



Auditor of State Betty Montgomery

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

Allen County
301 North Main Street
Lima, Ohio 45801

To the Board of Commissioners:

Compliance

We have audited the compliance of Allen County, (the County) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2002. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, the County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2002. However, we noted an immaterial instance of noncompliance that does not require inclusion in this report that we have reported to the management of the County in a separate letter dated August 20, 2003.

Internal Control Over Compliance

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

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**Internal Control Over Compliance
(Continued)**

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over federal compliance that do not require inclusion in this report, that we have reported to management of the County in a separate letter dated August 20, 2003.

This report is intended for the information and use of management, the Board of 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.



Betty Montgomery
Auditor of State

August 20, 2003

**FINANCIAL CONDITION
ALLEN COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2002
OMB CIRCULAR A -133 §.505**

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)?	Yes
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	CFDA #93.778 Title XIX (CAFS) CFDA#17.258, 17.259, 17.260 Workforce Investment Act CFDA #14.228 Community Development Block Grant CFDA # 14.239 HOME Investment Partnerships Program
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Client?	No

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

FINDING NUMBER 2002-001

Annual Filing of Financial Information

17 C.F.R. Section 240.15c2-12 states that the issuer of municipal securities and/ or obligated persons (i.e. entities directly or contingently responsible for repaying the securities) must agree in writing, to provide to all approved Nationally Recognized Municipal Security Information Repositories (NRMSIRs) and to the State Information Depository (SID), annual financial information and operating data, timely material event notices, and audited financial statements, when and if available.

The Official Statement for the 2001 Issuance of Various Purpose Bonds in the amount of \$6,550,000 contains a continuing disclosure clause, which states that the County will provide the required financial information on an annual basis to all approved NRMSIRs and to the SID by September 1 of each year for the preceding fiscal year, commencing with the fiscal year end December 31, 2001.

There is no evidence that the County filed the required financial information with any of the approved NRMSIRs or the SID.

Failure to file the required financial information could lead to non-compliance with SEC Rule 15c2-12, which could ultimately impact the ability of the County to issue debt.

The District should implement procedures to ensure the annual financial information and the audited financial statements are filed with the NRMSIRs and SID.

FINDING NUMBER 2002-002

Advances Not Repaid

Advances have been made from various funds to other funds in an approximate amount of \$3,770,000 and there is no evidence of requirements for repayment. These advances have been outstanding in excess of two years, and one dates back to 1990. Of the amount, \$1,970,500 was advanced to the City Loan Building Fund from the Child Support Enforcement Agency Fund (\$1,300,000) and from the Building and Expansion Fund (\$670,500). In addition, \$1,047,538 was advanced from the Marimor School Fund to the Marimor Improvement Fund and \$365,000 was advanced from the General Fund to the Bath Township Ditch Fund. The remaining amount of \$386,962 consists of numerous smaller advances.

The purpose of an advance is to allow a short term loan to a fund in need, for which additional revenue is expected in the short term to repay the advance. The lack of timely repayment of advances could place the advancing fund in jeopardy, and/or result in the loss of money due the fund if stipulations for repayment have not been addressed.

There was no evidence of intended repayment or a timeframe for repayment of these advances. The fund balances of the advancing funds should be reviewed to determine if these advances could be converted to transfers, or if the advances should be repaid, and, if so, a time frame established, by resolution, for repayment. For most of these advances to be converted to transfers, a court order would be required.

**FINDING NUMBER 2002-002
(Continued)**

If the Commissioners determine that they wish to convert these advances to transfers (repayment is no longer expected) the following procedures should be followed:

- the necessary formal procedures for approval of the transfer should be completed including, if necessary, approval of the commissioner of tax equalization and of the court of common pleas;
- the transfer should be formally recorded on the records;
- and the entries recording the cash advance should be reversed;

In addition, Auditor of State Bulletin 97-003, which sets forth the requirements for inter-fund advances and provides additional guidance for recording such transactions, should be reviewed to provide guidance on the proper use of advances and the associated accounting treatment.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None.

**FINANCIAL CONDITION
ALLEN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2002
OMB CIRCULAR A -133 §.315 (b)**

Finding Number	FindingSummary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer Valid</u> : <i>Explain:</i>
2001-60202-001	Self-Insurance Program Fund Deficit	Yes	
2001-60202-002	Self-Insurance Program Fund Expenditures exceeding Appropriations	Yes	
2001-60202-003	Obtaining Amended Certificates of Estimated Resources	No	Improvement made. Reported to management of the County in a separate letter.
2001-60202-004	Monitoring the performance of the Self-Insurance Program Fund	Yes	
2001-60202-005	Preparation of the Schedule of Federal Award Expenditures	Yes	



**Auditor of State
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

FINANCIAL CONDITION

ALLEN 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 23, 2003**